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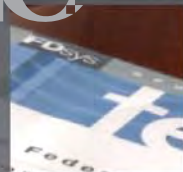
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Products Beyond Printing

Case studies of customer challenges and GPO solutions.



# GPO has moved to a leadership role in digital communication.

The U.S. Government Printing Office's (GPO) mission for more than 146 years has been *Keeping America Informed* on the three branches of the Federal Government. Accomplishing this task has meant keeping pace with and developing new technologies. The men and women of GPO have met this challenge of the changing technological advancements in our Nation's history. Congress, the courts, and Federal agencies turn to GPO for the products that will give them the latest technology to communicate with the American public.

In 1861, the year of GPO's founding, there was an experimental communications technology called the telegraph — it was unreliable and largely belonged to the technology elite in the military. But it moved information at a remarkable 4 bits a second — the speed of a tapping human finger. Elsewhere in 1861, the reliable state of the art was handset type for a Bullock or rotary press. It was that technology that produced Lincoln's Emancipation Proclamation. The linotype arrived on GPO's plant floors in 1904 to print President Woodrow Wilson's declaration of war against Germany. The first offset presses arrived at GPO in 1926 and electronic type began to replace the linotype in the 1960s.

There have been many decades where GPO has installed new technologies to better serve its customers. In the 21st Century, the pace of change has quickened from decades to days to hours, and GPO has moved to a leadership role in the digital revolution and stepped up to the opportunity to better serve its Federal customers and the American people. New GPO innovations such as e-Passports, online capabilities, advanced smart cards, authentication tools, and document storage and retrieval, enable Federal agencies, as senders, and the American people, as receivers, to become more fully engaged in the process of American Democracy.

GPO welcomes you to this 2007 Annual Report and is pleased to introduce you to **Products Beyond Printing** — a set of case studies of customer challenges and opportunities — and GPO service and solutions.



## FISCAL YEAR 2007 MARKED A NEW BEGINNING FOR GPO.

Over the past five years we transformed this venerable agency from a traditional printing factory to a world class, state-of-the-art digital business, dedicated to meeting the 21st century information product needs of the Government and the public. The record of 2007 shows that with the plan we developed, and with the hard work and support of our talented employees, GPO was put on the path to increase access by the American people to digital and other information products of the Federal Government, and to unlock our potential for the future. Indeed, in 2007 we began to see the full results of our transformation, and what the new GPO is capable of achieving today.

With the print marketplace shifting from analog to digital technologies, GPO's customers in Congress, Federal agencies, and among the public require dynamic and creative solutions to meet their ever-changing needs. In 2007, we achieved major milestones in customer service and product development for the Federal marketplace in printing and information management.

We responded to the Nation's explosive demand for the new e-Passport by more than doubling previous production. We implemented a new, flexible program for meeting the document needs of Federal agencies through a well recognized national vendor. We developed an information rich online guide to House and Senate Members for Congress. We also readied our new digital platform, GPO's Federal Digital System (FDsys), which will be a digital repository for all Federal documents, for its expected public release in 2008.

These innovative contributions to the Government's information toolkit are emblematic of today's GPO, a modern, efficient, and effective partner in providing a broad range of products beyond printing. They and other services are just some of the examples of how GPO will fulfill its mission in *Keeping America Informed* in the digital age.

Our original objective in transforming GPO was to ensure that it survives. We achieved this goal and more, and now GPO is beginning to thrive. In 2007, we recorded net income for the fourth consecutive year, including another positive adjustment to long-term workers' compensation liability.

We increased overall revenues to levels that have not been experienced at GPO for more than a decade, principally as the result of e-Passport work produced through our security and intelligent documents business unit, as well as other in-plant operations. Efforts to economize and increase efficiency also contributed measurably to our financial results. Our earnings for the year will replenish capital that had been reduced during the prior decade to offset financial losses, helping provide us with the ability to make essential technology investments as well as fund necessary product and service improvements.

The dedicated men and women of GPO deserve credit for the results of 2007. GPO's skilled employees have always embraced and advanced technology to carry out our mission for the Government and the public we serve. They understand the importance of transforming GPO for the 21st century, and of moving to the next level of technology.

The employees who work in our passport facility deserve special recognition for increasing production to meet the Nation's demand, and others throughout GPO who contributed to our operational and financial results are equally deserving of praise. With our finances now on a sound footing, it's time to fully implement plans for providing GPO's employees with the training they want and need to excel in their jobs. This will ensure that GPO excels in performing its mission, as we did in 2007 and as we will continue doing in the years to come.

Under the leadership of Public Printer Bruce R. James and Acting Public Printer William H. Turri, GPO reached these levels of success in 2007. I am honored to be in a position to build upon the success of the past year. It is a privilege to have been selected by President George W. Bush and confirmed by the U.S. Senate as the Nation's 25th Public Printer. As the leader of GPO, I look forward to working with our talented employees to continue to make this agency thrive as a leader in the ever changing digital world.



Robert C. Tapella  
Public Printer of the United States







# Online Guide to House and Senate Members

A central point of access to multiple databases for information about all current Senate and House Members, officers, and officials.

### Customer

Members of the United States Congress.

### Challenge

How to better serve Members of the U.S. Congress, officers and officials, and their staffs, who are already stretched for time and need accurate information in an easily accessible format.

### Solution

Create a useful electronic supplement to the traditional, printed *Congressional Pictorial Directory*, allowing, with a simple stroke of the keyboard, an online user to retrieve photographs and biographical and other information about all current Members of the 110th Congress from one central point in an easily searchable format.

### Understanding the Customer

After consultations with the offices of the Secretary of the Senate, the Clerk of the House of Representatives, and the Joint Committee on Printing, GPO's team designed the *Online Guide to House and Senate Members* so that Members' offices have access to submit updates at any time. To ensure secure access, registration and log-in are required and security checks are in place to verify that the person signing in is a valid user.

### How It Works

With ongoing client input, GPO's Congressional Publishing Services, Creative Services, and Digital Media Services units implemented the latest technology and publishing trends to create a first-class, easy-to-navigate Website.

### Creating Real Benefits

- For congressional staffs, the *Online Guide* provides a central point of access to multiple databases for information about all current Senate and House Members, officers, and officials.
- The simple *Online Guide* allows constituents to begin broadly searching for their Senators or Representatives and then to narrow their search by selecting from a range of Member types, party affiliations, and other categories.
- Allows House Member offices and the Senate administrative offices to submit new photos and updates directly to GPO, which are then used for both the *Online Guide* and the printed *Congressional Pictorial Directory*.

<http://www.memberguide.gpoaccess.gov/>



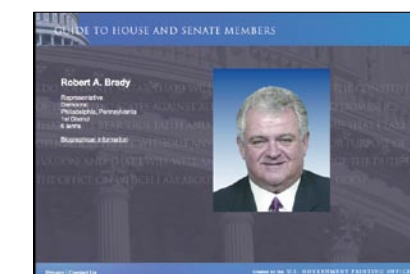
#### Step 1

Click on the "Search the Guide" button.



#### Step 2

Select Member Type "Representative", then Category "Name" and type in the Chairman's name, click Search, and you will retrieve the following information regarding your search: name, title, party affiliation, hometown, district, and terms in office.



#### Step 3

Another click and you can retrieve detailed biographical information on the Chairman.



# GPO is a global leader in developing and producing Federal Security Credentials.

## e-Passport



### Customer

The United States Department of State.

### Challenge

Help the U.S. Department of State enhance security at America's ports of entry, comply with new international standards for the use of electronics and biometric data, and keep current with increasing demand for passports from the American public.

### Solution

The new e-Passport is being produced by GPO in close collaboration with the U.S. Department of State.

### Understanding the Customer

The first U.S. e-Passport was issued to Secretary of State Colin Powell in 2005. GPO reached a significant milestone in May 2007, when its entire passport production operation was converted to e-Passports. In fiscal year 2007, GPO produced approximately 20 million passports. That's an increase of more than seven million from fiscal year 2006.

### How It Works

An electronic chip embedded in the cover of the e-Passport contains the same information printed in a non-electronic one: name, date and place of birth, gender, dates of passport issuance and expiration, photographic image of the traveler, and passport number. Numerous security features protect the information contained in the e-Passport—some are visible and some are not. GPO produces blank e-Passport booklets, which are personalized at the Department of State with each traveler's specific information.

### Creating Real Benefits

New regulations passed in 2007 require U.S. citizens to present a passport when traveling by air to and from Canada, Mexico, and the Caribbean. These new requirements added substantially to the demand for U.S. passports. To help the State Department meet the new demand, GPO added personnel and resources, working around the clock and increasing production to a high of 2.9 million passports a month. GPO succeeded in completely filling all Department of State orders in fiscal year 2007—dramatically ramping up e-Passport production in order to do so. In August 2007, Congress gave GPO approval to further expand e-Passport production by opening a second secure production facility in 2008.

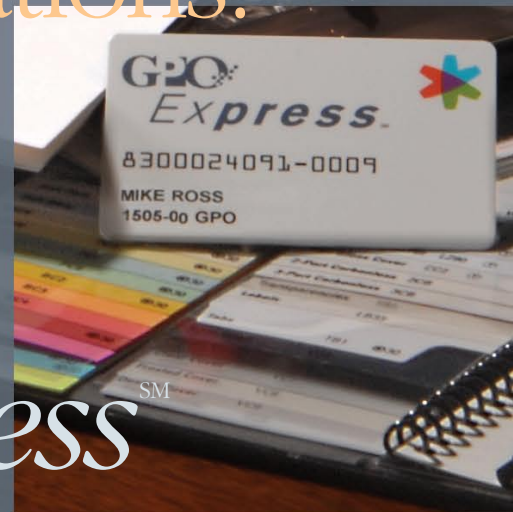


The U.S. e-Passport features multiple layers of security to protect an individual traveler's personal information and photograph.



This product delivers unique printing services ideal for agencies with regional operations.

GPOExpress



**Customer**

Thousands of print buyers in Federal agencies of the U.S. government and U.S. Courts.

**Challenge**

How to provide convenience to communications managers in the Federal government for small printing jobs by delivering digital technology and quick turnaround for their agencies, needs and capture these Federal publications for continued access through the Federal Depository Library Program (FDLP).

**Solution**

GPO's new public-private sector program, GPOExpress<sup>SM</sup>, with FedEx Kinko's<sup>SM</sup> provides unique printing services and solutions by enabling Federal government personnel to order from any FedEx Kinko's<sup>SM</sup> Print Center, day or night, at any of the 1,600 locations in the U.S.

**Understanding the Customer**

This program is ideal for agencies with regional operations, especially those in remote areas. Using the new GPOExpress<sup>SM</sup> Card, agencies receive significant discounts and benefits on printing and finishing needs. Services provided include:

- Walk-in access at 1,600 FedEx Kinko's<sup>SM</sup> locations worldwide;
- Ordering options available online, in person or by phone;
- High-quality printing services, including: digital color and black and white copies, business cards, invitations, brochures, manuals, presentations, newsletters, and flyers;

- Binding, mounting, laminating and more finishing services;
- Signs and graphics, including: digital oversize printing, full-color vinyl banners, posters, back-lit and metal-yard signage, and auto magnets;
- Direct mail, litigation copying and document scanning;
- Print-on-demand programs;
- Access to a wide range of FedEx Express<sup>®</sup> and FedEx Ground<sup>®</sup> shipping services.

**How It Works**

GPOExpress<sup>SM</sup> integrates four major technologies to make the system work in a timely and cost efficient manner:

- An online ordering system allowing agencies to enter specifications for a majority of orders, view an online proof, receive an online estimate for the order, and determine the location(s) where the order(s) will be fulfilled.
- An "eView" feature allows web access to all transaction data within 24 hours post purchase for up to three years from date of invoice.
- A "DocCatalog" feature enables agencies to store documents on a secure server for both easy ordering and for potential disaster recovery purposes.
- All printed documents are captured through the GPOExpress<sup>SM</sup> programs' automatic upload and harvesting features – and made a permanent part of GPO's FDLP which preserves and makes available information of public value.

**Creating Real Benefits**

GPOExpress<sup>SM</sup> provides a convenient, low-cost "quick-print" solution for Federal government customers — which mirror the ease and convenience that private-sector companies enjoy.

[www.gpo.gov/gpoexpress/index.html](http://www.gpo.gov/gpoexpress/index.html)



The Federal Emergency Management Agency (FEMA) is using GPOExpress<sup>SM</sup> to cost-effectively manage communications during response and recovery efforts following a national incident.



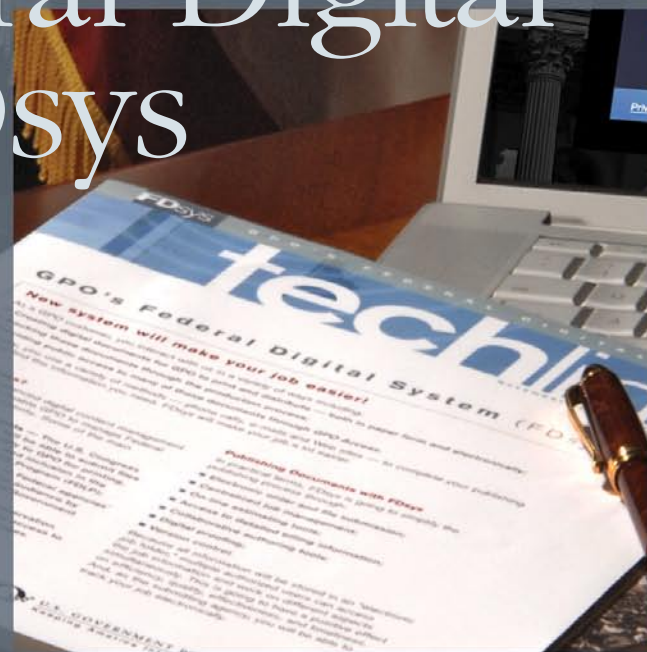
The Small Business Administration (SBA) is creating high-quality marketing materials for more than 100 field offices to develop localized print materials to meet the needs of target audiences. GPOExpress<sup>SM</sup> allows us to provide online templates with fillable fields.





# FDsys will preserve, authenticate, provide version control and facilitate access to official Government documents.

## GPO's Federal Digital System—FDsys



### Customer

The United States Congress, United States Courts, Federal Government agencies, and other groups such as the 9/11 Commission, which produce the official documents of government, and the American public who are entitled to free access to the same official documents via the Federal Depository Library Program (FDLP).

### Challenge

With constantly changing technologies for document storage, imaging and retrieval, how does GPO provide a simple electronic method for the producers of official Government documents to disseminate information and allow enhanced searchable access for the American people.

### Solution

GPO's Federal Digital System—"FDsys." GPO is developing an advanced digital system capable of managing information in digital form that will preserve, authenticate, and facilitate access to official Government documents — in print and digital form — from all three branches of the U.S. Government.

### Understanding the Customer: The Federal Agencies and the American People

With the rise of the electronic age, people now expect easy, immediate online access to information.

The general public and private enterprise expect that much from their information sources. American consumers should expect no less from the Federal government. FDsys design is being driven by feedback from GPO's key stakeholders — Congress, Federal agencies, FDLP members, contractors, vendors, general public, and GPO employees. Beta development was launched in 2007 and further development of the system is occurring in a series of expected releases for 2008.

### How It Works

FDsys supports GPO's transformation from an environment focused on printed documents and printing to one focused on content, in which digital content may be created and submitted, and then preserved, authenticated, managed and delivered upon request. The key functions include:

- Publishing documents — The U.S. Congress and other agencies will be able to submit files and orders to GPO for printing, electronic distribution, and inclusion in the FDLP;
- Searching for information — The public will have a comprehensive site to find authentic, published Government information;
- Preserving information — The preservation function of FDsys will ensure public access to information even as technology changes, including the digitization of printed products.

Information contained within FDsys will include text, graphics, audio, and video files and will be available for viewing on multiple devices, such as computer monitor, PDA, cellphone, and e-mail.

### Creating Real Benefits

The benefits of FDsys are far-reaching, both internally and externally to GPO.

- Congress and Federal agencies will have a **single electronic system** and method to submit files to GPO.
- Agencies will also be capable of **monitoring and managing** many procurement processes in an online environment.
- FDsys will **verify** that the information accessible to the public is from a trusted source and assist in easily identifying multiple versions of publications.
- FDsys will ensure that the FDLP and American public have access to **authentic official** Government information through **enhanced search** features.
- Information contained in the system will be available for viewing and will be **downloadable in multiple formats**, including screen and print optimized.



The following summary tables are excerpts from the full audited consolidated financial statements and are not intended to substitute for the full audited financial statements presented on the accompanying CD-ROM.

For fiscal year 2007 (October 1, 2006 through September 30, 2007) the GPO received a clean audit opinion on its consolidated financial statements from KPMG LLP.

For the fourth consecutive year, GPO experienced positive financial results. GPO earned a contribution to new investment of \$87.7M in fiscal 2007, before other expenses, compared with \$9.8M in fiscal 2006. Revenue from operations increased 30.4% to \$939.1M from \$720.4M. The major factor driving the operating revenue increase was the increased demand for e-Passports. Operating costs increased 19.8%, to \$851.5M from \$710.6M, due mainly to an increase in e-Passports materials cost.

Financial Results (in thousands)	2007	2006	Major Changes
<b>Revenue</b>			
Plant	\$ 144,482	\$ 145,714	
Passports	241,490	43,739	197,751
Customer Services	485,320	469,928	15,392
Publication and Information Sales	21,585	24,756	
Library Services and Content Management	29,286	27,684	
Other	16,945	8,558	
<b>Total Revenue</b>	<b>\$ 939,108</b>	<b>\$ 720,379</b>	
<b>Expenses</b>			
	851,453	710,589	
<b>Net Income From Operations</b>	<b>\$ 87,655</b>	<b>\$ 9,790</b>	
<b>Planned Uses of Net Income</b>			
Federal Digital System (FDsys)	\$ 11,700		
Secure Production Facility (SPF)	27,800		
Passport Materials Inventory	22,500		
<b>Net Income after Planned Uses</b>	<b>\$ 25,655</b>		
Percent of Revenue	2.73%		

In fiscal 2007, the GPO had an overall positive contribution of \$90.9M which was comprised of \$87.6M from operations and \$3.2M from a reduction in the future long-term workers' compensation liability. In fiscal 2006 the total contribution was \$16.0M. Approximately \$62M of the \$87.6M contribution from operations is for uses that have been previously approved by the appropriate parties. A total of \$39.5M of the \$62M relates to capital projects, including the development and fit-out of the new secure production facility (\$27.8M) and the development of FDsys (approximately \$11.7M) which is partially supported by appropriated funds. The remainder of the \$62M, \$22.5M, is being used to purchase inventory for the production of the e-Passport.

Cash provided by operations improved by \$51.5M over the prior year. In 2007, GPO generated \$81.5M from operations compared to \$30.0M in 2006. The GPO made investments of \$22.4M and committed an additional \$33.9M to future investment in fiscal 2007, compared to the \$8.3M expended in fiscal 2006.

Summary Statements of Cash Flows (in thousands)	2007	2006
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ 90,883	\$ 15,961
Provided by operating activities:		
Depreciation and other	\$ 8,847	\$ 7,565
(Increase) decrease in current assets	(57,485)	(7,860)
Increase (decrease) in current liabilities	37,698	20,508
Workers' compensation liability	(3,228)	(6,171)
Warranty liability	4,833	—
<b>Total adjustments</b>	<b>\$ (9,335)</b>	<b>\$ 14,042</b>
<b>Net cash provided by operating activities</b>	<b>\$ 81,548</b>	<b>\$ 30,003</b>
<b>Cash flows (for) Investing Activities</b>	(22,407)	(8,287)
<b>Cash flows (for) from Financing Activities</b>	(15,500)	1,378
<b>Net Increase in Cash Balance</b>	<b>\$ 43,641</b>	<b>\$ 23,094</b>

The GPO's Balance Sheet continued to strengthen as a result of its improved operating performance. Working Capital increased to \$257.2M in 2007 from \$190.9M in 2006 or an increase of 34.7%. Cash increased by \$43.6M, or 19.0%.

In fiscal 2007, the GPO recorded a \$3.2M non-cash reduction in the estimate of its future long-term workers' compensation liability. The expected future liability at the end of 2007 was \$66.7M, compared with \$70.0M at the end of 2006. For the third consecutive year GPO ended the year with positive retained earnings. Retained earnings were \$108.2M at the end of fiscal 2007.

Summary Balance Sheets (in thousands)	2007	2006
<b>Assets</b>		
<b>Current Assets</b>		
Fund balance with Treasury	\$ 273,446	\$ 229,805
Accounts receivable, net	150,977	109,547
Inventory, net	29,733	13,093
Prepaid expenses	3,958	1,688
<b>Total current assets</b>	<b>\$ 458,114</b>	<b>\$ 354,133</b>
Property, plant and equipment, net	67,600	56,894
<b>Total Assets</b>	<b>\$ 525,714</b>	<b>\$ 411,027</b>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable & accrued expenses	\$ 109,324	\$ 84,008
Deferred revenues	81,715	69,559
Accrued annual leave	9,813	9,586
<b>Total current liabilities</b>	<b>\$ 200,852</b>	<b>\$ 163,153</b>
<b>Other liabilities</b>		
Workers' compensation liability	66,723	69,951
Warranty liability	4,833	—
<b>Total Liabilities</b>	<b>\$ 272,408</b>	<b>\$ 233,104</b>
<b>Net position</b>		
Cumulative results of operations		
Retained earnings	\$ 108,164	\$ 17,281
Invested capital	92,879	92,879
Unexpended appropriations	52,263	67,763
<b>Total Net Position</b>	<b>\$ 253,306</b>	<b>\$ 177,923</b>
<b>Total Liabilities and Total Net Position</b>	<b>\$ 525,714</b>	<b>\$ 411,027</b>



## GOVERNMENT PERFORMANCE AND RESULTS ACT — GPRA

GPO's strategic planning and performance measurements comply with the spirit of the Government Performance and Results Act (GPRA). To this end, GPO has employed its *Strategic Vision for the 21st Century* as a catalyst for developing five agency goals:

- Provide Congress and Federal agency customers with improved expertise in printing, publishing, and digital services.
- Secure the plant, equipment and human resources needed to provide the services and products our Federal customers need.
- Provide the public with perpetual, free, and ready access to all documents and information products within the scope of FDLP in partnership with the FDLP libraries.
- Provide the public with Federal information products and services through improved publishing and dissemination services.
- Develop a GPO culture that rapidly adopts best practices to run an efficient and effective operation.

By doing so, the GPO has postured itself to fulfill its mission and to *Keeping America Informed*.

GPO's strategic planning and performance measurements comply with GPRA.

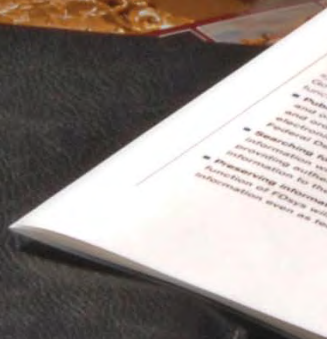






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Keeping America Informed | [www.gpo.gov](http://www.gpo.gov)

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## SECTION I

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# Management's Discussion and Analysis

*(Unaudited)*

*As of September 30, 2007*

The consolidated financial statements of the U.S. Government Printing Office (GPO or Agency) are prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP). Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to the receipt or the payment of cash. GAAP also requires that accounting principles used be applied in a manner consistent with that of the previous year.

The consolidated financial statements report the financial position and the results of operations of the Agency pursuant to the requirements of 31 U.S.C. § 3515(b). The consolidated financial statements have been audited by an independent external auditor selected by the Public Printer in accordance with applicable law [44 U.S.C. § 309(e)].

The consolidated financial statements are prepared from GPO's financial management system. Transactions are recorded on the accrual basis and are within budgetary limitations established to facilitate compliance with legal constraints and controls over the use of Federal funds. GPO's annual consolidated financial statements and accompanying notes provide information on the Agency's financial position, results of operations, changes in net position, and cash flows, and disclose all significant events and economic affairs controlled by GPO, in conformity with applicable laws, regulations, standards, and policies relevant to financial reporting.

GPO is committed to maintaining strong financial systems and internal controls to ensure accountability, integrity, and reliability. GPO's internal controls are designed to provide reasonable assurance that obligations and costs comply with applicable laws and regulations; funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and transactions are properly recorded and accounted for to enable GPO to prepare reliable financial reports and maintain accountability over assets.

GPO Instruction 825.18A, *Internal Control Program*, established the internal control standards and assessment methodology employed by GPO to ensure adequate and effective systems of management control, and compliance with applicable laws and regulations. Management monitors their internal control systems and regularly conducts vulnerability assessments and internal control reviews of GPO's programs, operations, and other activities.

The Office of the Inspector General (OIG) monitors the Internal Control Program at GPO and keeps the Public Printer informed of management's progress in addressing internal control deficiencies noted in the annual external financial statement audit. Additionally, the OIG and the U.S. Government Accountability Office (GAO) conduct audits of GPO's programs and operations, and as such, evaluate management controls. The Internal Control Program, along with recommendations from these audits, have strengthened management controls and improved the economy, efficiency, and effectiveness of GPO's programs, operations, and other activities.



## Mission

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Making Government information available to the public is the core of GPO's mission of *Keeping America Informed*. GPO has faithfully served the citizens of the United States of America for the past 146 years. This critically important function sustains one of the keystones of our republic: an informed and enlightened citizenry.

The Agency has successfully accomplished this mission by working in close partnership with all three branches of the Federal Government in the creation, cataloging, indexing, reproduction, storage, dissemination, authentication, and preservation of Federal Government information. GPO utilizes conventional and digital technology and state-of-the-art methods to produce and distribute Federal Government information. GPO ensures that Federal Government information is readily available to all citizens. Accordingly, information is accessible in an array of communication mediums from traditional printed products, such as books and pamphlets, to digital documents and on-line databases that are accessible through the Internet by the entire World.

By law and tradition, the Agency has three essential missions:

- Provide expert publishing and printing services to the agencies and organizations that comprise the three branches of the Federal Government on a cost-recovery basis in order to avoid the duplication and waste of Federal Government resources.
- Provide for, in partnership with Federal Depository Libraries, nationwide community facilities for the perpetual, free and ready public access to the printed and electronic documents, and other information products, of the Federal Government.
- Distribute copies of printed and electronic documents and other Federal Government information products to citizens on a cost-recovery basis.

GPO has a proud history, one built on innovation, craftsmanship, scale, flexibility, and a singular dedication to meeting the information needs of the Federal Government and the citizens of the United States. GPO is one of the Nation's oldest and most venerable agencies, within which the official version of every great American state paper since President Lincoln's time has been produced. Many of the Nation's most important information products, such as the *Congressional Record* and all other legislative information supporting the U.S. Senate and House of Representatives, are produced at the GPO Plant in Washington, DC. The GPO Plant is primarily tasked to produce certain core products that generally have high quality, high security, and/or short turnaround requirements.

The GPO Plant has historically been the center of the infrastructure comprising the GPO Central Office. The GPO Central Office, a 1.5 million square foot business facility, is one of the largest information processing, publishing, and distribution centers in the World.

The vast majority of the Federal Government's printing requirements are purchased from the private sector through various GPO procurement vehicles at considerable cost savings to customers. GPO maintains a close partnership with the American printing industry. Thousands of small, medium, and large businesses, including small disadvantaged businesses, located in every state in the country, support the Agency in accomplishing its mission. GPO maintains a nationwide database of commercial businesses that compete to produce, and often distribute, most of the information products required for the Federal Government. GPO ensures that Federal customers get high quality information products in a timely manner at the best value from the private sector.

## Programs and Operations

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The Government-wide programs and operations managed by GPO are based on various public laws codified in Title 44, *Public Printing and Documents*, of the *United States Code* (U.S.C.).

GPO's statutory responsibilities include fulfilling the printing needs of the Federal Government and distributing Federal Government information products to the public.

## Funding of Programs and Operations

The Agency's programs and operations are funded through a business-type revolving fund, authorized by 44 U.S.C. § 309, and by annual and certain no-year and multiyear appropriations provided by Congress. The GPO Revolving Fund was designed to be self-sustaining. Accordingly, the Revolving Fund pays for the cost of the Agency's programs and operations and is reimbursed at rates and prices that are intended to recover the full cost of goods and services delivered to customers.

The major sources of funds for the GPO Revolving Fund include: (1) payments from Federal customers for printing and binding (e.g., passports), blank paper and paper products (e.g., duplicating paper), and information products and services; (2) sales of Government publications and information products to the general public, bookstores, book dealers, and businesses; and (3) fund transfers from the Congressional Printing and Binding (CP&B) Appropriation and the Salaries and Expenses (S&E) Appropriation. These two annual appropriations are used to reimburse the GPO Revolving Fund for costs incurred while performing congressional work and in fulfilling statutory requirements to disseminate Federal Government information to the public. Reimbursements to the Revolving Fund from these two appropriations are recorded as revenue when related expenses are incurred. Generally, any unexpended annual appropriations are returned to the U.S. Department of the Treasury after five years have passed.

Congress has occasionally made no-year and multiyear appropriations available to the Agency for special purposes. For example, appropriations have been made for building improvements, security enhancements, and workforce retraining. Congress appropriated \$2 million (\$1,980,000 after rescission) to



the GPO Revolving Fund for workforce retraining in fiscal year 2006. An additional \$1 million was appropriated for workforce retraining in fiscal year 2007. Congress also authorized the transfer of \$5.7 million in prior year appropriations to the GPO Revolving Fund to help finance an estimated shortfall of approximately \$10.4 million in the CP&B appropriation for fiscal year 2007. The remaining shortfall of approximately \$4.7 million has been funded from retained earnings of the revolving fund on a temporary basis until appropriated funds are available.

### Major Programs and Operations

The GPO Revolving Fund and appropriations from Congress are used to finance the programs and operations of the Agency. Separate business units were created under an agency-wide reorganization to better manage the various programs and operations of the Agency.

#### ■ **Official Journals of Government**

Plant Operations publishes several important journals of the Federal Government along with many other Federal Government documents that are available to the public. The Plant provides Congress with all legislative printing and binding services, including overnight production of the important *Congressional Record*, along with bills, reports, hearings, and other Congressional documents. GPO also publishes the daily *Federal Register* and produces the *Code of Federal Regulations* for the Executive Branch. Customers reimburse the GPO Revolving Fund for these products and services through a system of rates and prices that recover costs. Annual CP&B Appropriations fund the cost of the products and services provided by Plant Operations to Congress.

The legislative workload demands that will be placed with GPO fluctuate because of many variables and therefore, cannot be accurately forecast with a high degree of certainty for budgeting purposes. Accordingly, in those years where the Congressional printing requirements exceed the annual fund-

ing provided by Congress, GPO uses the Revolving Fund to temporarily fund the shortfall until sufficient appropriated funds are available.

Generally, the amount of annual CP&B Appropriation has been adequate to cover the costs of GPO services to Congress. However, an estimated shortfall of around \$10.4 million was projected for fiscal year 2007. This annual appropriation was not adequate due to a higher demand for services than anticipated and a decline in the appropriation amounts over the past three years. The CP&B Appropriation decreased from \$90.6 million in fiscal year 2004 to \$88.0 million in fiscal year 2007. As discussed earlier, Congress approved the transfer of \$5.7 million in prior year appropriation balances to the GPO Revolving Fund to help offset the potential CP&B shortfall of \$10.4 million for fiscal year 2007.

#### ■ **Security and Intelligent Documents**

This business unit works with other Federal agencies to assist in the safe and secure design, production, and distribution of security and intelligent documents. These security products incorporate electronic and other fraud and counterfeit protections. Their principal product is passports for the U.S. Department of State. GPO plans to open a new passport production facility at a secure, remote site in 2008. This expanding business line is expected to produce additional sensitive documents in the future, such as smartcards, immigration forms, PKI (Public Key Infrastructure) electronic certificates for credentialing, and traditional security documents as well as those containing embedded electronics. Customers reimburse the Revolving Fund for products through a system of rates and prices.

#### ■ **Digital Media Services**

This business unit provides Web site development and maintenance services to Federal customers and other GPO business units. These experts in Digital Media Services will eventually provide services to Federal agencies and the Federal Depository Library Program (FDLP). The users will be able to add content to GPO's planned

Federal Digital System (FDsys), and to withdraw or receive content to produce specific products and services. The unit will develop the capability to efficiently convert printed legacy documents into searchable digital content that meets FDLP standards. This group will lead in the development of new GPO electronic products and services to better meet customer information needs including Web site design, hosting, and rich media capabilities.

#### ■ **Customer Services**

This business unit operates a nationwide procurement program that satisfies the printing needs of customer agencies in an economical and efficient manner. A specific team of procurement experts is assigned to provide services to each agency. Each of these Agency Strategic Teams (ASTs) has a manager who is an authority on the mission of their customer agency and is supported by a National Account Manager who is responsible for developing new business with that agency. Customer Services had 15 regional offices, 6 ASTs, and 8 National Account Managers providing services to customers as of September 30, 2007.

The majority of the Government's printing needs are satisfied through this partnership with industry that takes advantage of the vast resources, expertise, and specialization within the private sector. Customer Services competitively acquires services from the private sector through various types of procurement vehicles tailored to the specific needs of customers. Thousands of pre-qualified businesses, small to large in size, openly compete for printing jobs. GPO's performance measures, for on-time delivery and quality acceptance, demonstrate the effectiveness of this partnership between industry and government.

#### ■ **Publication and Information Sales Program**

This business unit sells Federal Government publications and subscriptions to book dealers, libraries, and the public primarily through the GPO's online U.S. Government Bookstore and one traditional bookstore located at the Central



Office. Although intended to be self-funding, this program has not recovered all of its operating expenses since fiscal year 1997. A downward trend in customer demand for printed publications continues to reduce sales. The scale of operations has been repeatedly downsized to lower operating expenses.

#### ■ **Agency Distributions**

This business unit provides publication storage and distribution services to Federal agencies through the Laurel Distribution Center and the Pueblo Distribution Center. Customers reimburse GPO through a system of rates designed to recover all cost, including depreciation and overhead. The largest customer is the U.S. General Services Administration (GSA), Federal Citizen Information Center (FCIC), which is served by the Pueblo Distribution Center.

#### ■ **Library Services and Content Management**

The annual S&E Appropriation funds the operations of the FDLP, the Cataloging and Indexing Program, the By-Law Distribution Program, and the distribution component of the International Exchange Program of the Library of Congress. The FDLP consists of 1,257 depository libraries located in the United States, and includes *GPO Access*, an Internet site with a wealth of information. Long recognized as the National authority for cataloging Government publications, the FDLP manages an electronic collection for permanent public access. Major investments are being made in new digital technology to improve the public's access to Government information.

#### **Management Initiatives to Improve Agency Operations**

A transformation program is underway at GPO that places greater emphasis on direct electronic dissemination methods as GPO's primary goal, rather than printing. The *Strategic Vision for the 21st Century*, issued in December 2004, continues to serve as a roadmap to where GPO needs to go in order to fully embrace the technology capabilities of the 21st century in the coming years. All policies and proce-

dures, including budgeting and capital investments, workforce development, hiring and promotions, industry partnerships, customer relations, operational decision-making, and related actions are tied to this transformation at GPO.

The following is an overview of some of the major management initiatives that will transform GPO to a modern digital platform. These transformation efforts, along with other modernization efforts, will enable GPO to better satisfy the existing and future needs of Congress, customer agencies, the library and information communities, and the public.

#### ■ **Creating a New Digital Platform**

The core of GPO's future operations will revolve around a new digital platform called FDSys that is being developed. The FDSys will organize, manage, and output authenticated content for any purpose. This system will ingest into a central repository all the public information of the Government and reduce that information to a uniform character set and coding structure for data. This federal digital information system will preserve the content independent of specific hardware or software so that it can be migrated forward for the benefit of future generations.

Eventually all known Federal documents, whether printed or digital, will be cataloged, authenticated, and entered into the FDSys according to GPO metadata and document creation standards. Content may include text and associated graphics, video and sound, and other requirements that may come to be. Content, which may be stored at various quality levels, will be available for Web searching and Internet viewing, downloading and printing, and as document masters for conventional and demand printing, or other digital requirements.

The FDSys will replace current *GPO Access* functionality with the first public release in late 2008. The public will benefit from the more advanced search and retrieval capabilities, including the ability to search both full text content and metadata fields. Content and metadata will be available for downloading through the FDSys. Future releases will provide customization and alerting capabilities.

#### ■ **Refocusing Customer Services**

Customer Services provides Federal agencies with traditional printed products through private sector vendors, using GPO's experience and buying power to create the best value for taxpayers. Customer Services has been working with their customers to offer them more flexibility in choosing and working directly with vendors, especially with small value purchases and complex purchases involving multiple functions such as data preparation, personalization, and distribution.

Customer Services established ASTs to support specific departments and agencies. These expert teams provide conventional printing support and work with program managers in planning the best solutions to their information dissemination needs, such as content development, graphic design, Web site design and hosting, rich media, and print-on-demand.

The *GPOExpress*<sup>SM</sup> Program commenced operations in 2006. The program empowers customers and realizes cost savings to the Government through price discounts. Agency personnel can use a purchase card to acquire convenient duplicating and printing services across the country directly from a GPO contractor with many local stores. This contract also includes provisions for capturing Federal documents electronically, which will significantly assist our efforts to broaden the availability of Federal information for public access that belong in the FDLP. GPO also significantly increased the dollar limit on simplified purchase agreements, expanding and simplifying the ability of Federal agencies to procure products and services directly from lists of pre-qualified vendors.

The *GPO Online Paper Store* commenced operations in 2007. GPO teamed up with a worldwide paper distributor to develop the *GPO Online Paper Store*. All Federal Government organizations can purchase environmentally friendly, xerographic copier paper throughout the continental United States using this Web-based online system.



### ■ **Expanding Digital Services**

Digital Media Services, a new business unit, was established to provide a platform for training GPO employees in 21st century workforce skills while providing document-scanning services for the FDLP and other customers. This business unit will also set the standards for digitizing retrospective tangible documents, acquire both the tangible documents and digitizing services, and provide quality assurance for the content. Working in cooperation with other agencies involved in similar projects, including the Library of Congress and the National Archives and Records Administration, the goal is to digitize all retrospective Federal Government documents that can be authenticated back to the earliest days of the Nation.

### ■ **Mapping the Future of the FDLP**

In the future, the FDLP will determine the content of the FDsys, set standards for Federal documents, authenticate documents, catalog and manage the content, and determine the standards for preservation of the content for coming generations. The depository library community will help define the future of this program while continuing to move it toward a predominately electronic basis as required by Congress.

### ■ **Investing in Information Dissemination Services**

About 224,000 titles were available to the public on *GPO Access* at the end of fiscal year 2007. *GPO Access* users made an average of 37.9 million retrievals and 2.3 million searches every month during fiscal year 2007. GPO invested about \$2.5 million in funds from the S&E Appropriation for 2004 to improve *GPO Access*. System enhancements included increased storage capacity, stronger security, and improved user performance. This major project is being accomplished with procurement assistance from *GovWorks*, a Federal acquisition center. Almost \$2.1 million of the \$2.5 million obligated was expended as of September 30, 2007. Plans are underway to expend the remaining balance of \$403,000 during fiscal year 2008.

### ■ **Modernizing Agency Information Systems**

GPO launched the *GPO Enterprise Program* in 2004 to replace outdated legacy systems. This major Information Technology (IT) project has been progressively implementing modern application systems that support GPO business and support units. Phase 2 of this modernization project commenced in 2007. This project includes the acquisition of an agency-wide Oracle Enterprise License which will allow GPO to streamline the acquisition process and provide best priced standards-compliant Oracle products for other Oracle based projects.

### ■ **Managing Human Resources**

Human resources are essential to the success of GPO's mission in the future. The experienced and talented workforce supports every essential program and operation of the Agency. The GPO workforce has declined from 8,500 employees in fiscal year 1976 to 2,291 employees at the end of fiscal year 2007. This gradual reduction in the workforce is in large part due to a decline in the demand for traditional printing as the digital information age expands. Accordingly, the GPO workforce is being retrained and right-sized to satisfy the Federal Government's needs in the digital information technology world of the 21st century.

### ■ **Retraining the Workforce**

Congress appropriated \$2 million in fiscal year 2006 and \$1 million in fiscal year 2007 to the GPO Revolving Fund for workforce retraining. These funds are being used to train GPO employees in the job skills of the future at the Agency.

### ■ **Rightsizing the Workforce**

In November 2005, the Public Printer established the *Voluntary Separation Incentive Program (VSIP)* under authority provided in Public Law 108-477. The VSIP was successfully used to reduce the workforce by 89 employees during fiscal year 2006. The VSIP authorized incentive payments of up to \$25,000 per employee for voluntary separation. The Agency incurred one-time buyout costs of \$2.2 million in fiscal year 2006 and avoided

an estimated \$8 million in recurring annual costs for personnel compensation and benefits. No further workforce reductions were necessary during fiscal year 2007. The scheduled opening of the planned Secure Production Facility in 2008 will likely cause a modest increase in the overall size of the GPO workforce. The new site will require production, warehousing, security, and administrative support personnel.

## **Financial Results for Fiscal Year 2007**

The following is an overview of the financial operating results reflected in GPO's basic consolidated financial statements as of and for the fiscal year ended September 30, 2007.

### **Consolidated Statements of Revenues, Expenses, and Changes in Retained Earnings**

GPO had operating revenues of \$939.1 million for fiscal year 2007 and \$720.4 million for fiscal year 2006. This represents an increase in revenues of \$218.7 million or 30.4 percent. The Agency had operating expenses, before the effect of the decrease in the GPO's workers' compensation liability, of \$851.5 million for fiscal year 2007 and \$710.6 million for fiscal year 2006. This represents an increase in expenses of \$140.9 million or 19.8 percent. GPO realized income from operations, before the effect of the decrease in the GPO workers' compensation liability, of \$87.7 million for fiscal year 2007 and \$9.8 million for fiscal year 2006.

The significant increases in revenues and expenses during fiscal year 2007 are primarily attributable to increased passport production by the Agency and the replacement of traditional passports with the more expensive to manufacture electronic passports (i.e., e-Passports). The new e-Passport contains a computer chip and other security features required by the U.S. Department of State. GPO negotiated a price per e-Passport that included sufficient revenues to fund

the costs of the new Secure Production Facility that will manufacture e-Passports (see Note 18). As of September 30, 2007, approximately \$27.8 million of the income from passport operations was earmarked by GPO and the U.S. Department of State for this new facility.

Other operating expenses consisted of the annual change in the accounting estimate for the U.S. Department of Labor (DOL) actuarial estimate of the liability for GPO's long-term Federal Employees' Compensation Act (FECA) benefits (i.e., workers' compensation). The liability decreased by \$3.2 million in fiscal year 2007 and \$6.2 million in fiscal year 2006 due primarily to: reductions in the size of the GPO workforce; improved risk management practices; and improved vocational rehabilitation initiatives which accelerate the injured workers' return to full-time employment at GPO. Taking into consideration the reduction in the workers' compensation liability, GPO realized consolidated net income of \$90.9 million for fiscal year 2007 and \$16.0 million for fiscal year 2006.

About \$39.5 million of the consolidated net income of \$90.9 million for fiscal 2007 is to pay for two major capital investment projects that are in-process and scheduled to be operational in 2008 or 2009. The \$39.5 million includes about \$27.8 million, or a \$1.84 per passport sold, which has been built into the rates negotiated with the State Department. These funds are earmarked for the establishment of a new Secure Production Facility (see Note 18). An additional \$11.7 million was capitalized for the development of FDsys which is partially funded by Federal appropriations.

## Revenues

GPO's revenues are derived from four major sources: Printing and Binding services; Appropriations; Sales of Publications; and Agency Distributions. A brief discussion of each of these revenue sources follows (also see Note 1L).

### ■ *Printing and Binding*

The Agency earns revenues from Federal Government customers for printing, binding, and other related services performed by GPO business units and their

nationwide pool of qualified, commercial contractors. The printing and binding revenues are based on a system of rates, prices, and surcharges designed to recover costs. The revenues for printing and binding originate from the programs and operations of four business units at GPO: (1) Official Journals of Government, (2) Security and Intelligent Documents, (3) Digital Media Services, and (4) Customer Services. The revenues earned from an in-plant job are generally recognized on a value-added basis, as the work is performed in GPO's production operations. The revenues from a commercially procured job are generally recognized on the date that the contract requirements are fulfilled. For most procured jobs, this is the date of shipment by the contractor to the Federal Government customer.

Revenues from printing and binding operations totaled \$780.5 million for fiscal year 2007 and \$575.9 million for fiscal year 2006. This represents an increase in revenues of \$204.6 million or 35.5 percent. Printing and Binding revenues increased primarily because of the unprecedented demand for electronic passports by the U.S. Department of State.

### ■ *Appropriations*

GPO receives annual, no-year, and multiyear appropriations from Congress to finance certain costs in accordance with the underlying appropriation act and enabling legislation. The two annual appropriations are the CP&B Appropriation and the S&E Appropriation. The CP&B Appropriation is primarily used to fund printing and binding services provided to Congress by GPO's Plant Operations (i.e., Official Journals of Government). The S&E Appropriation is primarily used to fund the dissemination of Federal Government information to the public by GPO's Library Services and Content Management. Revenues earned from appropriations totaled \$137.0 million for fiscal year 2007 and \$119.7 million for fiscal year 2006. The increase in revenues of \$17.3 million or 14.5 percent is primarily a result of appropriation expenditures by the Agency for the development of the FDsys and workforce retraining.

The Legislative Branch Act, 2006 (Public Law 109-55), dated August 2, 2005, made annual appropriations available to the Agency for fiscal year 2006. During fiscal year 2007, GPO and much of the Federal Government operated under four continuing resolutions that covered the entire year (Public Laws 109-289, 109-369, 109-383, and 110-5). On September 29, 2007, the President of the United States signed a government-wide continuing resolution (Public Law 110-92) that provides fiscal year 2008 funding for GPO through November 16, 2007.

### ■ *Sales of Publications*

GPO earns revenues from the sales of publications to the public and others. The Publications and Information Sales Program sells publications, subscriptions, and other Federal Government information products at prices designed to recover costs. The demand for printed products continues to decline due to expansion in the availability of free information from the Federal Government on the Internet.

Revenues from sales of publications totaled \$16.0 million for fiscal year 2007 and \$18.6 million for fiscal year 2006. This represents a decrease in revenues of \$2.6 million or 14 percent.

### ■ *Agency Distributions*

GPO earns revenues from Federal agencies for the storage, packaging, and distribution of Federal Government publications to the public and others. Agency Distributions provides these services on a cost reimbursement basis, and at rates and prices designed to recover costs. Revenues from Agency Distributions totaled \$5.6 million for fiscal year 2007 and \$6.2 million for fiscal year 2006. This represents a decrease in revenues of \$600,000 or 9.7 percent. Revenues for this program tend to fluctuate because of the varying level of demand for services from customers.

## Expenses

GPO incurred total operating expenses of \$851.5 million for fiscal year 2007 and \$710.6 million for fiscal year 2006, before the effect of the annual year-end



adjustment for the change in the workers' compensation liability. The workers' compensation liability decreased by \$3.2 million in fiscal year 2007 and \$6.2 million for the fiscal year 2006. A brief description of the major expense categories for the Agency follows.

#### ■ *Printing and Reproduction*

GPO incurred expenses for printing and reproduction of \$423.8 million for fiscal year 2007 and \$404.4 million for fiscal year 2006. This represents an increase in printing and reproduction expenses of \$19.4 million or 4.8 percent. Printing and reproduction costs are primarily incurred by three business units: (1) Customer Services, (2) Publication and Information Sales Program, and (3) Library Services and Content Management. Customer Services incurs the majority of these costs for printing purchased from the private sector, a pass-through cost. The increase in printing and reproduction expenses for fiscal year 2007 was primarily attributable to Customer Services purchasing more printing from contractors for customers. The Publication and Information Sales Program purchases and sells Government publications to book dealers, libraries, and the public. The Library Services and Content Management purchases and distributes Government publications to the 1,257 Federal depository libraries located throughout the United States.

#### ■ *Personnel Compensation and Benefits*

GPO incurred expenses for personnel compensation and benefits of \$202.0 million during fiscal year 2007 and \$199.9 million during fiscal year 2006. This represents an increase in personnel compensation and benefit expenses of just \$2.1 million or 1.1 percent. This change was a result of three factors. First, an annual cost of living adjustment for most Printing Grade (PG) employees of 2.64 percent that took effect on January 7, 2007, and the accrual of a similar pay increase for most wage grade employees. Most of these wage grade employees will receive a retroactive pay adjustment of 2.80 percent back to June 10, 2007. This pay increase

was accrued in fiscal year 2007 and will be paid in November 2007. Second, overtime costs increased from \$7.5 million in fiscal year 2006 to \$11.2 million in fiscal year 2007 because of longer work shifts to keep up with unprecedented demand for U.S. Passports. Third, as discussed previously, the VSIP was successfully used to reduce the workforce by 89 employees during fiscal year 2006 which resulted in estimated cost savings of approximately \$8.0 million in fiscal year 2007.

#### ■ *Supplies and Materials*

GPO incurred expenses for supplies and materials of \$152.2 million for fiscal year 2007 and \$37.1 million for fiscal year 2006. This represents an increase in supplies and material expenses of \$115.1 million or 310 percent. The two business units that incur significant costs for supplies and materials are Official Journals of Government, and Security and Intelligent Documents. These units operate a large production facility that uses significant quantities of materials and supplies, including paper and paper products. This expense group also includes equipment, furniture, and vehicle purchases that were expensed when received by GPO as they did not meet the organization's capitalization threshold. Approximately \$116.8 million of the overall increase is attributable to the increase in the production volume of the new e-Passport which also has higher per unit material costs. Approximately, \$1.1 million is attributable to a decrease in the cost of materials and supplies used to produce Official Journals of Government.

#### ■ *Other Services*

This expense category includes the cost of professional services provided by contractors for audits, investigations, consulting services, system development, tuition, and training. These expenses are recognized when the contractual services have been performed. This expense category also includes the product warranty liability expense for passports

manufactured by the Agency. The estimated warranty expense is based on the number of passport books manufactured during that accounting period. GPO incurred expenses for these services of \$23.9 million for fiscal year 2007 and \$15.6 million for fiscal year 2006. This represents an increase in these expenses of \$8.3 million, or 53.2 percent. The increase was primarily attributable to the first time accrual of product warranty liabilities of about \$4.8 million for e-Passport sales and an increase of about \$2.2 million for professional services.

#### ■ *Travel, Transportation, and Postage*

This expense category includes the cost of employee travel and relocation, commercial transportation and delivery services, and postage and commercial mailing services. GPO incurred expenses for travel, transportation and postage of \$16.4 million for fiscal year 2007 and \$20.2 million for fiscal year 2006. This represents a decrease in travel, transportation and postage expenses of \$3.8 million, or 18.8 percent. The decrease was primarily attributable to lower postage costs, especially reimbursable postage.

#### ■ *Rents, Communications, and Utilities*

GPO incurred expenses for rents, communications, and utilities of \$15.9 million for fiscal year 2007 and \$17.8 million for fiscal year 2006. This represents a decrease in the cost of rents, communications, and utilities of \$1.9 million, or 10.7 percent. This expense group includes rents for building space outside of Washington, DC, leased equipment and vehicles, and utilities. The decrease was primarily attributable to lower telecommunication costs and a reduction in the cost of leased parking facilities.

#### **Consolidated Balance Sheets**

GPO's total assets increased by \$114.7 million, or 27.9 percent, from \$411.0 million as of September 30, 2006 to \$525.7 million as of September 30, 2007. This increase in total assets is primarily attributable to a \$43.6 million increase in Fund Balance with Treasury and a \$41.4 million increase in accounts

receivable. The increase in Fund Balance with Treasury is the result of cash flows from operating activities of \$81.5 million reduced by capital purchases of \$22.4 million and by financing activities of \$15.5 million during fiscal year 2007 (see consolidated statements of cash flows). The increase in accounts receivable of the \$41.4 million, or 37.8 percent, is primarily attributable to an increase in Printing and Binding revenues.

GPO's liabilities increased by \$39.3 million, or 16.9 percent during fiscal year 2007. This increase is primarily the result of increases in accounts payable and accrued expenses of \$25.3 million and deferred revenues of \$12.2 million. These increases were offset by a reduction in workers' compensation liability of \$3.2 million.

The increase in accounts payable and accrued expenses of \$25.3 million was primarily attributable to the increased demand for goods and services acquired by GPO from the commercial sector. The unpaid goods at yearend included about \$22.5 million in passport chips, tapes, paper and paper products, and other production materials for the new e-Passports. The unpaid services at yearend included contractor development costs of about \$1.5 million for the FDsys Project and the GPO Enterprise Project, two major ongoing IT acquisition projects. Additionally, for the first time, an environmental liability of \$570,000 was accrued for asbestos abatement.

The increase in deferred revenues is a result of an increase of \$13.0 million in customer deposit accounts for printing and binding. The number of customer deposit accounts maintained by GPO increased from 718 as of September 30, 2006, to 865 as of September 30, 2007.

The increase in GPO's net position is primarily a result of the consolidated net income of \$90.9 million for fiscal 2007 which was discussed above under the Consolidated Statements of Revenues, Expenses, and Changes in Retained Earnings.

## Performance Measures

GPO gauges its overall efficiency and effectiveness using certain performance measures. Generally, these performance measures are based on established standards, goals, or objectives that are compared against actual performance (i.e., results) for each fiscal year. The following sections discuss the major operating performance measures and financial performance measures used by the Agency.

### Operating Performance Measures

#### On-Time Delivery of Congressional Record

The *Congressional Record* is the official record of the proceedings and debates of the Congress. This important Federal information product is published daily when Congress is in session. GPO uses a performance measure to evaluate the timeliness of the delivery of this core product to Congress. To measure GPO's success in delivering the *Congressional Record* to Congress on-time, GPO established a deadline of 9 a.m. the following day when copy is received in GPO by midnight, regardless of whether the Senate or the House of Representatives is in session. The on-time delivery rate was 77 percent for fiscal year 2007 and 89 percent for fiscal year 2006. The Agency's goal of 95 percent was not achieved for fiscal year 2007. The goal will remain the same for fiscal year 2008.

#### On-Time Delivery of Procured Printing

Customer Services, a GPO business unit, contracted with commercial businesses to produce and ship 107,600 jobs for GPO customers in fiscal year 2007. In comparison, GPO contractors shipped 114,100 jobs in fiscal year 2006. The 5.7 percent decrease in procured printing jobs is primarily attributable to a continued reduction in customer demand for printed documents as more electronic documents become available on the Internet. In addition, the *GPO-Express*<sup>SM</sup> Program enables customers to directly purchase small printing jobs locally from a nationwide contractor.

For fiscal year 2007, customers used *GPOExpress*<sup>SM</sup> to purchase \$3,142,000 in convenience printing jobs locally without going through GPO. In fiscal year 2006, customers purchased \$849,000 in convenience printing jobs through *GPOExpress*<sup>SM</sup>. For fiscal year 2007, the goals were to have at least 95 percent of procured printing orders delivered on schedule and a quality acceptance rate of at least 99 percent. Customer Services met both of these goals for fiscal year 2007. The two goals will remain the same for fiscal year 2008.

### Financial Performance Measures

#### Cash Management

##### ■ Payment Performance

In fiscal year 2007, GPO continued to save millions of dollars from taking favorable prompt payment discounts offered by contractors for the payment of invoices within the discount period. GPO earned prompt payment discounts of \$6.4 million on purchased printing expense of \$436.2 million. In comparison, GPO earned \$6.5 million in discounts on \$417.0 million in printing expenses last year. The average discount rate earned was 1.5 percent for fiscal year 2007 and 1.6 percent for fiscal year 2006. The average discount rate earned for fiscal year 2007 exceeded the goal of 1.4 percent. The goal will be the same for fiscal year 2008.

Lost prompt payment discounts increased to \$434,000 in fiscal year 2007 from \$263,000 in fiscal year 2006. The percentages of discounts lost to discounts offered were 6.3 percent and 3.9 percent in fiscal years 2007 and 2006, respectively. GPO did not meet its goal of 2.5 percent or less for fiscal year 2007. The lost discounts were generally due to inadequate supporting documentation and other essential information needed to properly examine and certify contractor invoices for payment in a timely manner. The Agency's goal will be the same for fiscal year 2008.



### ■ **Electronic Payments**

Electronic Funds Transfer (EFT) is the most secure, efficient, and economical method of making payments to GPO contractors, employees, and other non-Federal entities. While it costs the U.S. Government \$.89 to issue each check payment, the cost is only \$.09 to issue an EFT payment. In fiscal year 2007 about 93 percent of all GPO payments were made by EFT. In comparison, about 74 percent of all payments were made by EFT last year. The Agency's EFT payment goal for fiscal year 2007 was 90 percent of all payments. Thus, GPO successfully exceeded the goal by 3 percent. The EFT payment goal will remain at 90 percent for fiscal year 2008.

### Debt Management

#### ■ **Federal Receivables**

GPO billed customers about \$893.1 million for printing and binding services during fiscal year 2007. The U.S. Department of Treasury's Intra-governmental Payment and Collection (IPAC) System was used to collect about \$700.7 million or 78.5 percent of this debt from customers. Additionally, about \$39.8 million, or 4.5 percent of this debt, was collected from funds held in customer Printing and Binding (P&B) Deposit Accounts maintained by GPO. Furthermore, \$16.9 million, or 1.9 percent of this debt, was collected via credit card. These electronic-based methods allow the prompt collection of funds, as opposed to the more traditional methods of collection that require the creation and exchange of paper documents and checks through the mail.

GPO's billed accounts receivable from Federal Government customers totaled approximately \$38.4 million at the end of fiscal year 2007, compared with \$7.8 million at the end of fiscal year 2006. In comparison, the billed accounts receivables increased by \$30.6 million.

The largest type of billed accounts receivable is IPAC charge backs. IPAC collections initiated by GPO are sometimes charged back by Federal agencies, the customers, for various reasons. In these instances, GPO contacts the customer and inquires about the reason(s) for non-pay-

ment of the indebtedness. In most instances, the customer's financial representative requires additional information and supporting documentation on the billing before the IPAC collection is allowed. IPAC charge backs totaled approximately \$22.2 million at the end of fiscal year 2007 and \$11.4 million at the end of fiscal year 2006. In comparison, IPAC charge backs increased by \$10.8 million.

The U.S. Department of Defense (DoD) is GPO's second largest customer and largest debtor. Exclusive of IPAC charge backs, DoD owed GPO about \$7.1 million at September 30, 2007, of which \$6.4 million, or 90.1 percent, was past due in payment (i.e., over 30 days old). DoD owed \$634,000 for invoices between 31 to 60 days old, \$682,000 between 61 to 90 days old, and about \$5.1 million over 90 days old. DoD's indebtedness to GPO of \$5.1 million, over 90 days old, represents 28.5 percent of GPO's total accounts receivables, over 90 days old, at year-end. At September 30, 2006, DoD owed only \$3.8 million to GPO. The increase in indebtedness is primarily attributable to slower payments by some DoD entities.

At the end of the year, GPO maintained 865 P&B Deposit Accounts valued at \$74.3 million. Additionally, GPO held \$3.7 million in customer deposit accounts for the Publication and Information Sales Program. Combined, these customer deposit accounts totaled \$78.0 million as of September 30, 2007. At September 30, 2006, GPO maintained printing and binding deposit accounts totaling \$61 million. The \$13.3 million increase is primarily attributable to new customers, more accounts, and existing customers increasing their account balances.

Customer agencies also have the option of paying for their printing and binding needs by credit card. Credit card transactions in fiscal year 2007 totaled \$16.9 million for 24,039 printing jobs. In comparison, credit card transactions totaled \$15.2 million for 14,868 printing jobs in fiscal year 2006.

### *Possible Future Effects of Existing Events and Conditions*

Several existing events and conditions will likely have a major impact on the Agency's programs and operations in the future. A synopsis of each of these major events and conditions follows.

#### ■ **Major Investments in New Technology**

GPO is making significant investments in digital production capabilities, modern information technology systems, electronic passport production facilities, and training the workforce in the skills needed for the 21st century. The Office of Innovation and New Technology continues to identify new technologies and practices to help the Agency move forward as a world-class organization. The Agency is making significant investments in information technologies to improve performance. First, Phase I of the FDsys Project will replace *GPO Access* in fiscal year 2008. Afterwards, the FDsys project will continue with efforts to integrate and modernize operations. Second, the GPO Enterprise Project will continue to replace old legacy systems with modern Oracle applications. Phase 2 of the GPO Enterprise Project commenced in 2007 and should be complete in 2008.

#### ■ **Growth of Security and Intelligent Documents**

The demand for security and intelligent documents, such as electronic passports, smartcards, and Federal identification cards, are expected to continue to grow in the future as a result of Federal Government efforts to strengthen our borders and improve homeland security. GPO produced 20,606,000 passport books in fiscal year 2007 and 13,661,000 in fiscal year 2006. This significant production increase of 6,945,000 passport books, or 50.8 percent, is due to an unprecedented increase in demand from the U.S. Department of State. About 14,815,000 or 72 percent of 20,606,000 passport books produced in fiscal year 2007 were the new e-Passports.

To keep up with the increase in demand for e-Passports, GPO is establishing a new Secure Production Facility in a secure remote location. The facility is scheduled to be operational in 2008 (see Note 18). This facility will supplement existing passport production operations and support Agency plans for continuity of business operations.

■ ***Investment in Secure Production Facility***

GPO is investing about \$41.4 million to establish a Secure Production Facility. Plans are underway to renovate an existing Federal Government facility in a remote, secure location. This production facility will be equipped with a new e-Passport production line.

■ ***Establishment of the GPO Online Paper Store***

GPO recently teamed up with a worldwide paper distributor to develop the *GPO Online Paper Store*. All Federal Government organizations can purchase environmentally friendly, xerographic copier paper using this Web-based system.

■ ***Expansion of the GPOExpress<sup>SM</sup> Program***

GPO's partnership with the private sector makes printing and duplicating services readily available to Federal customers through a nationwide network of local convenience printing outlets. This program is expected to grow in the future as more and more Federal agencies participate in this new program.

■ ***Possible Federal Appropriation Reductions***

Printing and duplication are generally considered a discretionary cost for Federal customers. The Continuing Resolution (Public Law 110-92, dated September 29, 2007) in regard to certain fiscal year 2008 appropriation bills, and possible future budget reductions and restrictions on growth, may impact the availability of funds for Federal Government printing and duplicating in the future.

***Fiscal Year 2008 Projections***

Congress established the GPO Revolving Fund to finance the business-type operations of the Agency on July 1, 1953. The numerous receipts and disbursements from the Agency's continuing cycle of business-type operations are recorded in the GPO Revolving Fund which was intended to be financially self-sustaining. The Agency's overall financial objective has been to earn revenues sufficient enough to recover all costs, including depreciation and overhead, in accordance with Section 309 of Title 44. This is accomplished through a system of rates, prices, and surcharges used to bill customers for goods delivered and services performed by the Agency.

The Agency achieved this financial objective in fiscal years 2004 through 2007. An overall net income was realized during each of these years. This recent trend represents a positive turnaround in financial performance for the Agency. GPO had net losses for five straight years before fiscal year 2004.

In fiscal year 2007, the Agency realized net income of \$87.7 million from operations before recognizing a decrease of \$3.2 million in DOL's estimate of workers' compensation liability for GPO under FECA. Overall, the Agency realized net income of \$90.9 million in fiscal year 2007 and \$16 million in fiscal year 2006. GPO's financial performance goal for fiscal year 2008 is to continue this positive trend in financial performance.

The improvements in financial performance are attributable to several major management initiatives over the past five years. First, the Public Printer built a solid management team with vast business and government experience, and a wealth of industry knowledge. Second, the Agency was reorganized into major business units to concentrate on product lines. Third, greater emphasis was placed on serving the needs of customers and improving customer satisfaction. Fourth, managers are now evaluated on their achievement of annual budget goals and financial performance objectives for their business

and support units. Fifth, employees are being financially rewarded for reducing costs and contributing to the accomplishment of agency objectives under the Goal Sharing Program. Finally, the workforce is being retrained in the digital technology jobs of the 21st century.

In conclusion, the digital transformation and other management initiatives completed and underway have put GPO's operations back on a business-like basis, both organizationally and financially. The Agency's positive trend in financial performance is expected to continue into fiscal year 2008 and beyond. The Agency transformation should help to ensure that the GPO Revolving Fund remains financially self-sustaining as Congress intended, and that GPO will be able to continue *Keeping America Informed*.




**SECTION II**

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**Inspector  
General's Report**



DATE: November 19, 2007

REPLY TO  
ATTN OF: Inspector General 

SUBJECT: Report on the Consolidated Financial Statement Audit of the Government  
Printing Office for Fiscal Years Ended September 30, 2007 and 2006  
Report Number 08-02

TO: Public Printer

This audit report contains the annual consolidated financial statements of the Government Printing Office (GPO) as of the fiscal years (FY) ended September 30, 2007 and 2006. We contracted with the independent certified public accounting firm of KPMG LLP (KPMG) to audit the consolidated balance sheet; statement of revenue and expenses; and statement of cash flows for the years then ended. The audits were conducted in accordance with auditing standards generally accepted in the United States; and the standards applicable to financial audits contained in the *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS).

### Results of Independent Audit

KPMG expressed an unqualified opinion on the GPO consolidated financial statements as of the FYs ended September 30, 2007, and 2006 by concluding that the GPO financial statements were fairly presented, in all material respects, in conformity with generally accepted accounting principles (GAAP).

KPMG's consideration of internal control over financial reporting resulted in the following significant deficiencies<sup>1</sup>, which KPMG did not consider to be material weaknesses<sup>2</sup>:

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<sup>1</sup> A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the GPO's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the GPO's consolidated financial statements that is more than inconsequential will not be prevented or detected by the GPO's internal control over financial reporting.

<sup>2</sup> A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the GPO's internal control.



- Certain reconciliation controls should be improved;
- Misapplication of generally accepted accounting principles; and
- Information Technology general controls should be improved.

In general, (1) GPO did not always perform key reconciliations timely and when performed, differences noted were not consistently investigated and resolved in a timely manner; (2) in one instance related to the review and reporting of fixed assets and another instance related to recognition of appropriated revenue, GPO misapplied GAAP to these non-routine transactions; and, (3) KPMG identified deficiencies in the design and/or operations of GPO's information technology (IT) general controls.

The reconciliation and IT general control deficiencies were also identified during the FY 2006 audit.

KPMG disclosed no instances of noncompliance with certain provisions of laws, regulations, and contracts or other matters that are required to be reported under GAGAS.

### **Evaluation and Monitoring of Audit Performance**

We reviewed the KPMG audit of the GPO consolidated financial statements by:

- Evaluating the independence, objectivity, and qualifications of the auditors and specialists;
- Reviewing the approach of and planning for the audit;
- Attending key meetings with auditors and GPO officials;
- Monitoring the audit progress;
- Examining audit documentation;
- Reviewing the auditors' reports; and
- Reviewing the financial statements and associated footnotes.

KPMG is responsible for the attached reports dated November 15, 2007, and the conclusions expressed in the reports. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and accordingly we do not express, an opinion on GPO's financial statements, the effectiveness of internal controls, or compliance with laws and regulations. However, our monitoring review, as limited to the procedures listed above, disclosed no instances in which KPMG did not comply, in all material respects, with GAGAS.

Public Printer  
November 19, 2007  
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If you have any questions or comments about this report, please do not hesitate to contact me, or Mr. Kevin Carson, Assistant Inspector General for Audits and Inspections, at (202) 512-2009 or through email at [kcarson@gpo.gov](mailto:kcarson@gpo.gov).

J. Anthony Ogden  
INSPECTOR GENERAL

Attachment

cc: Chief of Staff  
General Counsel



**SECTION III**

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**Independent  
Auditors' Report**



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

The Public Printer  
United States Government Printing Office:

We have audited the accompanying consolidated balance sheets of the United States Government Printing Office (GPO) as of September 30, 2007 and 2006, and the related consolidated statements of revenues, expenses and changes in retained earnings and cash flows (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2007 audit, we also considered GPO's internal control over financial reporting and tested GPO's compliance with certain provisions of applicable laws, regulations and contracts that could have a direct and material effect on these consolidated financial statements.

### SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that GPO's consolidated financial statements as of and for the years ended September 30, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

- A. Certain reconciliation controls should be improved
- B. Misapplication of U.S. generally accepted accounting principles
- C. Information Technology general controls should be improved

We do not consider the significant deficiencies, above, to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States.

The following sections discuss our opinion on GPO's consolidated financial statements; our consideration of GPO's internal control over financial reporting; our tests of GPO's compliance with certain provisions of applicable laws, regulations and contracts; and management's and our responsibilities.

### OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the United States Government Printing Office as of September 30, 2007 and 2006, and the related consolidated statements of revenues, expenses and changes in retained earnings and cash flows for the years then ended.





In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Government Printing Office as of September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information contained in the Management's Discussion and Analysis section is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This information has not been subjected to auditing procedures, and accordingly, we express no opinion on it.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects GPO's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of GPO's consolidated financial statements that is more than inconsequential will not be prevented or detected by GPO's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by GPO's internal control.

In our fiscal year 2007 audit, we consider the deficiencies, described in Exhibit I, to be significant deficiencies in internal control over financial reporting. However, we believe that none of the significant deficiencies described in Exhibit I are material weaknesses. Exhibit II presents the status of prior year reportable conditions.

## **COMPLIANCE AND OTHER MATTERS**

The results of our tests of compliance with certain provisions of laws, regulations and contracts, as described in the Responsibilities section of this report, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

## **RESPONSIBILITIES**

**Management's Responsibilities.** Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management's Discussion and Analysis;
- Establishing and maintaining effective internal control; and
- Complying with laws, regulations and contracts applicable to GPO.



In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2007 and 2006 consolidated financial statements of GPO based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GPO's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2007 audit, we considered GPO's internal control over financial reporting by obtaining an understanding of GPO's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. The objective of our audit was not to express an opinion on the effectiveness of GPO's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GPO's internal control over financial reporting.

As part of obtaining reasonable assurance about whether GPO's fiscal year 2007 consolidated financial statements are free of material misstatement, we performed tests of GPO's compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to GPO. However, providing an opinion on compliance with laws, regulations and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

GPO's response to the findings identified in our audit are presented in Exhibit I. We did not audit GPO's response and, accordingly, we express no opinion on it.

We noted certain additional matters that we reported to management of GPO in a separate letter dated November 15, 2007.





**RESTRICTED USE**

This report is intended solely for the information and use of the Public Printer, the Joint Committee on Printing, GPO's management, GPO's Office of Inspector General, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 15, 2007

**Fiscal Year 2007 Significant Deficiencies****A. Certain reconciliation controls should be improved**

During fiscal year 2007, key reconciliations were not always performed timely and when performed, differences noted were not consistently investigated and resolved in a timely manner. For example:

1. The United States Government Printing Office (GPO) did not investigate and resolve differences of approximately \$6.8 million identified in the Fund Balance with Treasury 'Check Issued Discrepancy Reports (FMS 5206)' for the month of June 2007. As of September 30, 2007 this difference is approximately \$4.6 million. A significant amount of the differences noted were investigated and resolved in October 2007, and it was determined that no adjustment was required to the financial statements as of September 30, 2007.
2. GPO did not investigate and resolve a difference of approximately \$542,000 identified in the reconciliation performed between the accounts payable balance reflected in the general ledger and the amounts reflected in the accounts payable subsidiary ledger for the month of April 2007. As of September 30, 2007, this difference is approximately \$320.
3. GPO performs a reconciliation to identify differences between the Depositor Account balance per the general ledger to the balance per the subsidiary ledger. However, we noted that as of June 30, 2007, there was a difference of \$350,905 between the subsidiary ledger and the general ledger that was not timely investigated and resolved. As of September 30, 2007, this difference is approximately \$12,000.
4. GPO did not perform a reconciliation between the payroll processed by its payroll service provider, the amount disbursed from the Treasury, and the general ledger until August 31, 2007. The September 30, 2007 payroll reconciliation was performed timely correcting this issue.
5. GPO does not perform periodic reconciliations between the Sales of Publication subsidiary ledger and the general ledger. During GPO's year-end reconciliation between the Sales of Publications Inventory and the general ledger, an adjustment of approximately \$4.03 million was recorded to the general ledger.

The U.S. Department of the Treasury's Financial Manual (TFM) Part 2, Chapter 5100, states "Agencies must reconcile the SGL 1010 account balances for each fund symbol with Treasury's records (Financial Management System (FMS) 6653 / 6654) each month". In addition, in relation to FMS 5206, TFM further states that, "no material prior month differences should be outstanding over three months". Also, the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (Standards) requires that internal control, such as comparisons and reconciliations, be designed to assure that ongoing monitoring occurs in the course of normal operations. Without proper controls to ensure that the monthly reconciliations and investigation of differences noted are performed in a timely manner, GPO's consolidated financial statements could be misstated.



## Fiscal Year 2007 Significant Deficiencies

### Recommendation:

We recommend that GPO enforces its existing policies and ensure that they are in compliance with TFM requirement and GAO Standards, that require these monthly reconciliations to be performed and the timely investigation and resolution of differences identified.

### Management Response:

Management concurs with these findings and recommendations.

### **B. Misapplication of U.S. generally accepted accounting principles**

During our fiscal year 2007 audit work, we noted two instances where GPO misapplied U.S. generally accepted accounting principles (GAAP) and the internal controls at GPO did not identify the difference timely. Both of these instances related to non-routine transactions in each of these areas.

#### **1. Review and Reporting of General Property, Plant and Equipment**

During fiscal year 2007, GPO reflected deposits on new equipment in the amount of approximately \$2.6 million as General Property, Plant, and Equipment (PP&E) additions in its PP&E subsidiary ledger as well as its general ledger. Specifically, GPO signed a contract to purchase equipment. The contract requires GPO to make installment payments until the acceptance of the equipment in April 2008. GPO made three payments totaling approximately \$2.6 million in fiscal year 2007 and recorded the expenditures as PP&E additions when they did not have title to the equipment. GPO properly reclassified the expenditures to a prepayment/advance account as of September 30, 2007.

#### **2. Revenue Recognition of Appropriated Revenue**

During fiscal year 2007, GPO recognized Revolving Fund appropriation revenues of approximately \$1.5 million related to liabilities incurred by GPO in fiscal year 2006. While GPO recognized the expenses related to the Federal Digital Content System (FDsys) in the correct period, GPO did not recognize the revenue until the invoices were paid in fiscal year 2007. Under GAAP, appropriation revenues are to be recognized at the time that a liability has been incurred.

We noted per the GAO's Standards that "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

Statement of Financial Accounting Concepts (SFAC) No. 6, *Elements of Financial Statements*, states that:

1. Assets are recorded when there is future economic benefit and the asset is controlled by the entity.

### Fiscal Year 2007 Significant Deficiencies

Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources* states that:

1. Revenue classified as exchange revenue should be matched with costs.
2. An exchange transaction occurs when one party sacrifices value and receives a valuable good or service in return.
3. Appropriation revenues are to be recognized at the time that a liability has been incurred.

#### **Recommendations:**

We recommend that GPO strengthen its controls related to each of these non-routine transactions as follows:

#### **1. Review and Reporting of PP&E**

Accountants should validate the receipt of a PP&E (through physical inspection, confirmation from the program managers, and comparison of the invoice to the receiving documents and the purchase order) or validate GPO's title to an asset, whichever is applicable, before recording the expenditure as PP&E in its subsidiary ledger in accordance with GPO's policy. In addition, program managers should be provided additional guidance to ensure the proper coding of such equipment acquisitions in the future.

#### **2. Revenue Recognition of Appropriated Revenue**

Improve controls to ensure that all Revolving Fund expenditures incurred during the fiscal year that are to be funded with Federal appropriations are identified so that the related appropriated revenues can be recognized at the time that the liability is incurred in accordance with GAAP.

#### **Management Response:**

Management concurs with these findings and recommendations.

#### **C. Information Technology (IT) general controls should be improved**

During fiscal year 2007, deficiencies in the design and/or operations of GPO's IT general controls were noted in Entity-Wide Security, Access, System Software, and Service Continuity. Office of Management and Budget (OMB) Circular No. A-130, *Management of Federal Information Resources*, requires that agencies complete system security plans and incorporate records management and archival functions into the design, development, and implementation of information systems. OMB Circular No. A-130 states that agencies are required to establish controls to assure adequate security for all information processed, transmitted, or stored in Federal automated information systems. Technical and operational controls support management controls. To be effective, all three control areas must interrelate. OMB Circular No. A-127, *Financial Management System*, requires that all documentation, including software development, system, operations, user manuals, and operating procedures, be kept up-to-date and be readily available for examination. The lack of these policies and procedures within IT general controls is considered a significant deficiency. The details of this condition, several of which have been reported to management in prior years' audit reports, are as follows:

## Fiscal Year 2007 Significant Deficiencies

### 1. Entity-Wide Security Program

Several areas regarding GPO's enterprise-wide security program need improvement. During fiscal year 2007, GPO continued implementing an enterprise-wide security program to formalize GPO's established information security objectives and high level policy. However, as noted in the prior year, GPO has not completed the certification and accreditation of its key financial systems or the general support system (GSS). This process is a critical element of an organization's overall security program. Specifically, it is used to identify all risks posed to a system; to plan or implement the controls necessary to mitigate those risks; and to certify the operation of the controls. Without a strong entity-wide security program, security controls may be inadequate; responsibilities may be unclear, misunderstood, and improperly implemented; and controls may be inconsistently applied.

### 2. Access Controls

Overall, GPO's access controls require strengthening in order to provide a more secure financial processing environment. During FY 2007, GPO has implemented a process to provide monthly notifications of employee separations, along with monthly separation summary emails. However, the following access controls at GPO need improvement:

- a. As noted in the prior year, improvements are needed to ensure that documented policies and procedures are followed by notifying all system owners of terminated employees. Specifically, GPO is not ensuring the timely removal of separated employee access to all GPO IT resources, including the Local Area Network (LAN), GPO Mainframe, and Oracle On-Demand application.
- b. GPO is not consistently following documented policies and procedures for granting access to the LAN, the Mainframe, Oracle On-Demand, or the Data Center.
- c. As noted in the prior year, GPO is not granting access to the Data Center on a business-need-only basis and is not reviewing access for appropriateness or removing access of separated employees in a timely manner.
- d. Media sanitation policies and procedures need to be strengthened to include servers and magnetic media.

Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. This includes controls that prevent unauthorized access to sensitive files and revoke access following termination. Because of the sensitivity of this information, the details of the findings are not provided in this report, but were provided to GPO management during the audit.

### 3. System Software

The controls over the modification of system software need improvement. During FY 2007, GPO management finalized procedures for server patch management. However, GPO has not finalized procedures for desktop configuration management, as noted in the prior year. In addition, GPO has implemented the ConfiguSoft Tool to maintain a standard configuration across the server environment; however, this tool is not in use over the workstation/desktop computer environment. System software controls are essential in providing reasonable assurance that operating system-based security controls are not compromised and that the system will not be impaired. If controls in this area are inadequate, unauthorized individuals



## Fiscal Year 2007 Significant Deficiencies

might use system software to circumvent security controls to read, modify, or delete critical or sensitive information and programs. Because of the sensitivity of this information, the details of the findings are not provided in this report, but were provided to GPO management during the audit.

### 4. Application Software Development and Change Control

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. While change control policies and procedures do exist for GPO mainframe environment, they do not include GPO server environment or GPO-specific change controls policies and procedures related to the Oracle On-Demand application.

### 5. Service Continuity

Losing the capability to process, retrieve, and protect data can significantly impact an agency's ability to accomplish its mission. For this reason, an agency should have (1) procedures in place to protect information resources and minimize the risk of unplanned interruptions, and (2) a plan to recover critical operations should interruptions occur. During FY 2007, GPO continued with efforts to minimize the risk of unplanned interruptions and recover critical operations should an interruption occur. However, as noted in the prior year, GPO has not established a contingency plan for the financial reporting systems or the GSS. In addition, GPO has developed high-level backup and recovery policies for the mainframe environment; however the document should be strengthened to include the backup and recovery of the server environment.

### **Recommendations:**

We recommend that GPO continue to strengthen its IT general controls in each of the five domains as follows:

#### 1. Entity-Wide Security Program

- a. We recommend that GPO complete the certification and accreditation of all major applications, including key financial systems, and the GSS.

#### 2. Access Controls

- a. We recommend that GPO implement review procedures to ensure that user access to all GPO IT resources be removed timely for all separated employees and contractors.

**Fiscal Year 2007 Significant Deficiencies**

- b. We recommend that GPO management update GPO Data Center proximity card system so that badge access is removed for terminated employees and contractors, as well as other current, unauthorized employees and contractors, and perform quarterly reviews of GPO Data Center access, as noted in the memorandum entitled *Process for Access Control of the 8<sup>th</sup> Floor Data Center*.
- c. We recommend that GPO management work to ensure that policies and procedures for requesting, monitoring, and removing access to all GPO IT resources are consistently followed and all requests for access are documented and approved.
- d. We recommend that GPO update policies and procedures for the sanitization of electronic media to include both servers and magnetic/removable media.

**3. System Software**

- a. We recommend that GPO management continue to improve the patch management process by finalizing desktop-specific patching procedures and continuing to work towards full implementation of the ConfigureSoft configuration management software.

**4. Application Software Development and Change Control**

- a. We recommend that GPO develop change control procedures for GPO server environment and GPO-specific responsibilities regarding changes to the Oracle On-Demand application.

**5. Service Continuity**

- a. We recommend that GPO management continue to develop a business resumption and contingency plan for all major applications, including key financial applications, and the GSS.
- b. We recommend that GPO update backup and recovery procedures to include the server environment.

Management Response:

Management concurs with these findings and recommendations.

Status of Prior Year Reportable Conditions

Prior Year Condition	Prior Year Recommendation	Status as of September 30, 2007
<b>Controls surrounding the billing process should be strengthened</b>	<ol style="list-style-type: none"> <li>1. Customers are only billed once for each order;</li> <li>2. Amounts being billed are at rates that have been approved by the Public Printer in accordance with Title 44; and</li> <li>3. Appropriate adjustments are made at fiscal year end to ensure that unbilled accounts receivable are being offset against advances received from customers.</li> </ol>	<b>Closed</b>
<b>Certain reconciliation controls should be improved</b>	Enforce its existing policies that require monthly reconciliations to be performed and the timely investigation and resolution of differences identified in compliance with TFM requirements and GAO standards.	<b>Significant Deficiency:</b> This finding has been repeated in the current year, see Exhibit I, letter A.
<b>Controls over recording and reporting environmental liabilities should be improved</b>	Implement adequate controls that include the review and assessment of all potential environmental liabilities in GPO’s facilities for financial reporting purposes. This review and assessment should involve both the Environment and Safety Division and the Financial Reporting Division to ensure that environmental liabilities identified are properly reported in GPO’s consolidated financial statements.	<b>Closed</b>
<b>Information Technology (IT) general controls should be improved</b>		
<b>Entity-Wide Security Program</b>	<ol style="list-style-type: none"> <li>a. Complete the certification and accreditation of key financial systems.</li> <li>b. Deploy an information</li> </ol>	<b>Significant Deficiency:</b> This finding has been partially repeated in the current year, see Exhibit I, letter C.



Status of Prior Year Reportable Conditions

Prior Year Condition	Prior Year Recommendation	Status as of September 30, 2007
	security awareness program to all GPO personnel and provide confirmation that all personnel receive this training.	
<b>Access Controls</b>	<ul style="list-style-type: none"> <li>a. Improve password settings.</li> <li>b. Enhance employee checkout procedures.</li> </ul>	<b>Significant Deficiency:</b> This finding has been repeated in the current year, see Exhibit I, letter C.
<b>System Software</b>	<ul style="list-style-type: none"> <li>a. Develop and implement procedures to manage changes to system software components, which include notifying the user community of network availability outages.</li> <li>b. Document all system software changes in a tracking system. Documentation should evidence testing and approvals required for system software changes.</li> </ul>	<b>Significant Deficiency:</b> This finding has been partially repeated in the current year, see Exhibit I, letter C.
<b>Service Continuity</b>	<ul style="list-style-type: none"> <li>a. Complete testing of the GPO contingency plan and update the contingency plan documentation as necessary based on analysis of contingency plan tests.</li> </ul>	<b>Significant Deficiency:</b> This finding has been repeated in the current year, see Exhibit I, letter C.



**SECTION IV**

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**Consolidated  
Financial  
Statements**



**Consolidated Balance Sheets***As of September 30, 2007 and 2006**(Dollars in thousands)*

	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
Current assets		
Fund balance with Treasury (Note 2)	\$ 273,446	\$ 229,805
Accounts receivable, net (Note 3)	150,977	109,547
Inventory, net (Note 4)	29,733	13,093
Prepaid expenses (Note 5)	3,958	1,688
<b>Total current assets</b>	<b>458,114</b>	<b>354,133</b>
General property, plant and equipment, net (Note 6)	67,600	56,894
<b>Total assets</b>	<b>\$ 525,714</b>	<b>\$ 411,027</b>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities		
Accounts payable and accrued expenses (Note 7)	\$ 109,324	\$ 84,008
Deferred revenues (Note 8)	81,715	69,559
Accrued annual leave	9,813	9,586
<b>Total current liabilities</b>	<b>200,852</b>	<b>163,153</b>
Other liabilities		
Workers' compensation liability (Note 9)	66,723	69,951
Product warranty liabilities (Note 10C)	4,833	—
<b>Total liabilities</b>	<b>272,408</b>	<b>233,104</b>
Commitments and contingencies (Notes 10 and 11)		
Net position (Note 12)		
Cumulative results of operations:		
Retained earnings	108,164	17,281
Invested capital	92,879	92,879
Unexpended appropriations	52,263	67,763
<b>Total net position</b>	<b>253,306</b>	<b>177,923</b>
<b>Total liabilities and total net position</b>	<b>\$ 525,714</b>	<b>\$ 411,027</b>

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

**Consolidated Statements of Revenues, Expenses, and Changes in Retained Earnings***For the Fiscal Years Ended September 30, 2007 and 2006**(Dollars in thousands)*

	<b>2007</b>	<b>2006</b>
<b>OPERATING REVENUES</b>		
Printing and binding	\$ 780,482	\$ 575,885
Appropriations	137,041	119,738
Sales of publications	16,032	18,560
Agency distributions	5,553	6,196
<b>Total operating revenues</b>	<b>939,108</b>	<b>720,379</b>
<b>OPERATING EXPENSES</b>		
Printing and reproduction	423,845	404,412
Personnel compensation and benefits	201,950	199,910
Supplies and materials	152,182	37,112
Other services	23,901	15,571
Travel, transportation, and postage	16,428	20,181
Rents, communications, and utilities	15,873	17,755
Publications sold	8,424	8,042
Depreciation and amortization	8,850	7,606
<b>Subtotal</b>	<b>851,453</b>	<b>710,589</b>
<b>Income before other operating expenses</b>	<b>87,655</b>	<b>9,790</b>
<b>OTHER OPERATING EXPENSES</b>		
Decrease in workers' compensation liability (Note 9)	3,228	6,171
<b>Net Income</b>	<b>\$ 90,883</b>	<b>\$ 15,961</b>
Retained Earnings, beginning of year	17,281	1,320
<b>Retained Earnings, end of year</b>	<b>\$ 108,164</b>	<b>\$ 17,281</b>

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

**Consolidated Statements of Cash Flows***For the Fiscal Years Ended September 30, 2007 and 2006**(Dollars in thousands)*

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net income</b>	<b>\$ 90,883</b>	<b>\$ 15,961</b>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,850	7,606
Gain on disposal of general property, plant and equipment	(3)	(41)
Changes in assets and liabilities:		
(Increase) decrease in assets-		
Accounts receivable	(41,431)	(5,446)
Inventory	(16,639)	(4,039)
Prepaid expenses	585	1,625
Increase (decrease) in liabilities-		
Accounts payable and accrued expenses	25,316	6,144
Deferred revenues	12,155	14,817
Accrued annual leave	227	(453)
Workers' compensation liability	(3,228)	(6,171)
Product warranty liability	4,833	—
<b>Total adjustments</b>	<b>(9,335)</b>	<b>14,042</b>
<b>Net cash provided by operating activities</b>	<b>81,548</b>	<b>30,003</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital purchases	(22,410)	(8,328)
Proceeds from sale of general property, plant and equipment	3	41
<b>Net cash used in investing activities</b>	<b>(22,407)</b>	<b>(8,287)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Decrease) Increase in unexpended appropriations	(15,500)	1,378
<b>Net cash (used in) provided by financing activities</b>	<b>(15,500)</b>	<b>1,378</b>
<b>Net increase in fund balance with Treasury</b>	<b>43,641</b>	<b>23,094</b>
Fund balance with Treasury, beginning of year	229,805	206,711
<b>Fund balance with Treasury, end of year</b>	<b>\$ 273,446</b>	<b>\$ 229,805</b>

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



## SECTION IV

# Notes to Consolidated Financial Statements

September 30, 2007 and 2006

## 1. Summary of Significant Accounting Policies

### A. Reporting Entity

The U.S. Government Printing Office (GPO or Agency) is a Legislative Branch agency of the Federal Government. The Agency's mission and authority are derived from various statutes codified in Title 44, *Public Printing and Documents*, of the *United States Code* (U.S.C.). The Congress established GPO to provide the Federal Government with an efficient and effective means for the production, procurement, and dissemination of Federal Government information to the Nation.

The Public Printer of the United States, appointed by the President of the United States with the advice and consent of the U.S. Senate, serves as the Agency head and oversees GPO's programs and operations. These programs and operations are funded through a business-type revolving fund, authorized by 44 U.S.C. § 309, and annual and special appropriations provided by Congress. The GPO Revolving Fund maintains a system of accounts and records transactions to comply with the requirements of Section 309 of Title 44.

The Joint Committee on Printing (JCP) has primary responsibility for Congressional oversight of GPO's programs and operations. The JCP is comprised of five members of the U.S. House of Representatives and five members of the U.S. Senate. Every two years the JCP chairmanship and vice-chairmanship rotate between the House and the Senate.

### B. Accounting Environment

#### Basis of Accounting

As allowed by the Federal Accounting Standards Advisory Board (FASAB), the consolidated financial statements of GPO have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as promulgated by the Financial Accounting Standards Board (FASB). Under GAAP and the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to the timing of the receipt or disbursement of cash.

#### Basis of Presentation and Consolidation

GPO prepares annual financial statements that reflect the overall financial position and results of operations to meet the requirements of GAAP and 31 U.S.C. § 3515(b) mandated by 44 U.S.C. § 309(e). The accompanying consolidated financial statements include all funds under GPO's control that have been established and maintained to account for the resources of the Agency. All significant intra-agency balances and transactions have been eliminated in the preparation of the consolidated financial statements.

The GPO consolidated financial statements do not include the effects of centrally administered assets and liabilities of the Federal Government, as a whole, such as interest on the public debt, which may in part be attributable to GPO. Other Federal agencies make financial decisions and report certain financial matters on behalf of the entire Federal Government, including matters in which individual agencies may be an indirect party. Financial matters maintained or reported by other Federal agencies in which GPO is indirectly involved include employee benefit plans and certain legal settlements.

#### Funds

GPO maintains a revolving fund and a general fund to account for its various programs and operations. Each of these funds is a distinct fiscal and accounting entity that accounts for cash and other financial resources together with all related liabilities and equities.

*Revolving Fund* – The GPO Revolving Fund is an inter-governmental fund established by Congress on July 1, 1953. This business-type revolving fund is available without fiscal year limitation for financing the operation and maintenance of GPO, except for those information dissemination programs of the Agency that are funded by annual appropriations.

The GPO Revolving Fund is a self-sustaining financial entity used primarily to finance and account for GPO's Printing and Binding Operations and Publication and Information Sales Program. Accordingly, the two major sources of revenue to the Revolving Fund are reimbursements from the Congress and other Federal customers for providing printing, binding and distribution services, and publication and subscription sales to the public.

The Printing and Binding Operations account for the revenues and expenses associated with services provided by in-plant printing and purchased printing. The costs of these services are recovered through a system of rates used to bill customers. These rates include direct costs, depreciation, overhead, and related expenses permitted under 44 U.S.C. § 309.

The Publication and Information Sales Program sells Federal Government information products to the public. The sales price of a Federal Government publication is established in accordance with 44 U.S.C. § 1708. Designated bookstores at educational institutions, book dealers, and other purchasers of large quantities may receive a 25 percent discount on the domestic price of a product. This price discount is also available to GPO employees.

*General Fund* – The General Fund is financed by two annual Congressional appropriations to the Agency. These appropriated funds finance the cost of GPO's support of the Congress, and the Government information dissemination services provided to the public without charge to the recipients.

The Congressional Printing and Binding (CP&B) Appropriation is used to pay the cost of the printing and binding requirements of the Congress, and the printing, binding, and distribution of publications authorized by law to be distributed to others without charge to the recipient.

The Salaries and Expenses (S&E) Appropriation is used by the Library Services and Content Management, a GPO business unit, to fund four information dissemination programs: (1) the Federal Depository Library Program (FDLP) that includes *GPO Access*; (2) the Cataloging and Indexing Program; (3) the By-Law Distribution Program; and (4) the International Exchange Program. The majority of this annual appropriation is used to finance the FDLP.

Expenditures from these appropriations are used to reimburse the GPO Revolving Fund for printing and binding, and other services and supplies furnished by GPO in accordance with Title 44, *Public Printing and Documents*, of the *United States Code*.

### *C. Fund Balance with Treasury*

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Fund balance with Treasury represents all balances in GPO accounts with the U.S. Department of the Treasury (Treasury). Treasury processes cash receipts and disbursements for GPO.

### *D. Accounts Receivable*

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Accounts receivable consist of intra-governmental amounts due to GPO, as well as amounts due from the public. Accounts receivable are shown net of a provision for uncollectible accounts. The allowance for doubtful accounts is based on GPO's recent debt collection experience.

### *E. Inventories*

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Inventories of publications held for sale are valued at the lower of cost, using the weighted average cost method, or market. The publication inventories are shown net of a provision for excess inventory that may be disposed of by the Agency in the future. The allowance for surplus publications is based on life cycle studies of product sales that provide a historical basis for determining the percentage of potential excess inventory stock items on hand. Inventories of paper, materials and supplies include the cost of production material (e.g., blank paper, computer chips, ink, and book cloth), as well as the cost of administrative-use supplies. These inventories are valued at the lower of cost, using the weighted moving average cost method, or market. Inventories of materials and supplies are shown net of a provision for obsolescence. The allowance for obsolescence is determined based on historical usage of paper, materials, and supplies.

### *F. Property, Plant and Equipment*

Property, plant and equipment purchases are generally valued at their acquisition cost. The Agency capitalizes the cost of the property as an asset when the cost is \$25,000 or more, and the estimated useful life is two years or more. The cost of major alterations and renovations to the GPO facility are capitalized and depreciated, while the cost of maintenance and repairs are expensed when incurred. The depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset. The depreciation of an asset commences the month after the asset is first placed in service.

The following table reflects the standard estimated useful life of each major asset category. Exceptions to these standard estimated asset lives are authorized when justified.

#### **Estimated Useful Life Of Capitalized Assets**

<b>Asset Category</b>	<b>Standard Estimated Useful Life (Years)</b>
Land	N/A
Building Improvements	20
Building Appurtenances	20
Other Structures and Facilities	20
Furniture and Fixtures	20
Leasehold Improvements	10
Plant Machinery and Equipment	10
Office Machinery and Equipment	5
Motor Vehicles	5
Computer and Software	3

Land has an indefinite life and is not subject to depreciation. Leasehold improvements are generally depreciated over 10 years or the remaining duration of the lease for real property, whichever is shorter.

Printing equipment transferred to GPO from other Federal agencies under the provisions of 44 U.S.C. § 312 is valued in accordance with JCP Regulation Number 26, *Government Printing and Binding Regulations*. This valuation approximates fair market value at the time of the property transfer.

### *G. Deferred Revenues*

Deferred revenues are funds that are received in advance from customers for the future delivery of goods and services ordered. The Agency records these advances as revenue when the goods are delivered or the services are performed.

### *H. Accrued Annual Leave*

Annual leave is accrued as a liability when earned. The liability is reduced when leave is used. The annual leave liability is calculated using the current hourly salary or wage of employees multiplied by their total hours of unused annual leave. Employees will receive a lump-sum payment for any unused annual leave when they separate from Federal service or enter active military service. Generally, this lump-sum payment will equal the pay the employee would have received had they remained employed until expiration of the period covered by the annual leave.

Sick leave and other types of non-vested leave are expensed when used. Employees are not entitled to a lump-sum payment for their unused sick leave.

### *I. Workers' Compensation Liability*

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases.

The U.S. Department of Labor (DOL) administers the FECA Program, which provides workers' compensation benefits to GPO employees and others through the Special Benefit Fund. GPO annually reimburses DOL for the cost of FECA benefits paid on GPO's behalf.



Future workers' compensation estimates are generated from the application of actuarial procedures developed by DOL to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases related to injuries incurred but not reported. The liability is determined by utilizing historic benefit payment patterns related to a particular period to estimate the ultimate payments related to that period.

### *J. Commitments and Contingencies*

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Liabilities from loss contingencies, including environmental remediation costs not within the scope of FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, arising from claims, assessments, litigation, fines and penalties, and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Loss contingencies that do not meet these criteria are not accrued. Loss contingencies that are reasonably possible and estimable are disclosed in Note 11.

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), which requires a liability to be accrued if the reporting entity has an obligation to perform asset retirement activities and a reasonable estimate of the fair market value of the obligation can be made at fiscal year end. FIN 47 also provides guidance as to when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. GPO adopted the provisions of FIN 47 effective October 1, 2005.

### *K. Product Warranty Liabilities*

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Product warranty liabilities are recognized for U.S. Passports manufactured by GPO for the U.S. Department of State. GPO sells blank electronic passports (e-Passports) to the U.S. Department of State which completes this travel document that is sold to millions of U.S. Citizens annually. The product replacement warranty program started in fiscal year 2007 to coincide with the Federal Government's transition from the legacy passport to the new e-Passport that contains a computer chip (see Note 10C).

### *L. Revenue Recognition*

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*Printing and Binding* – GPO must be reimbursed for the cost of printing and binding services furnished customers at rates set by the Public Printer in accordance with 44 U.S.C. §309. Revenues from in-house printing and binding work are recognized on a value-added basis, as work is performed, while revenues from commercially procured printing and binding are recognized on the date the contract requirements are fulfilled, which is generally the date of shipment by the commercial printer to the customer agency.

*Appropriations* – Appropriation revenues are recorded when an expense is incurred for purposes permitted by the appropriations act and program legislation. Unexpended appropriations are recorded as a component of net position. Unexpended appropriation balances are generally canceled after 5 years.

*Sales of Publications* – Revenues from the sale of publications and subscriptions to customers are recognized when shipped by the Publication and Information Sales Program.

*Agency Distributions* – Revenues from the storage, packaging, and distribution of publications for other Federal agencies are recorded when services have been performed.

### *M. Expense Recognition*

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*Printing and Reproduction* – This expense includes the cost of printing, duplicating, and reproduction orders that are procured by GPO from the private sector to satisfy the needs of the Federal Government. The expense is generally recorded on the date of shipment by the contractor, and is shown net of vendor prompt payment discounts earned by the Agency.

*Personnel Compensation and Benefits* – Personnel compensation consists of the wages and salaries, including overtime premium and night differential, paid to GPO employees on a biweekly cycle. Personnel benefits include the Agency's share of contributions towards Federal Employees Health Benefits (FEHB), Federal Employees' Group Life Insurance (FEGLI) and the two Federal Government civilian employee retirement programs. The two retirement programs are the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) that includes the related Thrift Savings Plan (TSP).

Personnel benefits also include the cost of transit benefits provided by GPO to employees, as well as the cost of the incentive and performance awards to employees (e.g., GPO Goal Sharing Program). Personnel compensation and benefits are recorded as expenses when earned by employees.

*Supplies and Materials* – Computer chips required for U.S. Passport production are the most significant cost component within the category of supplies and materials. Passport supplies and materials are recorded as an expense when used in production operations. The second most significant component is paper and paper products that are commercially procured to satisfy GPO's in-plant printing requirements and customer orders for blank paper. The expense is recorded when paper is drawn from inventory to fulfill an order or delivered to the customer in the case of direct mill-to-customer shipments. This expense category also includes all other supplies and materials that are not capitalized as property, such as personal computers, furniture, and office supplies. The costs of these items are expensed when issued from the stores inventory for use.

*Other Services* – This expense category includes the cost of professional services by contractors. The expenses are recognized when the contractual services have been performed.

*Travel, Transportation, and Postage* – This category includes travel and transportation costs of persons or things, including employee relocation costs, plus postage expenses. Travel costs are incurred by persons on official business for audits, attendance at conferences, inspections, investigations, training, or other authorized business of the Agency. Transportation includes shipping costs for printing and reproduction products from GPO or contractors to customer agencies, depository libraries, or other GPO locations. Travel expenses are accrued when they are estimable, while transportation costs are generally recorded on the date of shipment. Postage and commercial mail services are recorded as expenses when the delivery services are provided by the U.S. Postal Service and commercial carriers.

*Rents, Communications, and Utilities* – Rent and lease costs are incurred for the use of building space, equipment, and motor vehicles. GPO leases office and warehouse space from the U.S. General Services Administration (GSA) and/or commercial landlords. GPO also rents automobiles and other motor vehicles. Communications costs include data, voice, video, and wireless services. Utilities include electricity, gas, steam, and water. Expenses are recorded as services are provided and energy resources are used.

*Publications Sold* – Publications sold expense represents the cost of publications sold to customers and the cost of subscriptions issued to subscribers. Expenses are recorded at the time of publication sale or subscription issuance. Additionally, this expense includes any change in the estimated cost of the publications held in inventory for sale to the public that are potentially obsolete, damaged, or surplus. The allowance for surplus publications is based on life cycle studies of product sales that provide a historical basis for the determination of potential excess inventory on hand.

*Depreciation and Amortization* – GPO uses the straight-line method of depreciation and amortization to allocate a portion of the acquisition cost of property, plant and equipment to each accounting period. The acquisition cost of each capitalized asset is depreciated, or amortized, over the asset's estimated useful life which is generally measured in years. The monthly depreciation, or amortization, of a capitalized asset commences at the beginning of the first full-month after the date that the capitalized asset was placed in service.

#### *N. Consolidated Statements of Cash Flows*

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The consolidated statements of cash flows identify cash receipts and disbursements and classify each into operating, investing, and financing activity categories. The disclosure of this information is intended to help assess the ability of GPO to generate funds from current operations, to identify financing acquired from outside sources, and to identify the major non-operating (investing) uses of funds.

#### *O. Use of Estimates*

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The preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent liabilities at the date of the consolidated financial statements, and the amount of revenues and expenses reported during the reporting period. Actual results could differ from these estimates. The estimates that most significantly impact the assets, liabilities, revenues, and expenses reflected in the accompanying consolidated financial statements are: the allowance for inventory obsolescence for materials, supplies, and publications held for sale; the allowance for doubtful

accounts related to accounts receivable; the estimated useful lives of fixed assets; the actuarial estimated liability for future workers' compensation benefits; the product warranty liability for the replacement of defective passport books; and estimated contingent liabilities.

### *P. Tax Status*

GPO is a legislative branch agency within the Federal Government, and therefore, is not subject to federal, state, or local income taxes. Accordingly, no provisions for income taxes are recorded by the Agency.

## 2. Fund Balance with Treasury

A table of items included in GPO's funds with Treasury, including funds on-hand or in-transit to the Treasury, as of September 30, 2007 and 2006 follows.

(Dollars in thousands)

	2007	2006
<b>Fund Balances:</b>		
Revolving Fund:		
Unrestricted	\$ 117,150	\$ 73,195
Restricted:		
Deposit accounts	77,961	65,025
Retirement Separation Incentive Program	4,562	4,562
Other	18,793	17,358
<b>Total revolving fund</b>	<b>218,466</b>	<b>160,140</b>
General Funds:		
Congressional printing and binding	17,620	30,413
Salaries and expenses	17,645	13,019
Supplemental and other	19,715	26,233
<b>Total general funds</b>	<b>54,980</b>	<b>69,665</b>
<b>Total</b>	<b>\$ 273,446</b>	<b>\$ 229,805</b>
<b>Status of Fund Balance with Treasury:</b>		
Unobligated balance:		
Available	\$ 58,612	\$ 26,938
Unavailable	19,715	26,233
<b>Total</b>	<b>78,327</b>	<b>53,171</b>
Obligated balance not yet disbursed	195,119	176,634
<b>Total</b>	<b>\$ 273,446</b>	<b>\$ 229,805</b>

Unrestricted funds are available to meet the financial obligations of the Revolving Fund. Restricted funds are comprised of customer deposit accounts, accrued wages and salaries, payroll taxes and other withholdings, earned annual leave not used by employees, and amounts due to the Office of Personnel Management (OPM) from the GPO Retirement Separation Incentive Program (RSIP). These funds can only be used for the purpose specified.

Supplemental and other appropriations include unexpended appropriations made to the GPO for specific purposes as discussed in Note 12B.



### 3. Accounts Receivable, Net

Accounts receivable, net of an allowance for doubtful accounts, as of September 30, 2007 and 2006, consisted of the following.

	(Dollars in thousands)	
	<b>2007</b>	<b>2006</b>
Federal Agencies:		
Unbilled accounts receivable	\$ 115,042	\$ 104,852
Billed completed work	38,410	7,828
<b>Subtotal</b>	<b>153,452</b>	<b>112,680</b>
Other receivables:		
The public	1,685	1,838
GPO employees	934	890
<b>Subtotal</b>	<b>2,619</b>	<b>2,728</b>
<b>Total accounts receivable</b>	<b>156,071</b>	<b>115,408</b>
Less: Allowance for doubtful accounts	(5,094)	(5,861)
<b>Total accounts receivable, net</b>	<b>\$ 150,977</b>	<b>\$ 109,547</b>

The majority of accounts receivable are due from other Federal agencies that ordered goods and services from GPO. By law, these customers are required to reimburse the GPO Revolving Fund for the cost of their orders.

Unbilled accounts receivable result from the delivery of the goods and performance of services for which bills have not been presented to the customer for payment yet. Accordingly, unbilled accounts receivable includes the value of work in process and completed work for customer orders as of September 30, 2007 and 2006.

Employee accounts receivable includes amounts owed by current and former employees who were advanced leave. Employees generally repay their leave indebtedness through biweekly installments from their earned leave or from leave donations from other employees under the GPO Leave Donation Program.

### 4. Inventory, Net

Inventory, net of an allowance for surplus and obsolete stock, as of September 30, 2007 and 2006, consisted of the following.

	(Dollars in thousands)	
	<b>2007</b>	<b>2006</b>
Publications for sale	\$ 5,406	\$ 9,099
Paper	3,455	3,135
Materials and supplies	25,435	7,868
<b>Total inventory</b>	<b>34,296</b>	<b>20,102</b>
Less: Allowance for surplus and obsolete inventory	(4,563)	(7,009)
<b>Inventory, net</b>	<b>\$ 29,733</b>	<b>\$ 13,093</b>

The materials and supplies inventory included \$18.4 million in computer chips at September 30, 2007. The computer chips are used in the production of electronic passports.

## 5. Prepaid Expenses

Prepaid expenses totaled \$4.0 million as of September 30, 2007, and \$1.7 million as of September 30, 2006. This represents an increase of \$2.3 million. During fiscal year 2007, GPO made advances of \$2,854,000 to two contractors manufacturing speciality equipment with a long construction period. This plant machinery and equipment will be delivered to the new Secure Production Facility in 2008 (see Note 18). These contractor advances were classified as prepaid expenses at September 30, 2007. Additionally, fiscal year 2005 advances to *GovWorks* for IT acquisition projects decreased by \$317,000 during fiscal year 2007 as a result of enhancements made to *GPO Access*. GPO advances to *GovWorks* totalled \$953,000 as of September 30, 2007.

## 6. General Property, Plant and Equipment, Net

Net property, plant and equipment as of September 30, 2007 and 2006 consisted of the following.

(Dollars in thousands)

	2007	2006
Land	\$ 9,971	\$ 9,971
Buildings and improvements	76,910	76,083
Plant machinery and equipment	74,128	73,579
Computers and computer software	46,464	32,126
Furniture and fixtures	6,231	6,108
Motor vehicles	565	565
Leasehold improvements	729	934
Construction and software in process	—	753
<b>Total</b>	<b>214,998</b>	<b>200,119</b>
Less: Accumulated depreciation and amortization	(147,398)	(143,225)
<b>General property, plant and equipment, net</b>	<b>\$ 67,600</b>	<b>\$ 56,894</b>

Depreciation expenses were \$8,850,000 for fiscal year 2007 and \$7,606,000 for fiscal year 2006.

## 7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of September 30, 2007 and 2006 were composed of the following.

	(Dollars in thousands)	
	2007	2006
Accounts payable:		
Commercial printing	\$ 42,761	\$ 43,252
U.S. Government agencies	13,488	14,066
Other	39,573	14,443
<b>Total accounts payable</b>	<b>95,822</b>	<b>71,761</b>
Accrued salaries and payroll taxes	13,502	12,247
<b>Total accounts payable and accrued expenses</b>	<b>\$ 109,324</b>	<b>\$ 84,008</b>

The increase in accounts payable of \$25.3 million was attributable to the increased demand for goods and services acquired by GPO from the commercial sector. The increase of approximately \$25.1 million in other accounts payable includes about \$22.5 million in materials and supplies for the new e-Passports. The unpaid services at year end included contractor development costs of about \$1.5 million for the FDsys Project and the GPO Enterprise Project. Additionally, for the first time, an environmental liability of \$570,000 was accrued for asbestos abatement.

## 8. Deferred Revenues

As of September 30, 2007 and 2006, deferred revenues from customers consisted of the following.

	(Dollars in thousands)	
	2007	2006
Deposit accounts	\$ 77,961	\$ 65,025
Subscriptions	3,072	3,666
Unfilled orders	396	313
Advance billings	286	555
<b>Total</b>	<b>\$ 81,715</b>	<b>\$ 69,559</b>

GPO held \$78.0 million and \$65.0 million in customer deposit accounts as of September 30, 2007 and 2006, respectively. Federal Government customers had advanced funds of \$74.3 million and \$61 million for printing and binding as of September 30, 2007 and 2006, respectively. Additionally, GPO held advance funds from the Federal Government and other customers of \$3.7 million and \$4 million for sales of publications as of September 30, 2007 and 2006, respectively. The restricted funds in these deposit accounts will generally be applied to future orders placed by customers, or may be refunded on request.

GPO defers the recognition of revenues for subscription services that will be provided to customers in the future. Customers pay for subscriptions to the *Congressional Record*, the *Federal Register*, and other publications in advance of delivery. The revenues from subscriptions are recognized as the periodicals are published and distributed to subscribers. The unfilled subscription balance will be refunded in those instances where the subscription (e.g., monthly periodical) is no longer available for sale, or the customer cancels their subscription.

The Agency also defers the recognition of revenues for unfilled customer orders of publications and other information products until the customer's order has been shipped.

Additionally, GPO defers the recognition of revenues for advance billings to Federal Government customers. Advance billings are occasionally used to finance the cost of producing certain large printing and binding jobs. GPO will recognize the revenue as work is completed.



## 9. Workers' Compensation Liability

The DOL develops an actuarial estimate of future workers' compensation benefits for each Federal entity to use for financial reporting each year. The U.S. Department of the Treasury requires Federal entities to use DOL's estimates for intra-governmental accounting of liabilities. The workers' compensation liability estimate for GPO was \$66,723,000 as of September 30, 2007, and \$69,951,000 as of September 30, 2006. Therefore, the accrued liability for workers' compensation benefits decreased by \$3,228,000 during the year ended September 30, 2007.

The DOL liability estimate includes the expected payments for death, disability, medical, and miscellaneous costs for approved compensation cases, as well as a component for incurred but not reported claims. The liability is determined using historical benefit payment patterns related to specific incurred periods to predict the ultimate payments related to those periods. The methodology provides for the effects of inflation and adjusts historical payments to current year constant dollars by applying wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) to the calculation of projected benefits. The COLAs and CPIMs that were used in the compensation projections for 2007 and 2006 follow.

Fiscal Year	COLA		CPIM	
	2007	2006	2007	2006
2007	N/A	3.50%	NA	4.00%
2008	2.63%	3.13%	3.74%	4.01%
2009	2.90%	2.40%	4.04%	4.01%
2010	2.47%	2.40%	4.00%	4.03%
2011	2.37%	2.43%	3.94%	4.09%
2012 and beyond	2.30%	2.43%	3.94%	4.09%

Projected annual payments were discounted to the present value based on the Office of Management and Budget's (OMB) economic assumptions for 10-year Treasury notes and bonds. For 2007, interest rate assumptions were 4.930 percent in Year 1, and 5.078 percent in Year 2 and thereafter. For 2006, interest rate assumptions were 5.170 percent in Year 1, and 5.313 percent in Year 2 and thereafter.

## 10. Commitments

### 10. A. Operating Leases

As of September 30, 2007, GPO was committed to various non-cancelable operating leases, primarily covering warehouse and office space. Some of these leases contain escalation clauses and renewal options. A schedule of future minimum rental payments required under operating leases by type, which have initial or remaining non-cancelable lease terms in excess of one year, follows.

#### Future Minimum Rental Payments Required Under Operating Leases

(Dollars in thousands)

Fiscal Year	Warehouse	Office	Total
2008	\$ 1,185	\$ 527	\$ 1,712
2009	686	436	1,122
2010	611	283	894
2011	153	99	252
2012	—	70	70
<b>Total minimum lease payments</b>	<b>\$ 2,635</b>	<b>\$ 1,415</b>	<b>\$ 4,050</b>

Lease and rental expenses for real and personal property were \$3.7 million for fiscal years 2007 and 2006.

### 10. B. Obligations

GPO had unliquidated obligations of \$195.1 million and \$176.6 million, at September 30, 2007 and 2006, respectively, of which \$166.4 million and \$136.5 million, respectively, are undelivered orders related to commercial printing. These obligations include purchase orders and contractual obligations by GPO to acquire goods and services from the private sector and other sources. Some of these orders are scheduled for delivery or performance in the next fiscal year.

### 10. C. Product Warranty Liabilities

GPO and the U.S. Department of State share responsibility for the replacement of defective e-Passports. The U.S. Department of State is responsible for the cost associated with the replacement of the first 2 percent of blank e-Passports containing defective computer chips. GPO is liable for any warranty expense that exceeds 2 percent of passport books that are deemed to have failed due to GPO production problems.

The following table summarizes the warranty activity for the year ended September 30, 2007.

#### Warranty Liability for U.S. Passports (Dollars in thousands)

	2007
Beginning Balance (October 1)	\$ —
Provision and adjustments	4,833
Cost of replacement U.S. Passports	—
Ending Balance (September 30)	\$ 4,833

GPO reserved \$4.8 million for product warranty liabilities at September 30, 2007. No product warranty replacement claims were made by the U.S. Department of State in fiscal year 2007.

## 11. Contingencies

### 11. A. Administrative Proceedings, Legal Actions, and Claims

GPO is a party in various administrative proceedings, legal actions, and claims brought against the Federal Government by employees, contractors, and other parties. The uncertainty involving the outcome of these pending matters will be determined when future events occur or fail to occur. In some cases, legal matters relate to contractual arrangements GPO has entered into for goods and services procured on behalf of other Federal entities. The costs of administering, litigating, and resolving these actions are borne by the GPO Revolving Fund unless the costs are recovered from another Federal entity.

As of September 30, 2007 and 2006, GPO has recorded estimated liabilities of \$90,000 and \$62,000, respectively, related to two claims that management believes the likelihood of an adverse result against GPO is probable. Such amounts are included in accounts payable and accrued expenses in the accompanying balance sheets.

Certain legal matters in which GPO is a named party may be administered and litigated on behalf of GPO by the U.S. Department of Justice (DOJ), an agency of the U.S. Government. In these cases, amounts paid under any judgment, compromise settlement, or award are funded from the Judgment Fund administered by the U.S. Department of the Treasury (31 U.S.C. § 1304). The Judgment Fund paid a total of \$64,000 and \$5,000 on behalf of GPO for the years ended September 30, 2007 and 2006, respectively. These amounts are not reflected in GPO's consolidated financial statements.

Contingencies for litigation involving GPO where the risk of loss was reasonably possible were \$200,000 as of September 30, 2006, and nothing as of September 30, 2007.

### 11. B. Environmental Liabilities

The GPO Central Office in Washington, DC, is located in an industrial facility comprised of four older buildings that contain asbestos building materials. When they were constructed, asbestos was a common building material used as flame retardant, thermal system insulation, and in a variety of building materials (e.g., wall, floor, and ceiling tiles). GPO asbestos abatement efforts have been successful in the removal, enclosure, and encapsulation of friable asbestos to comply with applicable laws and regulations. GPO routinely performs asbestos abatement when unexposed asbestos is detected during building renovation projects.

The estimated cost to remove exposed asbestos within the GPO facility, mainly pipe insulation that has been encapsulated, was \$570,000 as of September 30, 2007. The costs to remediate all non-visible asbestos is not reasonably estimable and accordingly has not been accrued in the accompanying financial statements due to the uncertainty surrounding the date and manner in which the liability will be settled.

## 12. Net Position

### 12. A. Cumulative Results of Operations

*Retained Earnings* — Retained earnings include the net operating results of the GPO Revolving Fund, since inception, less certain required transfers to other Federal agencies.

*Invested Capital* — Invested capital represents the resources of the Federal Government that were directly appropriated to the Agency by Congress for investment in GPO assets (land, buildings, equipment, and capital).

### 12. B. Unexpended Appropriations

The following table presents the unexpended appropriation balances from September 30, 2005 through September 30, 2007, for the appropriations made available to GPO.

Appropriations	(Dollars in thousands)			
	Revolving Fund Appropriation	Salaries and Expenses Appropriation	Congressional Printing and Binding Appropriation	Total
<b>Unexpended balance at September 30, 2005</b>	<b>\$ 27,193</b>	<b>\$ 5,798</b>	<b>\$ 33,394</b>	<b>\$ 66,385</b>
2006 fiscal year appropriation activity:				
Received	1,980	33,004	87,209	122,193
Transferred	513	(513)	—	—
Expended	(3,453)	(27,172)	(90,190)	(120,815)
<b>Unexpended balance at September 30, 2006</b>	<b>26,233</b>	<b>11,117</b>	<b>30,413</b>	<b>67,763</b>
2007 fiscal year appropriation activity:				
Received	1,000	33,096	87,954	122,050
Transferred	5,700	—	(5,700)	—
Expended	(13,218)	(29,286)	(95,046)	(137,550)
<b>Unexpended balance at September 30, 2007</b>	<b>\$ 19,715</b>	<b>\$ 14,927</b>	<b>\$ 17,621</b>	<b>\$ 52,263</b>

As of September 30, 2007, GPO had obligated \$17.6 million of the unexpended appropriations available for Congressional Printing and Binding, and \$14.9 million of the unexpended appropriations available for Salaries and Expenses. This \$32.5 million in obligations is based on the estimated cost of open orders as of September 30, 2007. The obligations totaled \$41.5 million at September 30, 2006. This amount consisted of \$30.4 million in obligations against Congressional Printing and Binding Appropriations and \$11.1 million in obligations against Salaries and Expenses Appropriations.

In fiscal year 2001, Congress authorized the transfer of \$9.5 million to the Revolving Fund from prior year Congressional Printing and Binding Appropriations to cover the cost of congressional work. At the end of fiscal year 2007, a balance of \$45,000 was available for future expenditures. In fiscal year 2001, Congress also authorized the transfer of \$3.3 million to the Revolving Fund from prior year Salaries and Expenses Appropriations to pay for the printing and distribution of publications to depository libraries. At the end of fiscal year 2007, a balance of almost \$1.3 million was available for future expenditures.

In fiscal year 2005, Congress authorized GPO to transfer \$22 million to the GPO Revolving Fund from prior year appropriated funds to finance the development of the FDsys. These funds were also available for annual appropriation shortfalls. The \$22 million transfer consisted of \$14.6 million from Congressional Printing and Binding Appropriations and \$7.4 million from Salaries and Expenses Appropriations. GPO expended \$12 million of these appropriated funds. At the end of fiscal year 2007, a balance of \$10.0 million was available for future expenditures.

In fiscal year 2005, GPO transferred \$2.5 million from the prior year's unexpended Salaries and Expenses Appropriation to the GPO Revolving Fund. The funds were advanced to the U.S. Department of the Interior (i.e., *GovWorks*) for improvements to *GPO Access* that were ordered in fiscal year 2004. GPO expended \$2.1 million from these appropriated funds. At the end of fiscal year 2007, a balance of \$403,000 was unexpended and available for future expenditures.

In fiscal year 2006, Congress appropriated \$2 million (before rescission of \$20,000) to the Revolving Fund for Workforce Retraining. GPO expended a total of \$730,000 from the \$1,980,000 in available appropriations. At the end of fiscal year 2007, \$1,250,000 was available for future expenditures. In fiscal year 2007, Congress appropriated an additional \$1 million to the GPO Revolving Fund for Workforce Retraining. At the end of fiscal year 2007, the entire balance of \$1 million was available for future expenditures.

In fiscal year 2007, Congress authorized the transfer of \$5.7 million to the GPO Revolving Fund from prior year Congressional Printing and Binding Appropriations to help cover the cost of any shortfalls in this appropriation through fiscal year 2007. At the end of fiscal year 2007, the entire balance of \$5.7 million was available for future expenditures.

### 13. Appropriated Funds

#### 13. A. Available Appropriations

The total net appropriations made available to GPO, after rescissions, for fiscal years 2007 and 2006 were as follows.

	(Dollars in thousands)	
	<b>2007</b>	<b>2006</b>
Congressional printing and binding	\$ 87,954	\$ 87,209
Salaries and expenses	33,096	33,004
Workforce retraining	1,000	1,980
<b>Total available appropriations</b>	<b>\$ 122,050</b>	<b>\$ 122,193</b>



### 13. B. Expended Appropriations

The total appropriations expended by GPO during fiscal years 2007 and 2006 were as follows.

(Dollars in thousands)

	2007	2006
<b>Congressional printing and binding:</b>		
<i>Congressional Record</i> products	\$ 25,920	\$ 23,608
Miscellaneous publications and printing and binding	23,690	20,540
Hearings	19,595	23,528
Bills, resolutions, and amendments	11,624	7,334
Details to Congress	2,922	2,699
Other	11,295	12,481
<b>Total congressional printing and binding</b>	<b>95,046</b>	<b>90,190</b>
<b>Salaries and expenses:</b>		
Depository library distribution	21,235	21,480
Cataloging and indexing	6,347	4,953
By-law distribution	547	148
International exchange	1,157	591
<b>Total salaries and expenses</b>	<b>29,286</b>	<b>27,172</b>
<b>Revolving Fund:</b>		
Appropriation transfers	12,749	3,134
Homeland security	—	58
Workforce retraining	469	261
<b>Total revolving fund</b>	<b>13,218</b>	<b>3,453</b>
<b>Total expended appropriations</b>	<b>\$ 137,550</b>	<b>\$ 120,815</b>
Reconciliation of expended appropriations to the consolidated statements of revenues, expenses, and changes in retained earnings:		
<b>Total expended appropriations</b>	<b>\$ 137,550</b>	<b>\$ 120,815</b>
Eliminations (Intra-agency)	(509)	(1,077)
<b>Consolidated revenues from appropriations</b>	<b>\$ 137,041</b>	<b>\$ 119,738</b>

## 14. Employee Benefit Plans

GPO funds a portion of pension contributions for its employees under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), and also makes payroll deductions from employees for their pension contributions. OPM determines the employer contributions for these defined benefit plans that are required to be paid by GPO. OPM is responsible for Government-wide reporting of CSRS and FERS assets, accumulated plan benefits, and unfunded liabilities. Therefore, GPO is not required to disclose the unfunded pension liability and post-employment benefits relative to its employees. GPO also administers a Transit Benefit Program that provides a monthly transit subsidy to eligible employees, and a Goal Sharing Program that provides financial incentives to employees for reducing Agency costs.

### Civil Service Retirement System

The CSRS is a defined benefit plan that covers many of the Agency's employees. Total GPO (employer) contributions to CSRS for employees covered under this retirement program were 7.5 percent of basic pay in both fiscal years 2007 and 2006 for investigators and law-enforcement officers; and 7 percent of basic pay in both fiscal years for all other employees. GPO's contributions were \$4.4 million and \$4.5 million for the fiscal years ended September 30, 2007 and 2006, respectively.

### Federal Employees Retirement System

On January 1, 1987, FERS was created pursuant to Public Law 99-335. Using Social Security benefits as a base, FERS provides a defined benefit plan (Basic Benefit Plan) and a voluntary defined contribution plan. Employees first hired after December 31, 1983 were automatically covered by FERS and Social Security, while employees hired prior to January 1, 1984 were able to choose between joining this plan or remaining in CSRS.

The employer contribution rate to FERS for GPO law enforcement officers was 23.8 percent of basic pay in both fiscal years 2007 and 2006. The FERS contribution rate for all other employees was 11.2 percent in both years. GPO contributions to FERS totaled \$9.6 million for fiscal year 2007 and \$8.8 million for fiscal year 2006.

### Thrift Savings Plan

The Thrift Savings Plan (TSP) allows employees to defer the recognition of income tax on contributions made to the plan. The TSP elective deferral limit for employees was \$15,500 for 2007 and \$15,000 for 2006. Employees, who were 50 years or older, were allowed additional catch-up contributions of \$5,000 in 2007 and \$5,000 in 2006. For FERS employees, the employer is required to make an Agency Automatic 1 percent contribution of the employee's base pay to the TSP, and to match voluntary employee contributions dollar-for-dollar for the first 3 percent of pay, and 50 cents on the dollar for the next 2 percent of pay. Thus, the employer contribution to the TSP can be up to 5 percent for FERS employees. Employees participating in CSRS may contribute to the TSP, but they do not receive any matching contributions from the employer. GPO made employer contributions to the TSP of \$3.2 million in fiscal year 2007 and \$3.1 million in fiscal year 2006.

### Social Security System

As an employer, GPO matches employee contributions to the U.S. Social Security Administration (SSA) under the Federal Insurance Contributions Act (FICA) for employees in the FERS. GPO contributes matching amounts of 6.2 percent of gross pay (up to \$97,500 in 2007 and \$94,200 in 2006) to SSA's Old Age, Survivors, and Disability Insurance (OASDI) Program. Additionally, GPO makes matching contributions for all employees of 1.45 percent of gross pay, without limit, to SSA's Medicare Hospital Insurance Program. Contributions to these SSA programs for the years ended September 30, 2007 and 2006 totaled \$8.0 million and \$7.5 million, respectively.

### Pension and Other Post-Employment Benefits Provided by Others

OPM is responsible for the management, administration, and funding of certain Government-wide programs that provide pension and other post-employment benefits to retired employees of the Federal Government. These OPM administered programs provide benefits to former employees of GPO. OPM administered pension programs include the CSRS and the FERS. Other OPM administered programs provide health, life, and long-term care insurance benefits to active, inactive, and retired employees. Permanent employees of GPO may participate in the Federal Employees Health Benefit Program (FEHBP), Federal Employee Group Life Insurance Program (FEGILIP), and/or Federal Long Term Care Insurance Program (FLTCIP) before and after their retirement from the Agency.

Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, requires agencies that follow Federal accounting standards to recognize their share of the normal cost of pension and other post-employment benefits provided by others, such as OPM. To the extent that normal costs exceed current contributions, the standard requires that an additional expense be recognized by the employing agency for the future estimated cost of post-employment benefits not currently funded. SFFAS No. 5 also requires that the estimated expense amount be offset by an equal amount of imputed financing. OPM, which is responsible for these programs, represents the source of imputed financing for the post-employment benefits.

In accordance with FASB, and consistent with multi-employer pension plans, GPO has reflected only the current cost of these programs in its financial statements since OPM is responsible for funding the normal cost component.

#### Transit Benefits

In January 2001, GPO established the Transit Benefit Program to promote the use of public transportation by employees for commuting to and from the workplace. This program conserves energy resources and reduces urban congestion. The maximum tax-free monthly subsidy to an eligible employee was \$110 in 2007 and \$105 in 2006. This employee benefit is provided in the form of either SmartTrip cards or Metrocheks. Transit benefit payments to employees totaled \$1.2 million in fiscal year 2007 and \$1 million in fiscal year 2006.

#### Incentive Program

The GPO Goal Sharing Program and the Performance Management System provide financial awards and other incentives to Agency employees. These programs reward employees for their achievement of goals and objectives (e.g., energy conservation efforts). Under the Goal Sharing Program, eligible employees receive 50 percent of measured cost savings or paid time off. Under the Performance Management System, eligible employees may receive an annual bonus for achievement of their goals and objectives. GPO accrued estimated costs of \$3.5 million and \$2.6 million for incentive programs during fiscal year 2007 and fiscal year 2006, respectively. Annual awards are given to eligible employees in the subsequent fiscal year.

### 15. Concentration of Credit Risk

GPO financial instruments, none of which are held for trading purposes, consist primarily of funds with Treasury, accounts receivable, and accounts payable at September 30, 2007 and 2006. GPO estimates the fair value of financial instruments at September 30, 2007 and 2006 to be the carrying value.

### 16. Major Customers

GPO's primary customers are the Congress and large Federal agencies in the Executive Branch of the Federal Government. In fiscal years 2007 and 2006, respectively, revenues from those customers representing 10 percent or more of GPO's operating revenues follow.

(Dollars in thousands)

	2007		2006	
	Amount	Percent	Amount	Percent
Department of State	\$ 230,424	24.54%	\$ 50,733	7.0%
Department of Defense	145,218	15.46%	123,004	17.1%
Department of Health & Human Services	97,124	10.34%	95,147	13.2%
Congress of the United States	95,477	10.17%	91,058	12.6%
Department of the Treasury	77,820	8.29%	78,523	10.9%

The increase in revenues from the U.S. Department of State in fiscal year 2007 is attributable to the unprecedented demand for U.S. Passports and the replacement of the legacy passport with the electronic passport.

## 17. Voluntary Separation Incentive Program

In November 2005, the Public Printer established the *Voluntary Separation Incentive Program* (VSIP) under authority provided in Public Law 108-477. The VSIP was successfully used to reduce the workforce by 89 employees during fiscal year 2006. The VSIP authorized incentive payments of up to \$25,000 per employee for voluntary separation. The Agency incurred onetime buyout costs of \$2.2 million and avoided an estimated \$8 million in recurring annual costs for personnel compensation and benefits. No further workforce reductions were necessary during fiscal year 2007.

The VSIP was modeled after the former *Retirement Separation Incentive Program* (RSIP) established under authority provided in Public Law 105-275. The RSIP was successfully used to reduce the workforce by 542 employees during fiscal years 2003 and 2004. The Agency incurred onetime buyout costs of \$18 million and avoided an estimated \$38 million in recurring annual costs for personnel compensation and benefits.

The RSIP costs include almost \$4.6 million payable to OPM for early retirement contributions required by statute. The OPM contributions were unpaid at September 30, 2007. The statute authorizing the VSIP did not require retirement contributions to OPM.

## 18. Regional Operations

The GPO Central Office and regional offices work together as a team to serve the Agency's customers which are located throughout the entire United States and overseas. From time to time, changes in regional operations, such as openings and closings, are necessary to improve customer service and maintain economical and efficient operations. Two major management initiatives changing regional operations occurred during fiscal year 2007.

GPO completed efforts, started in fiscal year 2006, to reduce leased space at their warehousing and distribution facility in Laurel, Maryland. The total leased space was reduced from 202,000 to 104,460 square feet under this management cost savings initiative.

The JCP approved GPO plans to establish a new Secure Production Facility (SPF) to manufacture e-Passports on August 2, 2007. The estimated development cost of the SPF is about \$41.4 million. GPO is committing \$1.84 from the sale of each e-Passport to finance the cost of the SPF and new passport production equipment. A total of \$27.8 million was committed for this purpose as of September 30, 2007. The new facility is scheduled to be operational in 2008. The new passport production facility will be located at a remote, secure location on Federal Government property leased from another Federal agency. The SPF will increase GPO's passport production capacity and ensure that GPO continues to satisfy the rising customer demand for U.S. Passports.



