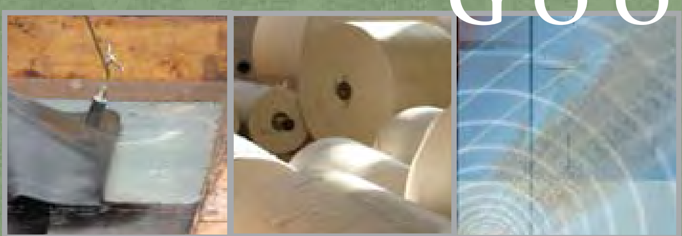
GPO Sustainable Environmental Stewardship

Good Business. Good Government.



U.S. Government Printing Office | Annual Report 2008

Our position in the world has been attained by the extent and thoroughness of the control we have achieved over nature; but we are more, not less, dependent upon what she furnishes than at any previous time of history.

President Theodore Roosevelt made this observation 100 years ago during a speech to a national conference on conservation held at the White House. It is just as accurate today as it was in 1908 and remains a timeless call to sustainable environmental stewardship.

As the largest industrial manufacturer in the District of Columbia, the U.S. Government Printing Office (GPO) tries to be as environmentally sensitive as possible. This includes trying to be green in virtually every step of our printing processes. GPO has a long history of recycling. For nearly 150 years, GPO has been recycling waste paper, copper, brass, and scrap metal. Since 1954, GPO has been recycling corrugated boxes. Other materials we recycle include aluminum, silver, photographic film, phototypesetting paper, empty paint cans, 55-gallon metal drums, plastic drums, CDs, floppy disks, and video cassettes.

In this Annual Report, we will show you how GPO is taking heed of the words spoken by President Theodore Roosevelt a century ago. It is our obligation to be a good steward of the resources under GPO's control. **Sustainable Environmental Stewardship is good business and good Government.**

It has been a privilege to have completed my first year as the Nation's 25th Public Printer. Working with the talented men and women of GPO in *Keeping America Informed* on the documents of our democracy has been an honor. Together, we have all made some remarkable accomplishments this past year, and I am looking forward to more great achievements in the coming year.

Building on our continuing transformation efforts, GPO recorded another year of strong performance in FY 2008. Revenue increased by $103.3M over the previous year, resulting in net income of $46.3M, compared with net income of $90.9M for FY 2007. This addition to retained earnings will help GPO meet its requirements for necessary investments in technology and equipment in the coming year.

GPO's financial performance was attributable primarily to the production of e-Passports. The State Department's requirement for these documents grew significantly during the year, rising by nearly a third—from an estimated 18 million to approximately 24 million—by year's end. In addition to financing the cost of this work, the reimbursements for passport production financed the completion of a second, remote production facility in Stennis, MS, for continuity-of-operations purposes. GPO brought this facility online on time and under budget by April 2008. Due to the volume of e-Passport demand, GPO was also able to refund to the State Department a portion of the reimbursements that were excess to our requirements.

GPO's support for Congress during FY 2008 was highlighted, among other things, by work on products required

for the Joint Congressional Committee on Inaugural Ceremonies, including invitations, maps, signs, programs, tickets, and other products. GPO also began producing the new edition of the *U.S. Code* and delivered a number of other noteworthy Congressional products, including *Black Americans in Congress, 1807–2007*. For Federal agencies, GPO procured work to support the upcoming 2010 Census, and with the Office of Management and Budget, GPO coordinated the electronic delivery to Congress of the official version of the *Budget of the United States Government* for FY 2009. This is the first time in history that the official version of this critically important Government document was delivered electronically, and GPO authenticated it by digital signature.

GPO's digitization efforts proceeded apace as we readied our Federal Digital System (FDsys) for its first public release in early 2009. This system, with a state-of-the-art search and retrieval system, will eventually replace and improve on the services of *GPO Access*, which has provided the public with online access to Government information since 1994. FDsys will also serve as GPO's digital platform, with a planned capability to provide for the intake, storage, processing, and output of Government publication content in a variety of forms and formats. During the year, GPO also expanded its authentication capabilities. In addition to the *Budget*, GPO completed work on authenticating selected congressional bills for the 110th Congress and will implement this capability for all bills in the 111th Congress.

Over the past several years, GPO has implemented a variety of green initiatives in its operations. These initiatives have become part of the products and services that GPO routinely provides for Congress, Federal agencies, and the public. For more than a decade, for example, printing papers used by GPO have met the requirements for recycled content contained in the Resource Conservation and Recovery Act of 1989, as amended, and in corresponding Executive Orders. The printing inks used by GPO and its contractors comply with the requirements of the Vegetable Ink Printing Act of 1994. GPO works with the Environmental Protection Agency and the District of Columbia to meet the standards for emissions of volatile organic compounds established by the Clean Air Act.

However, there is more that GPO can do in this field, and during FY 2008 sustainable environmental stewardship was the focus of a concentrated effort at GPO. In my view, the future of sustainable environmental stewardship means being proactive and making changes so that GPO becomes a more efficient operation that makes better use of the resources under our control. This is not a partisan issue. It's good business, and it's good Government.

During FY 2008, we articulated a vision for the entire lifecycle of what GPO produces, from how we source the raw materials and how we produce our products, to what happens to the products when consumers are done with them. For GPO, this means:

- moving from web offset presses to digital equipment to reduce paper consumption;
- accelerating the re-engineering of business processes in production, procurement, documents dissemination, and administration to take advantage of the efficiencies offered by digital technology, reduce paperwork, and improve efficiency;
- conducting energy audits throughout our facilities with the objective of reducing our energy demand while increasing our functionality and efficiency;
- using paper in our plant and for our Congressional and agency customers, that goes beyond meeting the minimum requirements for recycled content but still meets the challenge of cost and performance;
- reducing hazardous waste through solvent recovery systems, and reducing the total amount of waste generated by our operations; and
- installing a "green" roof on our building, in targeted areas, that features an energy efficient, bio-based roofing system, which should double the life expectancy of the roof and reduce heating demands in the building.

The call to sustainable environmental stewardship will not go unheeded at GPO. Together, the men and women of GPO, who work tirelessly in support of the information production and service requirements of Congress, Federal agencies, and the public, will move forward with President Roosevelt's timeless vision of sustainability.

Robert C. Tapella
Public Printer of the United States

The headquarters for the United States Government Printing Office (GPO) is located several blocks from the United States Capitol in Washington, D.C.

GPO HEADQUARTERS

GPO has been *Keeping America Informed* by producing and distributing the documents of our democracy from this location since the presidency of Abraham Lincoln. The facility is composed of four buildings totaling 1.5 million square feet. GPO's newest building was completed in 1940. Our plant is located on multiple floors, requiring numerous elevators for the transportation of our product. The buildings are too large and antiquated to meet the printing and digital needs of the 21st century.

GPO has proposed moving into a modern factory that has the plant on the ground level, increasing efficiency and saving the American taxpayer money. GPO would like to become the first LEED Platinum printing plant in America. LEED is a voluntary green building rating system that provides measurable benchmarks for developing high-performance, sustainable buildings. Platinum is the highest standard.

GPO would like to construct this new facility at its current location and turn the current buildings over to a commercial developer. In the meantime, GPO is taking steps to increase the efficiencies of the current facility. Currently, we are piloting a new bio-based green roofing system in a small portion of our facility that will double the typical life expectancy of a new roof. If this pilot is successful, we hope to be able to replace our entire roof with this application.

The agency has conducted multiple energy audits to help identify areas where we can increase our buildings, efficiency by looking at programs and processes that have short returns on investment. Some of these include:

- **Replacing over 25,000 light bulbs with lower wattage bulbs when they require replacement**
- **Installing a steam meter to further monitor steam consumption that will help identify faulty equipment and ensure its replacement/repair**
- **Evaluating the efficiency of the air handling units that supply air and humidification throughout the facility**
- **Performing a compressed air audit of our facility's air system to increase efficiency and reduce energy loss**

GPO has enlisted its 2,300 employees to help the agency be more sustainable. Management has instituted an incentive program called Goal Sharing. This year-round program is designed to give all employees a monetary award for making a positive difference that helps GPO reduce costs through several objectives:

- **Reduce Electric and Steam Usage**
- **Reduce Absence Without Leave (AWOL)**
- **Reduce Workers' Compensation Costs**
- **Reduce Sick Injury-Administrative Costs**
- **Reduce the Number of Workforce Injuries**

At the end of the year, if GPO meets specific goals in certain incentive areas, the employees receive a cash or time off award. This program gives all employees the opportunity to participate in sustainable environmental stewardship.

PLANT OPERATIONS

GPO prints what are essentially two daily newspapers—the *Congressional Record* and *Federal Register.* These newspapers are produced on 40% post consumer waste recycled newsprint. They are printed on offset web presses just like those used in the newspaper industry. These presses use a significant amount of paper in make ready. As the quantities printed continue to decline, GPO would like to move from web offset to digital equipment for these publications to significantly reduce paper consumption.

While there are a number of paper certification programs, only 10% of all the world's forests are certified to any system.

GPO's plant prints the equivalent of nearly three billion standard 8.5" x 11" pages per year. In 2008, more than 5.6 million pounds of waste paper has been recycled resulting in:

- **34,020 trees saved**
- **28.9 million gallons of water flow conserved**
- **3 million pounds of landfill waste diverted**
- **5.9 million pounds of greenhouse gas emissions eliminated**

Those are significant savings, but GPO is moving toward using more environmentally responsible paper in the plant, and GPO is taking the lead on that front. GPO is one of the largest providers of copier paper to Federal agencies. Our Federal customers have asked for more sustainable paper choices.

GPO has opened a dialogue with the paper industry during the past year. This dialogue has been very helpful as we navigate and determine the parameters for gauging paper sustainability. Last May, GPO hosted a Paper Industry Day to listen and learn about paper sustainability from dozens of paper industry leaders from around the world.

Important environmental issues come to mind in the manufacturing of paper. Millions of trees are cut down each year to make paper. Energy is used, water is used, and carbon dioxide goes into the air. There are now ways to make significant, environmentally positive improvements on all of these fronts. With important advances in technology, and now with attractive, high quality paper available, GPO sees the industry becoming a beacon for sustainability. GPO would like to dramatically increase the use of 100% post consumer waste recycled paper at the agency, provided the industry can meet the challenge of cost and performance.

GPO began testing papers and running them in our Digital Print Center. Additionally, GPO's plant ran a 40lb white offset 100% post consumer waste recycled paper through the web presses. There was no difference in printability or run-ability as compared to the 40% post consumer waste recycled paper the agency has been using for years. GPO is adding more 100% post consumer waste recycled papers to our qualified products list.

Beyond 100% recycled paper, we need to look at the fiber used in other papers. Have the fibers come from responsibly managed forests? While there are a number of paper certification programs, only 10% of all the world's forests are certified to any system. GPO's customers are asking us whether they can get paper certified by one of the programs. And so, GPO is making changes to our print procurement regulations that would allow our customers to specify certified papers.

This past year marked a turning point in GPO's distribution of the Federal Budget: on February 4, 2008, the President of the United States submitted the first ever electronic budget (e-budget) to Congress. GPO authenticated by digital signature the *Budget of the U.S. Government* for fiscal year 2009. GPO's digital signature assures the public the document has not been changed or altered. Digital signatures on PDF documents serve the same purpose as handwritten signatures or wax seals on printed documents. The Office of Management and Budget (OMB) estimates that by not printing any copies for its own use, it saved more than 20 tons of paper and roughly 480 trees by going paperless. OMB also estimates the Government will save more than $1 million over five years if it continues this practice.

GPO has made tremendous progress in reducing hazardous materials use and waste generation in GPO's plant. The Environmental Protection Agency (EPA) has lowered GPO's status from a Large Quantity to a Small Quantity Hazardous Waste Generator in recognition of its successful efforts to reduce such wastes. As part of this ongoing effort, a solvent recovery system to improve operations sustain-

The Secure Production Facility (SPF) contains energy efficient lights, glass, cooling and heating systems, and a solvent recovery system with a water evaporator.

ability and generate significant cost savings has been installed. The system recovers solvent from color presses used in the plant through a distillation system. Up to 90% of the solvent is purified and recovered for reuse and the resulting distilled water is reused in the process. A minute amount of sludge material—a small fraction of the volume of the former waste stream—is then disposed as a non-hazardous waste. This system has the following benefits:

- **Reduction of up to 90% of GPO's solvent waste**
- **Reduction of solvent waste will eliminate about 5,000 gallons of the product from leaving GPO per year**
- **Reduction of virgin production and solvent wastes used will save more than $20,000 per year**

As part of its ongoing efforts to reduce actual and potential environmental impacts from its operations, GPO evaluated its underground storage tank systems. It determined that a 1,500-gallon underground storage tank system, although still in use and only halfway through its design life, was functionally obsolete. It was decided that the potential environmental risk posed to the groundwater and to the public by the tank outweighed its usefulness and it was successfully removed, resulting in a "clean closure" and the elimination of the risks. A 6,000-gallon gasoline underground storage tank system is now undergoing a similar evaluation.

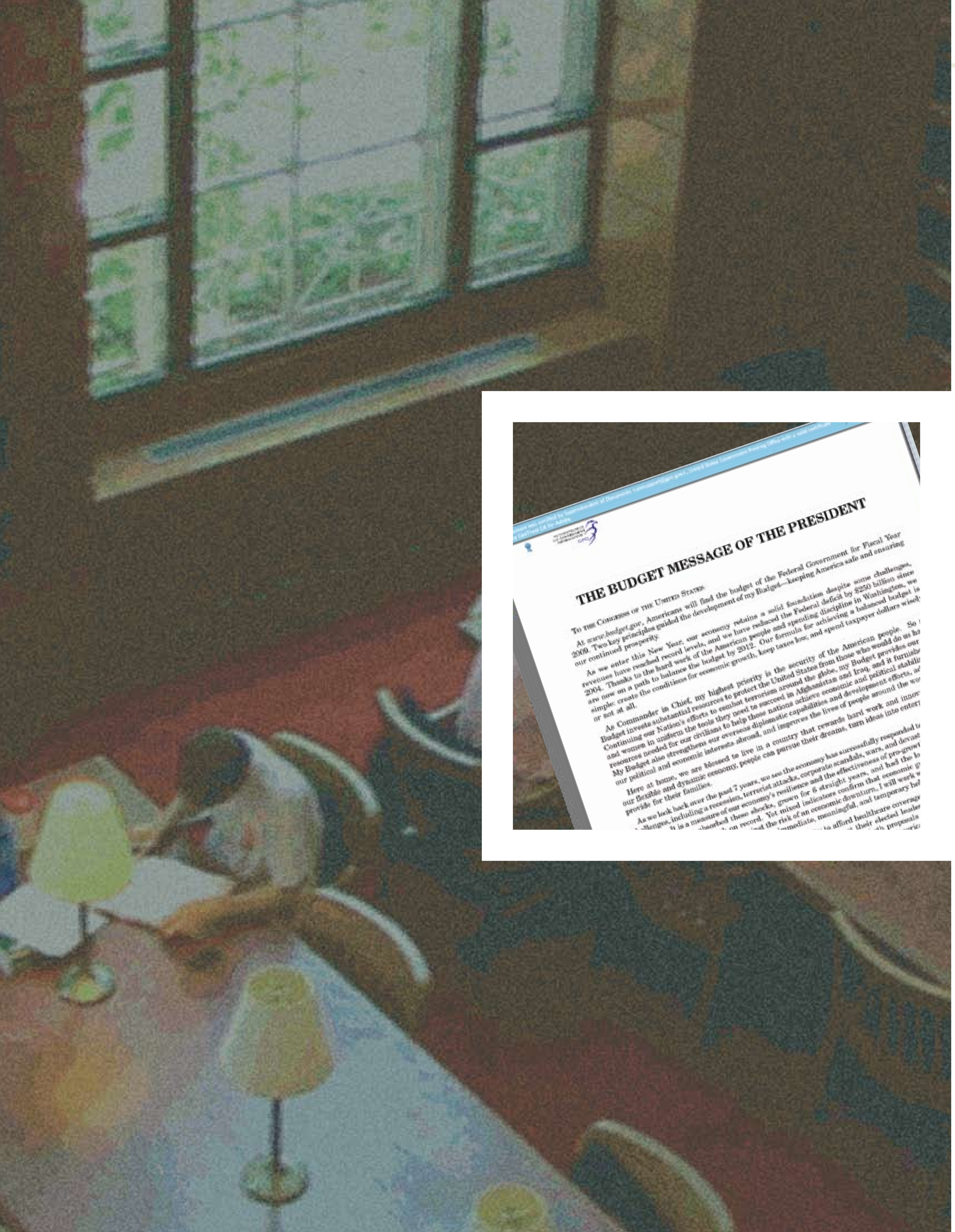
SECURITY & INTELLIGENT DOCUMENTS (SID)

GPO plays a critical role in our Nation's security by producing security and intelligent documents for Federal agencies, most prominently the e-Passport for the State Department. GPO produced 24 million blank passports in FY 2008, an increase of 10 million over the previous year. Producing the passport requires over 100 employees, multiple print engines, and bindery machinery. GPO has increased the routine maintenance program to ensure maximum production capacity, which ultimately reduced manufacturing waste and increased efficiencies.

In addition to the plant in the Nation's capital, GPO has invested in a Secure Production Facility (SPF) at the Stennis Space Center in Mississippi. NASA and about 30 other Federal agencies are located there. The facility opened on time and under budget in April 2008. GPO employees are producing blank passport books at this location. More than 875,000 blank passports were produced at the SPF in FY 2008. This operation will ensure we continue to meet passport demand by the American people and the Department of State's request for a secure Continuity of Operations site outside of Washington, D.C. The SPF has created more than 50 Government jobs, which has contributed to the growth and development of the Gulf Coast economy.

This state-of-the-art facility is a prime example of sustainable environmental stewardship through energy efficiency and resource management. The SPF has made great strides in reducing its waste production by simply installing newer equipment and implementing recovery systems that protect the environment and provide a short return on investment. During the building of the SPF, GPO selected energy efficient lights, glass, cooling and heating systems, and a solvent recovery system with a water evaporator.

GPO has launched two initiatives to enhance the already high standards in place in all of its facilities. First, GPO is adopting ISO 9001. ISO (the International Organization for Standardization) sets industrial standards recognized around the globe. Once in place, ISO 9001 will standardize all GPO business and production processes. Second, GPO has adopted 5S, a workplace organization way of life. The name is derived from the steps of the process: Sort, Set-in-order, Shine, Standardize, and Sustain. 5S will enhance employee safety and efficiency.



Users found the electronic version far superior to the paper version because the indexing is better and allows for more effective comparison of statistics in different issues.

FY 2008 marked the opening of the GPO Secure Credential Center, where secure Federal credential cards are personalized and prepared for delivery. GPO used these capabilities to supply more than 400,000 personalized Trusted Traveler cards to the Department of Homeland Security, Customs and Border Protection. The cards facilitate expedited crossing for pre-approved travelers at U.S. borders with Canada and Mexico. In the last quarter of FY 2008, the Secure Credential Center prepared to produce over 10,000 Presidential Inaugural Credentials. These will assist U.S. Capitol Police in coordinating security. GPO is now well positioned to service numerous Federal secure card programs in FY 2009 and beyond.

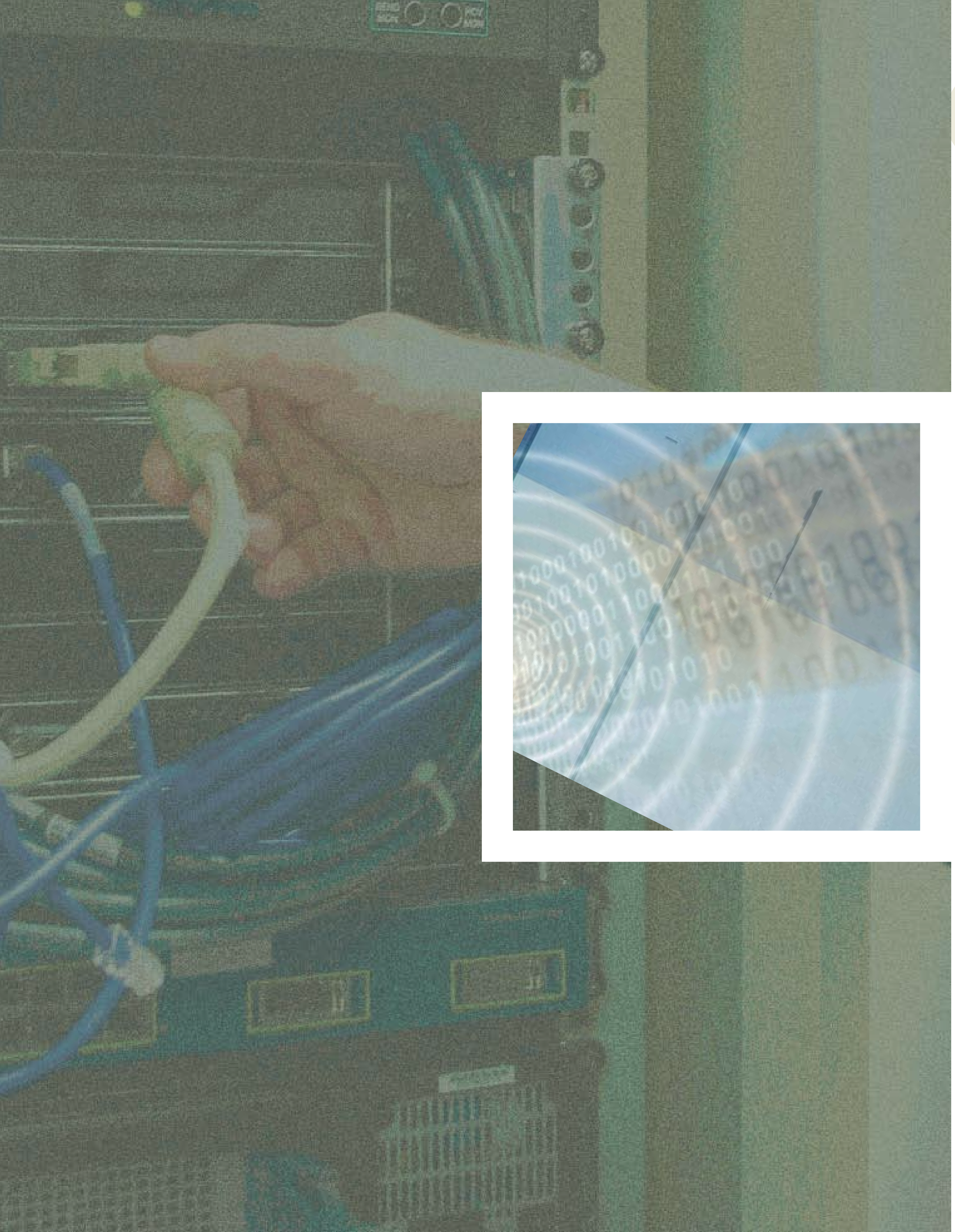
LIBRARY SERVICES & CONTENT MANAGEMENT

Through the Federal Depository Library Program (FDLP), GPO's Library Services and Content Management group works with the library community to provide free, open, and permanent public access to the documents of our democracy.

The FDLP, pursuant to direction from Congress, has transformed into a primarily electronic program and many publications are now produced only in electronic form. This practice increases the dissemination of information to approximately 1,250 Federal depository libraries, and people from all over the world can access these publications at their fingertips day or night. More than 1,300 titles have been converted to electronic form only. Previously, paper copies were distributed to a Federal depository library and users would have to physically go to the library to view the publication. One successful example of this practice is *The Monthly Labor Review*. This publication has been compiled by the Department of Labor since 1915, and is used by the public for researching labor statistics. Users have found the electronic version is far superior to the paper version because the indexing is better and allows for more efficient comparison of statistics in different issues.

GPO continues to work with the library community in making many resources and printed products go electronic, thus saving on paper and reducing waste:

- The *Federal Depository Library Directory* provides important contact information for every depository library. The information was previously printed every other year and distributed in paper. That information is now available online, **http://catalog.gpo.gov/fdlpdir/public.jsp**
- The *Federal Depository Library Handbook* outlines requirements for library operations. This publication had about 400 printed pages that were distributed to 1,250 depository libraries. The publication now is only available electronically and found on the FDLP Desktop website: **http://www.fdlp.gov/**
- The *Monthly Catalog of U.S. Government Publications* and the *Congressional Serial Set Catalog* are available online. GPO worked with the Joint Committee on Printing to develop this new online resource, **http://catalog.gpo.gov**
- The newsletter of the FDLP, *Administrative Notes*, is a bi-monthly publication and published only in electronic form.
- GPO Annual Reports are no longer sent to depositories in paper form, as they are available electronically
- A Customer Relationship Management (CRM) system and has been created for answering customer inquiries, and has significantly reduced paper waste. The CRM provides an electronic record of customer transactions, which previously were recorded via paper logs, **http://www.gpoaccess.gov/help**



GPO chose servers that use 50-watt processors instead of the standard 80-watt processors, which resulted in energy savings of more than $12,000 a year.

As mentioned earlier in this report, the President of the United States submitted the *Budget of the U.S. Government for FY 2009* to Congress electronically. This is the first time in history that the official version of this critically important Government document was delivered electronically. GPO authenticated it by digital signature. This authentication verifies to anyone who downloads the Budget that the content is official and unaltered. The electronic delivery of the Budget truly ushered in a new era for GPO and the Federal Government.

Where once GPO and the library community solely relied on ink and paper, we now also use electronic ions and integrated circuits, but our job is still the same: to record the words and actions of our Government and make them available for our people.

GPO'S FEDERAL DIGITAL SYSTEM (FDsys)

Digitization itself is a key sustainability initiative, and is at the core of an ongoing transformation of GPO's operations and programs. GPO's Federal Digital System (FDsys) is an advanced digital system that will enable the agency to manage Government information, from all three branches of the Federal Government. The system will replace *GPO Access* to meet the public demand for immediate online access to information. FDsys will ensure that information is readily and permanently available for public access, as well as guarantee that the information contained within the system has been created by an official source and has remained unaltered. FDsys will contain information gathered through three methods: files submitted by Federal agencies and Congress, information gathered from Federal agencies' websites, and previously printed products which are converted into digital files through scanning. This information will not only include text files, but also graphics, audio, and video files as well. When complete, FDsys will give the public a one-stop site for authentic, published Government information. GPO is planning to release FDsys in phases; each phase will introduce new content and functions.

While developing FDsys, GPO has focused on building an energy efficient, sustainable system. FDsys requires 80 servers to operate. GPO sought out the most energy efficient servers available. The agency chose servers that use 50-watt processors instead of the standard 80-watt processors. By using processors that require less consumption, GPO will realize energy savings of more than $12,000 a year.

GPO has made energy upgrades to servers in place that service the agency in all capacities. GPO's Information Technology organization has completed a server upgrade to provide faster and improved search results for our Government publications on *GPO Access*. This modification eliminated over 20 separate servers, and resulted in about a 50% reduction in energy to support this application. All components of the retired servers will be recycled or used for parts within our current operation. These sustainable efforts in the transformation of *GPO Access* earned GPO international recognition as a finalist in *Computerworld* magazine's "Best Practice in Green IT" Computing Awards in September.

Additionally, GPO plans to implement virtualization technology for servers once this technology proves to be reliable for our applications. Virtualization offers us the ability to share single physical servers to support multiple applications and operating systems. This will further reduce our Information Technology energy consumption by over 60%.

GPO has also adopted a Citrix thin client solution for several processes which has substantially reduced our energy use. These initiatives replaced nearly 60 desktop systems with Citrix, reducing our power consumption by over 75%. GPO is also adopting Microsoft applications that better reduce paper waste and individual desktop energy consumption.

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 2008 (October 1, 2007 through September 30, 2008), the GPO received a clean audit opinion on its consolidated financial statements from KPMG LLP.

GPO earned a contribution to new investment of $46.3M in fiscal 2008 compared with $90.9M in fiscal 2007. Revenue from operations increased 11.0% to $1.042B from $939.1M. The major factor driving the operating revenue increase was the increased demand for electronic passports. Operating costs increased 17.4%, to $996.2M from $848.2M, due mainly to an increase in electronic passport materials cost.

The GPO had a positive contribution of $46.3M in fiscal 2008, compared to a positive contribution of approximately $90.9M in fiscal 2007. It is important to note that approximately $11.1M of the fiscal 2008 positive contribution, and $39.5M of the fiscal 2007 positive contribution, is the result of the accounting for funds received to pay for capital projects. In both years, this resulted in revenues without corresponding expenses in the profit and loss statements. The expenses associated with these revenues will be reflected in future financial statements as these capital projects are completed and put into use. The $11.1M was comprised of $4.3M for the development and fit-out of the new secure production facility, and approximately $6.8M for the development of FDsys. An additional $14.1M of revenue was used for working capital to purchase inventory for the production of electronic passports.

Summary of Revenues, Expenses, and Net Income (in thousands)	2008	2007
Operating Revenues	$ 1,042,425	$ 939,108
Operating Expenses	996,164	848,225
Net Income	**$ 46,261**	**$ 90,883**
Planned Uses of Net Income		
Secure Production Facility (SPF)	$ 4,318	$ 27,800
Passport Inventory Funding	14,100	20,919
Federal Digital System (FDsys)	6,800	11,700
Net Income after Planned Uses	$ 21,043	$ 30,464

Cash provided by operations decreased by $37.0M from the prior year, primarily due to the decrease in net income. In 2008, GPO generated $44.5M from operations compared to $81.5M in 2007. The GPO made investments for capital items of $47.2M in fiscal 2008, compared to $22.4M expended in fiscal 2007.

Summary Statements of Cash Flows (in thousands)	2008	2007
Cash Flows from Operating Activities		
Net Income	$ 46,261	$ 90,883
Provided by (used in) operating activities:		
Depreciation and other	$ 10,412	$ 8,847
(Increase) decrease in current assets	(21,077)	(57,485)
Increase (decrease) in current liabilities	11,931	37,698
Workers' compensation liability	344	(3,228)
Product warranty liability	(3,415)	4,833
Total adjustments	**$ (1,805)**	**$ (9,335)**
Net cash provided by operating activities	**$ 44,456**	**$ 81,548**
Cash flows from Investing Activities	(47,151)	(22,407)
Cash flows from Financing Activities	(5,500)	(15,500)
Net (decrease) Increase in Cash Balance	**$ (8,195)**	**$ 43,641**

The GPO's Balance Sheet continued to strengthen as a result of its improved operating performance. Although working capital decreased by $1.9 million, to $255.4M in 2008 from $257.3M in 2007, the total assets of GPO increased by $49.6M, to $575.3M in 2008 from $525.7M in 2007. Cash decreased by $8.2M, or 3.0%.

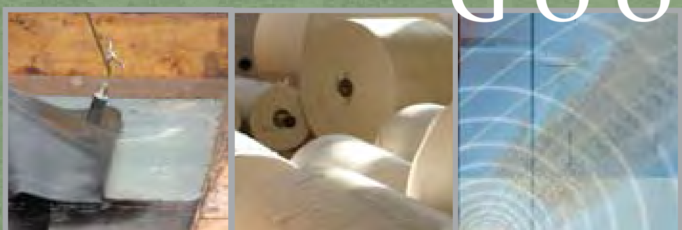
GPO ended fiscal 2008 with positive retained earnings of $154.4M, compared to $108.2M at the end of fiscal 2007.

Summary Balance Sheets (in thousands)	2008	2007
Assets		
Current Assets		
Fund balance with Treasury	$ 265,251	$ 273,446
Accounts receivable, net	153,696	146,118
Inventory, net	48,291	34,592
Prepaid expenses	903	3,958
Total current assets	**$ 468,141**	**$ 458,114**
Property, Plant and Equipment, Net	107,194	67,600
Total Assets	**$ 575,335**	**$ 525,714**
Liabilities and Net Position		
Current Liabilities		
Accounts payable & accrued expenses	$ 112,858	$ 109,324
Deferred revenues	89,376	81,715
Accrued annual leave	10,549	9,813
Total current liabilities	**$ 212,783**	**$ 200,852**
Other Liabilities		
Workers' compensation liability	67,067	66,723
Product warranty liability	1,418	4,833
Total Liabilities	**$ 281,268**	**$ 272,408**
Net position		
Cumulative Results of Operations		
Retained earnings	$ 154,425	$ 108,164
Invested capital	92,879	92,879
Unexpended Appropriations	46,763	52,263
Total Net Position	**$ 294,067**	**$ 253,306**
Total Liabilities and Net Position	**$ 575,335**	**$ 525,714**

GPO has been environmentally conscious for nearly 150 years and is becoming a model for showing how **sustainable environmental stewardship is good business and good government.** As the men and women of GPO continue to carry out the historic mission of *Keeping America Informed*, we are seeking new ways to be better stewards of the resources under our control.

GPO Sustainable Environmental Stewardship

Good Business. Good Government.



U.S. GOVERNMENT PRINTING OFFICE | FINANCIAL YEAR IN REVIEW

Fiscal Years 2008 and 2007 (*with Independent Auditors' Report Therein*)

FY 2008 Financial Year in Review — Table of Contents

SECTION I

Management's Discussion and Analysis

(Unaudited)

As of September 30, 2008

Mission

The mission of the U.S. Government Printing Office (GPO or Agency) is *Keeping America Informed*, by providing excellent publishing and dissemination services for official and authentic Government publications to its customers: the Congress, Federal agencies, Judiciary, Federal Depository Libraries, and the American public.

The GPO accomplishes this mission by working in close partnership with all three branches of the Federal Government in the creation, collecting, cataloging and indexing, reproduction, 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. To ensure that Federal Government information is readily available to all citizens, GPO makes information accessible in an array of communication mediums from traditional printed products to digital documents and on-line databases that are accessible through the Internet.

Basis of Financial Reporting

The consolidated financial statements of the GPO are prepared pursuant to the requirements of United States Code (U.S.C.) Title 31, *Money and Finance,* § 3515, *Financial Statements of Agencies.* The consolidated financial statements have been audited by an independent external auditor selected by the Public Printer in accordance with U.S.C. Title 44, *Public Printing and Documents,* § 309, *Revolving Fund for Operation and Maintenance of Government Printing Office.*

The consolidated financial statements of the GPO are prepared from GPO's financial system on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP). Under the accrual basis, revenues are recognized (recorded) 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.

GPO's 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 and are within budgetary limits; that funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and that transactions are properly recorded.

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 the 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 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.

Programs and Operations

The Government-wide programs and operations managed by GPO are based on various public laws codified in Title 44. GPO's statutory responsibilities include fulfilling the printing needs of the Federal Government and distributing Federal Government information products to the public.

Funding

The Agency's programs and operations are funded through a business-type revolving fund, authorized by Title 44, and by annual and certain no-year and multi-year appropriations provided by Congress. The GPO Revolving Fund is authorized to be self-sustaining, without fiscal year limitations that are applicable to most annual appropriations. 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. GPO's rates and prices for products and services are developed using estimates of direct labor and direct material expenses, overhead expenses, and anticipated volumes.

The major sources of reimbursement to the GPO Revolving Fund are:

- Payments from Federal customers for printing and binding, blank paper and paper products, and information products and design services;
- Sales of Government publications and information products to the general public, bookstores, book dealers, and businesses; and,
- Fund transfers from the Congressional Printing and Binding (CP&B) Appropriation and the Salaries and Expenses (S&E) Appropriation.

The CP&B and S&E appropriations reimburse the GPO Revolving Fund for costs incurred producing congressional work and fulfilling statutory requirements to disseminate Federal Government information to the public, respectively. Congress has also occasionally made no-year and multi-year appropriations available to the Agency for special purposes. For example, appropriations have been made for building improvements, security enhancements, and workforce retraining. Reimbursements to the Revolving Fund from the appropriations are recorded as revenue when related liabilities are incurred. Generally, unexpended annual appropriations are returned to the U.S. Department of the Treasury after five years.

Programs and Operations Overview

The Agency is organized into separate business units or segments, as described below, to assist management of the various programs and operations of the Agency.

Plant Operations The Plant Operations unit publishes, conventionally and digitally, the 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 *Congressional Record*, and Congressional bills, reports, and hearings. GPO also publishes the daily *Federal Register* and produces the *Code of Federal Regulations* for the Executive Branch.

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 and credentials. These security products incorporate electronic technologies and other fraud and counterfeit protection security features. This unit's principal products are electronic passport books (e-Passports) for the U.S. Department of State. In 2008, production of electronically enabled smartcard secure credentials for the U.S. Department of Homeland Security, Customs and Border Patrol began. Also in 2008, GPO opened a new Secure Production Facility (SPF) to produce blank e-Passports.

Customer Services The majority of the Government's printing needs are satisfied through Customer Services' partnership with industry that takes advantage of the vast resources, expertise, and specialization in the private sector. This business unit acquires services competitively from the private sector through various types of print 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.

GPO assigns customer service teams to provide print brokerage and related services to Federal customers. The teams work diligently to become authorities on the mission of their respective agencies to anticipate and exceed customer expectations. The teams are assisted by GPO's sales force of national account managers. Both team members and national account managers meet regularly with customer agency program managers to ensure high levels of satisfaction.

Customer Services also provides training opportunities for Federal customers through the Institute for Federal Printing & Electronic Publishing. This GPO unit provides classroom instruction focusing on using information technology to meet program objectives, printing requirements, and electronic dissemination initiatives.

Creative and Digital Media Services
GPO provides Congress and Federal customers with many products and services to assist in the creation and dissemination of information.

The Creative Services unit is comprised of a team of professional designers that provides branding and identity design, Web graphics, and multimedia presentations. The team consults with customers to develop appropriate solutions based on audience, budget, and schedule requirements. Their work includes designing annual reports, magazines, brochures, books, posters, and Web layout and pages. They also create specialized security designs for passports, credentials, and other secure documents.

The Digital Media team creates complex Web applications and rich media. They support Web site hosting and Web site maintenance services for other Federal Agencies, including content management, Web statistics reporting, database management, and administration. In addition, they offer Web application development and digital consulting services to ensure compliance with Federal mandates.

Publication and Information Sales Program Through this business unit GPO increases public access to U.S. Government information through sales of Government information products. The public purchases copies of Federal Government publications and subscriptions via GPO's Online Bookstore, as well as by e-mail, phone, fax, and postal mail. GPO also works with commercial sales channels, including major bookstore chains and leading book distributors nationwide, to enhance Government information distribution. In addition to its traditional sales activities, GPO provides Government agencies with expert advice on how to make their publications more user-friendly and commercially viable.

Reimbursable Services Program
This business unit provides a variety of global order fulfillment, inventory, and list management services to Federal agencies through two distribution centers located in Pueblo, Colorado, and Laurel, Maryland. The business unit supports the U.S. General Services Administration's popular Federal Citizen Information Center.

Library Services and Content Management This business unit supports and manages the Federal Depository Library Program (FDLP), the Cataloging and Indexing Program, the By-Law Program, and the distribution component of the International Exchange Service of the Library of Congress. The FDLP, under the direction of Congress, ensures equitable, secure, convenient, and permanent no-fee access to published U.S. Government information. The FDLP includes 1,249 designated Federal depository libraries throughout the United States and its territories that provide the American public access to U.S. Government publications in tangible collections, and *GPO Access*, which provides direct online access to Federal Government publications from all three branches of Government. Other popular online services managed by this business unit include the *Catalog of U.S. Government Publications,* the *FDLP Desktop,* and *Ben's Guide to the U.S. Government*.

Management Initiatives to Improve Agency Operations

The transformation program underway at GPO places emphasis on the effective and efficient accomplishment of GPO's mission, while at the same time maintaining the Agency's core values of integrity, teamwork, commitment, and dependability. *The Strategic Vision for the 21st Century* continues to keep GPO on track to embrace sustainable technology of the 21st century. Policy decisions, budgeting and capital investments decisions, workforce development plans, industry partnerships, customer relations, operational decision-making, and related actions are based on or tied to the transformation plan.

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

GPO's Federal Digital System (FDsys) The core of GPO's future, customer-facing operations will revolve around a new digital information platform called the GPO's Federal Digital System (FDsys). FDsys will organize, manage, and output authenticated content for any purpose. This system will manage information in a central repository that will contain all public documents of the Government and reduce that information to a uniform character set and coding structure for data. FDsys will preserve 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. Content will be available for Web searching and Internet viewing, downloading, and printing.

FDsys will replace current *GPO Access* functionality with the first public release in fiscal 2009. 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 FDsys.

Mapping the Future of the FDLP
In the future, the FDLP will determine the content of FDsys, as well as 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 an electronic environment in the digital age, as required by Congress.

Customer-Friendly Print Procurement Vehicles The Agency has established two new programs that allow GPO customers to work directly with GPO vendors. Growth in these programs, which generally handle small value or short turnaround requirements, improve GPO and customer agency efficiency and effectiveness in delivering services to agency clients.

The GPO*Express*℠ Program allows Federal government personnel to order from any FedEx Office℠ print center, day or night, at any of the more than 1,800 locations throughout the United States and around the world. Agencies receive significant discounts on printing and finishing needs at any store location when they use the new GPO*Express*℠ card. GPO*Express*℠ continues to grow in use by Federal customers, with program sales nearly doubling over the last fiscal year.

The *GPO Online Paper Store* allows Federal Government organizations to purchase, at significant savings, environmentally safe, xerographic copier paper using a Web-based system. GPO teamed with Unisource® Worldwide, Inc., a global paper distributor, to develop the online store. Unisource® Worldwide, Inc. has approximately 100 distribution centers that quickly fill customer orders.

Modernizing Agency Information Systems GPO launched the *GPO Enterprise Program* in 2004 to replace unsustainable legacy systems. This major project has been progressively implementing modern application systems that support GPO business and support units. Phase 2 of this modernization project commenced in 2007. The applications, known collectively as the Government Printing Office Business Information System (GBIS), will become operational in fiscal 2009. GBIS will replace mainframe software placed into operation more than 30 years ago. In 2008, GPO acquired Business Objects licenses for use with Oracle applications. Business Objects will provide seamless reporting functionality from GBIS. Together, the two initiatives will deliver high-performance analysis, data integration, and efficiency between sustainable business applications.

International Organization for Standardization (ISO) 9001 Certification GPO is aggressively pursuing ISO 9001 certification. Obtaining certification will provide a framework and systematic approach to managing the Agency's business processes to produce products and services that conform to reference documents that are globally accepted. The certification process will improve the Agency's processes, save resources, and improve product quality.

Process Improvement Methodology
The Agency is re-energizing its emphasis on process improvement methodologies. GPO will be analyzing and re-engineering programs and processes to be less costly, faster, and more effective. This program will include adopting appropriate characteristics and capabilities of high-performing organizations; developing and identifying best practices to assess organizational transformation, structure, and management; and conducting targeted reviews and assessments of management practices in industry and applying best practices and lessons learned.

Financial Position and Results for Fiscal Year 2008

The following is an overview of the financial position and operating results reflected in GPO's basic consolidated financial statements as of and for the fiscal year ended September 30, 2008.

Consolidated Balance Sheets

The consolidated balance sheets present the combined amounts the Agency had available to use (assets), versus the amounts the Agency owed (liabilities), and the residual amounts (net position) after liabilities were subtracted from assets.

GPO's total assets increased to $575.3 million as of September 30, 2008 from $525.7 million as of September 30, 2007. The increase of $49.6 million (9.4 percent) in total assets is primarily attributable to a $39.6 million increase in general plant, property and equipment. This increase occurred mainly because of $24.7 million in equipment acquisitions and leasehold improvements for GPO's new Secure Passport Facility, and $11.2 million for the FDsys project. Inventory increased to $48.3 million as of September 30, 2008 from $34.6 million as of September 30, 2007, an increase of $13.7 million. The growth in inventory is due to increased demand for e-Passports and the need to have an adequate base of raw materials to support two production facilities.

GPO's liabilities increased to $281.3 million as of September 30, 2008 from $272.4 million as of September 30, 2007. The net increase of $8.9 million (3.3 percent) in total liabilities is primarily the result of an increase in deferred revenues of $7.7 million, an increase in accounts payable and other accrued expenses of $3.5 million, and a decrease in the product warranty liability of $3.4 million.

The increase in deferred revenues is a result of an increase of $8.3 million in customer deposit accounts for printing and binding. The number of customer deposit accounts maintained by GPO increased to 1,003 as of September 30, 2008 from 865 as of September 30, 2007. An increase in accounts payable and accrued expenses of $3.5 million was primarily attributable to the increased demand for goods and services acquired by GPO from the commercial sector. The product warranty liability decreased to $1.4 million as of September 30, 2008, from $4.8 million as of September 30, 2007 as a result of the formalization of a Memorandum of Understanding with the U.S. Department of State (State) regarding the production of e-Passports that limits the product warranty liability of the GPO.

GPO's net position increased to $294.1 million as of September 30, 2008 from $253.3 million as of September 30, 2007. The increase of $40.8 million (16.1 percent) in GPO's net position is primarily a result of the consolidated net income of $46.3 million for fiscal 2008. The $46.3 million of net income includes contributions to new investment of $18.4 million for e-Passport requirements and $6.8 million for FDsys requirements.

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

The consolidated statements of revenues, expenses, and changes in retained earnings present the accrued reimbursements for goods sold and services provided (revenues), the accrued cost of assets and services used (expenses) in the creation of revenues, and the change, within the period presented, of the accumulated net income of the Agency (changes in retained earnings).

Consolidated Revenues

GPO had total consolidated revenues of $1.042 billion for fiscal 2008 and $939 million for fiscal 2007. This is an increase in revenues of $103 million (11 percent).

The primary reason for the increase in revenues from the prior fiscal year was an increase in e-Passport revenues, which grew from $241.5 million in fiscal 2007 to $300.6 million in fiscal 2008, an increase of $59.1 million (24.5 percent). The GPO Customer Services business unit, which procures printing from the commercial sector, experienced revenue growth of $49.3 million (10.2 percent) from $483.3 million in fiscal 2007 to $532.6 million in fiscal 2008.

GPO's consolidated 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.

- ***Printing and Binding Revenues***

The Agency earns revenues from Federal Government customers for printing, binding, and other related services performed by GPO business units and from work performed by 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: Plant Operations, Security and Intelligent Documents, Customer Services, and Creative and Digital Media 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 procured jobs, this is the date of shipment by the contractor to the Federal Government customer.

Revenues from printing and binding operations totaled $890.6 million for fiscal 2008 and $780.5 million for fiscal 2007. This represents an increase in revenues of $110.1 million (14.1 percent). As mentioned, two business units generated most of the revenue growth, Security and Intelligent Documents and Customer Services.

Security and Intelligent Documents revenues increased due to increased demand for e-Passports by the State Department. GPO produced 24.0 million passports in fiscal 2008, of which 23.6 million were e-Passports, compared to 20.4 million in fiscal 2007, of which 14.8 million were e-Passports.

The new e-Passports, which GPO started producing in fiscal 2007, contain a computer chip and other security features required by the State. In fiscal 2008 and 2007, the GPO and the State agreed to a price per e-Passport that reimbursed GPO for the total costs required to manufacture the new e-Passports. The price included sufficient reimbursement to fund the costs of constructing and operating the new

SPF, the purchase of SPF equipment, the procurement of the necessary inventory of raw materials required to ensure the timely and uninterrupted production of e-Passports, and a contribution to GPO investment. Revenues for these requirements were $18.4 million in fiscal 2008 and $48.7 million in fiscal 2007. The GPO operates under the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. As such, revenues are recognized when they are earned, and expenses are recognized when they are incurred, without regard to the timing of the receipt or disbursement of cash. The expenses that relate to capital assets acquired with these revenues appear as depreciation expense and begin when these assets are placed into service. The expense will continue over their useful lives. The SPF and some of the related equipment were placed into service in May 2008.

Customer Services business unit revenues increased 10.2 percent to $532.6 million in fiscal 2008 from $483.3 million in fiscal 2007. The $49.3 million increase is attributable to new business with existing customers. New work with the Department of Defense, the U.S. Department of State, the Millennium Challenge Corporation, and the U.S. Department of Commerce are the chief reasons for the increase. Customer Services revenue also increased in the GPO*Express*℠ program, to $6.5 million from $3.1 million, and in the reimbursable postage program, to $11.4 million from $5.7 million.

■ ***Appropriation Revenues***

The GPO receives annual, no-year, and multi-year appropriations from Congress to finance certain costs in accordance with the underlying appropriation act and enabling legislation. The Legislative Branch Appropriations Act, 2008 (Public Law 110-161, December 26, 2007) made a total of $125.0 million in annual appropriations available to the Agency for fiscal 2008. A subsequent rescission of 0.25 percent reduced the 2008 appropriations available to GPO by almost $313,000.

Revenues earned from appropriations totaled $130.1 million for fiscal 2008 and $137.0 million for fiscal 2007. The decrease in revenues of $6.9 million (5 percent) is primarily the result of a decrease in appropriation expenditures by the Agency for CP&B.

The CP&B Appropriation, an annual appropriation, is primarily used to fund printing and binding services provided to Congress by GPO's Plant Operations. The requirements of Congress (workload) placed on GPO fluctuate because of many variables and therefore, cannot be forecast with a high degree of certainty for budgeting purposes. Revenues from this appropriation were $83.9 million in fiscal 2008 and $95.0 million in fiscal 2007, a decrease of $11.1 million (11.7 percent).

Despite the decrease in CP&B expenditures in fiscal 2008 (when compared with fiscal 2007), the fiscal 2008 CP&B appropriation is estimated to have a shortfall in funding of about $6.2 million, and the overall CP&B Program is estimated to have a shortfall of $8.8 million to complete the Congressional printing requirements of fiscal 2008 and prior years. In 2008, Congress authorized the transfer of about $1.23 million in prior year appropriations to the GPO Revolving Fund to help finance shortfalls. Generally, the CP&B Appropriation has been adequate to cover the costs of GPO services to Congress. However, in those years where the Congressional printing requirements exceed the annual funding provided by Congress, GPO uses the Revolving Fund to temporarily fund the shortfall until sufficient appropriated funds are available.

The S&E Appropriation is provided annually by Congress to fund the dissemination of Federal Government information to the public by GPO's Library Services and Content Management business unit. Revenues from this appropriation were $31.7 million in fiscal 2008 and $29.3 million in fiscal 2007.

In fiscal 2005, Congress authorized the transfer of prior year appropriated funds to the Revolving Fund to finance the development of FDsys and to cover annual appropriation shortfalls. In fiscal 2008, GPO recognized revenues of $6.5 million to develop FDsys and $6.9 million to cover annual appropriation shortfalls. In fiscal 2007, these amounts were $11.7 million and $467,000, respectively.

In fiscal 2006 and 2007, Congress appropriated $2 million ($1,980,000 after rescission) and $1 million to the Revolving Fund for workforce retraining, respectively. Revenues from this appropriation were $677,000 in fiscal 2008 and $469,000 in fiscal 2007.

■ ***Sales of Publications Revenues***

GPO earns revenues from the sales of publications to the public and others. The Publication 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 $15.9 million for fiscal 2008 and $16.0 million for fiscal 2007. This represents a small decrease in revenues of $166,000 (1.0 percent).

■ ***Agency Distribution Revenues***

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 $5.8 million for fiscal 2008 and $5.6 million for fiscal 2007. This represents an increase in revenues of $265,000 (4.7 percent). Revenues for this program tend to fluctuate because of the varying level of demand for services from customers.

Consolidated Expenses

GPO incurred total consolidated operating expenses of $996.2 million for fiscal 2008 and $848.2 million for fiscal 2007, an increase of $148.0 million (17.4 percent). The increase in operating expenses is due primarily to the growth in the demand for e-Passports which resulted in a relative rise in costs for supplies and materials. A similar increase in the printing and reproduction expenses of the Customer Services business unit was realized to support the business unit's revenue growth. A brief description of the major expense categories for the Agency follows.

■ ***Printing and Reproduction Expenses***
GPO incurred expenses for printing and reproduction of $470.5 million for fiscal 2008 and $423.8 million for fiscal 2007. This represents an increase in printing and reproduction expenses of $46.7 million (11.0 percent). The Customer Services and Library Services and Content Management business units incur almost all of the printing and reproduction costs of the GPO.

The Customer Services business unit incurs costs for printing that is purchased from the private sector and is passed-through to the GPO's Federal customers. The increase in printing and reproduction expenses for fiscal 2008 was primarily attributable to Customer Services purchasing $42.8 million more in printing from contractors. The Library Services and Content Management business unit purchases and distributes Government publications to the 1,249 Federal depository libraries located throughout the United States. The printing and reproduction expenses for this business unit increased to $10.1 million in fiscal 2008 from $8.7 million in fiscal 2007, an increase of $1.4 million (16.1 percent).

■ ***Personnel Compensation and Benefits Expenses***
GPO incurred expenses for personnel compensation and benefits of $224.7 million during fiscal 2008 and $198.7 million during fiscal 2007. This represents an increase in personnel compensation and benefit expenses of $26.0 million (13.1 percent). The increase is due to an increase in the number of employees and to mandated annual pay increases that typically occur in January of each calendar year. As of September 30, 2008, GPO had 2,398 employees, compared to 2,291 at the same time in fiscal 2007. This increase of 107 employees (4.7 percent) can be attributed to additional headcount needed to support the growth in e-Passports. The Secure and Intelligent Documents business unit, which produces and supports e-Passports, added 87 employees during fiscal 2008.

■ ***Supplies and Materials Expenses***
GPO incurred expenses for supplies and materials of $214.8 million for fiscal 2008 and $152.2 million for fiscal 2007. This represents an increase in supplies and materials expenses of $62.6 million (41.1 percent). The two business units that incur significant costs for supplies and materials are the Security and Intelligent Documents and Plant Operations business units. These units operate large production facilities that use significant quantities of supplies, materials and paper. The supplies and materials expense group also includes equipment, furniture, and vehicle purchases that were expensed because they did not meet the Agency's capitalization threshold. The $62.6 million increase in supplies and materials consumed is primarily attributable to the increase in the production volume of e-Passports.

■ ***Other Services Expenses***
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 warranty expense for passports. GPO incurred expenses for these services of $29.7 million for fiscal 2008 and $23.9 million for fiscal 2007. This represents an increase in this category of expenses of $5.8 million (24.3 percent). The increase was primarily attributable to the net effect of a $7.1 million increase in consulting services and a $3.5 million increase in information maintenance, both related to new systems, a $4.7 million increase in bad debt expense, and an $8.2 million decrease in product warranty expense for e-Passports as a result of reducing the liability established in fiscal 2007 of $4.8 million by $3.4 million in fiscal 2008.

■ ***Travel, Transportation, and Postage Expenses***
This expense group 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 $23.7 million for fiscal 2008 and $16.4 million for fiscal 2007. This represents an increase of $7.3 million (44.5 percent), and it is primarily attributable to an increase in reimbursable postage cost of $5.9 million over fiscal 2007, due to an increase in customer orders requiring this service.

■ ***Rents, Communications, and Utilities Expenses***
This expense category includes rents for building space outside of Washington, DC, leased equipment and vehicles, and utilities. GPO incurred expenses for rents, communications, and utilities of $16.5 million for fiscal 2008 and $15.9 million for fiscal 2007. This represents an increase of $634,000 (4.0 percent).

■ ***Depreciation and Amortization Expense***
Total depreciation and amortization expense for fiscal 2008 was $10.4 million compared with $8.9 million in fiscal 2007. The increase in depreciation and amortization expense is primarily the result of placing the SPF and SPF equipment into service during fiscal 2008.

■ ***Publications Sold Expenses***
This expense is incurred when GPO's Publication and Information Sales business unit sells publications, subscriptions, and other Federal Government information products to customers. This expense totaled $5.9 million in fiscal 2008 compared to $8.4 million in fiscal 2007. Fiscal 2007 expenses included an adjustment to write inventory down to stock on hand. This adjustment was not necessary in fiscal 2008.

Changes in Retained Earnings
GPO's retained earnings increased $46.3 million to $154.4 million at the end of fiscal 2008, compared to about $108.2 million at the end of fiscal 2007. The increase reflects the accrual basis net income earned by GPO in fiscal 2008.

The GPO's financial statements are prepared using U.S. generally accepted accounting principles (GAAP) and the accrual basis of accounting. 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. Timing differences may occur in the recognition of net income and the expenses associated with the future use of the net income.

During fiscal 2008 and fiscal 2007, the GPO set aside $25.2 million and $60.4 million, respectively, of net income to fund planned uses (approved and required investments in capital projects) related to the production of e-Passports and the development of FDsys. Of these amounts, $14.1 million and $20.9 million of the funds set aside for fiscal 2008 and fiscal 2007 respectively, is to maintain an adequate and uninterrupted supply of passport raw materials. With the exception of funding for inventory, these investments are recognized as depreciation or amortization expense, over the investment's useful life, beginning at the time it is placed into service. The SPF and some related equipment were placed into service in May 2008, and the investment in the SPF's construction and equipment is expected to be recognized as depreciation expense over varying periods of up to fifteen years. The first release of the FDsys is expected to be placed into service in fiscal 2009, and the portion of the investment placed into service will be amortized (depreciated) over a period of five years.

As presented in the table above right, GPO's net income includes the planned uses of net income as approved by appropriate parties. As indicated above, the capital investments will be recognized as depreciation and amortization expense over the specific investment's useful life. Thus, income has been recorded in one year, and the related amortization expense in future years.

Excluding the impact of the timing differences between income and expenses as noted above, the GPO had net income after planned uses of $21.0 million (2.0 percent) on revenue of $1.042 billion in fiscal 2008, compared to net income after planned uses of $30.5 million (3.2 percent) on revenue of $939.1 million in fiscal 2007.

Consolidated Statements of Cash Flows

The consolidated statements of cash flows present the Agency's cash position at the beginning and end of the reporting period, and the sources and uses of cash for all operating, investing, and financing activities.

(Dollars in thousands)

	2008	2007
Consolidated Net Income	**$ 46,261**	**$ 90,883**
Planned Uses of Income:		
Secure Production Facility	4,318	27,800
Passport Inventory Funding	14,100	20,919
GPO's Federal Digital System (FDsys)	6,800	11,700
Total Planned Uses of Income	**25,218**	**60,419**
Net Income after Planned Uses	**$ 21,043**	**$ 30,464**

Fund Balance with Treasury (cash) decreased by $8.2 million during fiscal 2008 compared with an increase of $43.6 million in fiscal 2007. The decrease in fiscal 2008 cash is the net result of the following.

- In fiscal 2008, GPO generated $44.5 million from operations compared with $81.5 million in fiscal 2007.
- Cash invested in capital assets was $47.2 million in fiscal 2008 compared with $22.4 million in fiscal 2007. The increase in capital investments was due to outlays for construction of facilities and the purchase of equipment for the SPF, and outlays for FDsys.
- Financing activities used $5.5 million in cash in fiscal 2008, compared with $15.5 million in fiscal 2007. Less cash was provided to the Agency from appropriated sources as the appropriated funds for FDsys were fully expended in fiscal 2008. Cash for this capital project is now provided from operations.

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 or 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 96 percent for fiscal 2008 and 77 percent for fiscal 2007. The Agency's goal of 95 percent or better was achieved for fiscal 2008. The goal will remain the same for fiscal 2009.

On-Time Delivery and Quality Acceptance of Procured Printing

Customer Services contracted with commercial businesses to produce and ship 104,600 jobs for GPO customers in fiscal 2008. For fiscal 2008, 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 2008, with 96.1 percent of procured printing jobs delivered on time and a quality acceptance rate of 99.5 percent. In comparison, GPO contractors shipped 107,600 jobs in fiscal 2007, with 95.9 percent of the procured printing jobs delivered on time and a quality acceptance rate of 99.3 percent. The two goals will remain the same for fiscal 2009.

Orders placed at GPO have decreased over the last two years due primarily to the success of the GPO*Express*℠ Program. This program enables Federal customers to purchase small printing jobs directly from a nationwide contractor, without sending the order to GPO. For fiscal 2008, customers used GPO*Express*℠ to place 12,100 orders to purchase $6,454,000 in convenience printing jobs locally without going through GPO. In fiscal 2007, customers placed nearly 1,300 orders to purchase $3,142,000 in convenience printing jobs through this program.

Financial Performance Measures

Cash Management

Payment Performance

In fiscal 2008, GPO continued to save millions of dollars by 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 $475.7 million. In comparison, GPO earned $6.4 million in discounts on $436.2 million in printing expenses last year. The average discount rate earned was 1.35 percent for fiscal 2008 and 1.5 percent for fiscal 2007. The average discount rate earned for fiscal 2008 was just short of the goal of 1.4 percent. The goal will be the same for fiscal 2009.

Lost prompt payment discounts decreased to $363,000 in fiscal 2008 from $434,000 in fiscal 2007. The percentages of discounts lost to discounts offered were 5.4 percent and 6.4 percent in fiscal 2008 and 2007, respectively. GPO did not meet its goal of 2.5 percent or less for fiscal 2008. The lost discounts were generally due to inadequate supporting documentation and other essential information needed to properly examine and certify invoices for payment in a timely manner. The Agency's goal will be the same for fiscal 2009.

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 2008 about 80 percent of GPO payments were made by EFT. In comparison, about 93 percent of all payments were made by EFT last year. The decrease is due to an EFT software problem that occurred in mid-2008 that required GPO to issue paper checks to contractors. The Agency's EFT payment goal for fiscal 2008 was 90 percent of all payments. Thus, GPO did not achieve this goal in fiscal 2009. The EFT payment goal will remain at 90 percent for fiscal 2009.

Debt Management

Federal Receivables

GPO billed customers about $1.0 billion for printing and binding services during fiscal 2008. The U.S. Department of the Treasury's Intra-governmental Payment and Collection (IPAC) System was used to collect about $844.6 million or 84.5 percent of this debt from customers. Additionally, about $47.8 million, or 4.8 percent of this debt, was collected from funds held in customer Printing and Binding Deposit Accounts maintained by GPO. Furthermore, $18.8 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 $47.4 million at the end of fiscal 2008, compared with $38.4 million at the end of fiscal 2007. In comparison, the billed accounts receivables increased by $9.0 million.

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-payment 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 $19.2 million at the end of fiscal 2008 and $22.2 million at the end of fiscal 2007.

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 $7.3 million at September 30, 2008, of which $6.7 million, or 91.8 percent, was past due in payment (i.e., over 30 days old). DoD owed $567,000 for invoices between 31 to 60 days old, $810,000 between 61 to 90 days old, and about $5.3 million over 90 days old. DoD's indebtedness to GPO of $5.3 million represents 19.9 percent of GPO's total billed accounts receivables of $26.6 million, over 90 days old, at year-end. At September 30, 2007, DoD owed $7.1 million to GPO.

At the end of the year, GPO maintained 1,003 P&B deposit accounts valued at $82.9 million. Additionally, GPO held $3.3 million in customer deposit accounts for the Publication and Information Sales Program. Combined, these customer deposit accounts totaled about $86.2 million as of September 30, 2008. At September 30, 2007, GPO maintained $78.0 million in these two customer deposit accounts ($74.3 million and $3.7 million, respectively). The $8.2 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 2008 totaled $18.8 million for 24,654 printing jobs. In comparison, credit card transactions totaled $16.9 million for 24,039 printing jobs in fiscal 2007.

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 and modern information technology systems to move core infrastructure onto efficient, sustainable platforms. 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 1 of the FDsys Project will replace *GPO Access* in fiscal 2009. Afterwards, the FDsys project will continue with efforts to integrate and modernize operations. Second, GBIS will continue to replace old legacy systems with modern Oracle applications. Phase 2 of the GBIS commenced in 2007 and should be completed in fiscal 2009.

Demand for Security and Intelligent Documents

The continued production of security and intelligent documents, such as e-Passports and smartcards, and the development of new security documents such as Federal identification cards will be vital to GPO's success. Demand for e-Passports is expected to be about 10.4 million e-Passports annually. In contrast, GPO produced 24,013,400 total passports, of which 23,580,900 were e-Passports in fiscal 2008, and 20,408,300 total passports (14,815,400 e-Passports) in fiscal 2007.

Demand growth is expected, however, for sensitive documents, such as smartcards, immigration forms, Public Key Infrastructure (PKI) electronic certificates for credentialing, and traditional and embedded electronics security documents.

Possible Federal Appropriation Reductions

Printing and duplicating are generally considered a discretionary cost for Federal customers. The Continuing Resolution (Public Law 110-329, dated September 30, 2008) in regard to fiscal 2009 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.

Decline in Ink-on-Paper Products

GPO continues to manufacture and sell a sizable array of Federal Government information products to the public. An upward trend in Government electronic documents available on the Internet, and a downward trend in customer demand for printed documents will continue to place downward pressure on sales. After many years of year-to-year declines, the Publication and Information Sales Program business unit did generate a positive contribution margin for the first time in more than five years. The major management focus has been to identify market segments for the program's vast product offerings, to employ focused advertising, and to provide better customer service to a niche customer base. This effort has stabilized the revenue decline and when combined with further operating expense reductions, has created a major turnaround for the program. However, operational efficiencies must improve continuously to maintain positive operating margins.

Fiscal Year 2009 Financial Projections

Congress established the GPO Revolving Fund to finance the operations of the Agency on July 1, 1953. The receipts and disbursements from the Agency's continuing cycle of business-type operations are recorded in the GPO Revolving Fund that was established to be financially self-sustaining.

The Agency's overall financial objective has been to earn revenues sufficient 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 has achieved this financial objective, by recording net income in fiscal years 2004 through 2008. This recent trend represents a positive turnaround in financial performance for the Agency. The GPO had net losses for five straight years before fiscal 2004.

In fiscal 2008, the Agency realized net income of $46.3 million or $21.0 million after planned uses of the net income. In fiscal 2007, net income was $90.9 million or $30.5 after planned uses of the net income. The Agency has a revenue and expense budget for fiscal 2009 of $2.1 million in net income. This is a sharp drop in net income compared with the prior two years. In fiscal 2008 and 2007, the GPO had unusually large revenues derived from the unexpected and unprecedented demand for e-Passports, which included a fee component for e-Passport investments, such as the construction of the SPF facility and the associated requirement for necessary raw materials inventory to support the e-Passports demand. In fiscal 2009, the GPO projects a reduction in e-Passport revenue due to a return to normal passport demand, less-appropriation revenue to fund the continuing FDsys capital project, and an increase in operating expenses, due to mandated salary increases and depreciation expense increases related to the SPF.

The Agency's transformation, customer demand for secure and intelligent documents, and other management initiatives completed and underway have put GPO's operations back on sound footing, both organizationally and financially. The Agency's positive trend in financial performance is expected to continue into fiscal 2009. Positive financial results help ensure that the GPO Revolving Fund remains financially self-sustaining as Congress intended and that GPO can continue *Keeping America Informed*.

SECTION II

Inspector General's Report

DATE: January 15, 2009

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, 2008 and 2007
Report Number 09-06

TO: Public Printer

This report contains the audit of the annual consolidated financial statements of the Government Printing Office (GPO) as of the fiscal years (FY) ended September 30, 2008 and 2007. We contracted with the independent 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 *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States.

Results of Independent Audit

KPMG expressed an unqualified opinion on the GPO consolidated financial statements as of the FYs ended September 30, 2008, and 2007, 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 three significant deficiencies,[1] one of which, Financial Reporting Controls, is considered by KPMG to be a material weakness.[2] Details on these three deficiencies are as follows:

[1] 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.

[2] 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.

1. Financial Reporting Controls

Due to improperly functioning management internal controls, KPMG concluded that the following significant deficiencies related to financial reporting controls, when viewed in the aggregate, constitute a material weakness:

- GPO recorded additions to General Property, Plant and Equipment (PP&E) in its subsidiary ledger and general ledger based on when cash disbursements were made for the assets instead of when it was received and accepted by GPO. In addition, GPO's controls over the recording of internal use software need to be improved. Specifically, auditors identified several invoices that were improperly expensed rather than capitalized.

- GPO is recording an estimated product warranty for e-Passports despite not having experienced a claim for spoilage since the inception of the e-Passport program in 2007.

- GPO improperly recorded passport work-in-process inventory as unbilled receivables.[3]

- GPO's existing process for compiling its consolidated financial statements is complex and difficult to review and there are no written procedures documenting how GPO's consolidated financial statements are compiled. Management review of the consolidated financial statements needs to be strengthened.

- Key reconciliations in the areas of Fund Balance with Treasury, accounts payable, payroll, and expenses were not always performed timely and when performed, differences noted were not consistently investigated and resolved in a timely manner.

2. Controls over Processing Human Resource Information

KPMG reported that there is no application control to prevent Human Capital (HC) Assistants and Specialists from making changes to their own personnel files. In addition, there is no supervisory review of personnel action changes to ensure accuracy and completeness prior to being uploaded into the National Finance Center's (NFC) Entry, Processing, Inquiry, and Correction System (EPIC). Further, for those employees whose pay rates do not follow the General Schedule, HC Assistants/Specialists have the ability to allow EPIC to bypass the NFC payroll system's edit checks with no compensating review.

[3] Although GPO was required to make an adjustment to properly reflect the work-in-process inventory in the balance sheet as of September 30, 2008, this adjustment did not affect the Consolidated Statements of Revenue, Expenses and Changes in Retained Earnings or the Consolidated Statements of Cash Flows.

3. Information Technology (IT) General Controls

Although GPO continued to make progress in addressing IT general control weaknesses identified in prior years, deficiencies in the design and/or operation of controls continue to exist in the areas of entity-wide security, access controls, system software, and service continuity.

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

Material Weakness Corrective Action Plan

Appendix A, "Internal Control over Financial Reporting," of the Chief Financial Officer's Council's Implementation Guide for OMB Circular A-123, "Management's Responsibility for Internal Control,"[4] (Guide) explains that a comprehensive corrective action plan (CAP) lists the detailed actions that agency personnel must perform to resolve the weakness. The Guide also describes the basic elements of a comprehensive CAP as including:

- A summary description of the deficiency.
- The year the deficiency was first identified.
- The targeted corrective action date (the date of management follow-up).
- The agency official responsible for monitoring progress.
- The indicators, statistics, or metrics used to gauge resolution progress (in advance of audit follow-up) to validate the resolution of the deficiency.
- The quantifiable target or otherwise qualitative characteristic (e.g., milestone) that reports how resolution activities are progressing.

While GPO is not required to follow OMB Circular A-123, the Circular is considered to contain policy related to internal controls that we consider to be a Federal Government best practice. As such, GPO should prepare a CAP to address the deficiencies associated with financial reporting controls that were identified during the audit. CAPs are the mechanism whereby management presents the procedures the agency will follow to resolve deficiencies.

Recommendation

We recommend that GPO prepare a comprehensive CAP to address the material weakness described above. The CAP should include measurable indicators of compliance and resolution to assess and validate progress throughout the resolution cycle. GPO should closely monitor and update the CAP periodically.

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[4] July, 2005 version.

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.
- Reviewing the financial statements and associated footnotes.

KPMG is responsible for the attached reports dated January 14, 2009, and the conclusions expressed in the reports. Our review, as differentiated from an audit in accordance with GAS, 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 GAS.

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.

J. Anthony Ogden
Inspector General

Attachment

cc:
Deputy Public Printer
Chief Management Officer
Chief of Staff
General Counsel

SECTION III

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, 2008 and 2007, 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 2008 audit, we also considered GPO's internal controls 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, 2008 and 2007, 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. Financial Reporting Controls
B. Controls over Processing of Human Resource Information
C. Information Technology General Controls

We consider the Financial Reporting Controls significant deficiency, above, to be a material weakness.

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 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 controls 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 Financial Statements

We have audited the accompanying consolidated balance sheets of the United States Government Printing Office as of September 30, 2008 and 2007, 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, 2008 and 2007, 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 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. 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 2008 audit, we consider the deficiencies, described in Exhibits I and II, to be significant deficiencies in internal control over financial reporting. However, of the significant deficiencies described in Exhibits I and II, we believe that the significant deficiency presented in Exhibit I is a material weakness. Exhibit III presents the status of prior year significant deficiencies.

We noted certain additional matters that we reported to management of GPO in a separate letter dated January 14, 2009.

Compliance and Other Matters

The results of our tests of compliance 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; establishing and maintaining effective internal control; and complying with laws, regulations and contracts applicable to GPO.

Auditors'Responsibilities. Our responsibility is to express an opinion on the fiscal year 2008 and 2007 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 2008 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. 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 2008 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 is presented in Exhibit I and Exhibit II. We did not audit GPO's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of 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

January 14, 2009

Exhibit I

Fiscal Year 2008 Material Weakness

A. Financial Reporting Controls

During our fiscal year 2008 audit, we noted the following areas where GPO needs to improve its non-information technology internal controls over financial reporting. When considered in the aggregate, these control deficiencies are considered to be a material weakness.

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

We noted that GPO recorded additions to General Property, Plant and Equipment (PP&E) in its subsidiary ledger and general ledger based on when cash disbursements were made for the assets instead of recording the PP&E when it was received and accepted by GPO. As a result, GPO was required to make an adjustment of approximately $405,000 to increase PP&E as reflected in the consolidated financial statements as of September 30, 2008.

Additionally, we noted that GPO's controls over the recording of internal use software need to be improved. We identified several invoices that were improperly expensed rather than capitalized in accordance with U.S. generally accepted accounting principles. As a result, GPO was required to make an adjustment of approximately $900,000 to increase PP&E as reflected in the consolidated financial statements as of September 30, 2008.

2. Review and Reporting of Product Warranty Liability

We noted management is recording an estimated product warranty liability related to ePassports. However, GPO has not experienced a claim for spoilage since the inception of the program in 2007. Therefore, the liability is being recorded without proper support that the liability exists. As a result, liabilities are overstated by approximately $1.4 million in the consolidated balance sheet as of September 30, 2008. This adjustment was not corrected and was included in the FY 2008 Summary of Audit Differences, which was attached to the FY 2008 Management Representation Letter.

3. Reporting of Passport Work-in-process Inventory

We noted management was improperly recording passport work-in-process (WIP) inventory as unbilled receivables. As a result, GPO was required to make an adjustment of approximately $10.3 million to properly reflect the WIP inventory in the consolidated balance sheet as of September 30, 2008. This adjustment did not affect the Consolidated Statements of Revenues, Expenses, and Changes in Retained Earnings or the Consolidated Statements of Cash Flows.

4. Compilation and Management Review of the Consolidated Financial Statements

GPO's existing process for compiling its consolidated financial statements is complex and difficult to review. Additionally, there are currently no written procedures documenting how GPO's consolidated financial statements are compiled. Also, we noted that the management review of the consolidated financial statements needs to be strengthened. Specifically, we noted management's review of the consolidated financial statements did not identify misclassifications amounting to approximately $11.9 million. Management properly reclassified $11.4 million from printing and binding to appropriation revenue, while the remaining difference was not corrected in the consolidated financial statements. The remaining difference of approximately $500,000

Fiscal Year 2008 Material Weakness

was included in the FY 2008 Summary of Audit Differences, which was attached to the FY 2008 Management Representation Letter.

5. Certain Reconciliation Controls

During fiscal year 2008, key reconciliations in the areas of Fund Balance with Treasury, accounts payable, payroll, and expenses were not always performed timely and when performed, differences noted were not consistently investigated and resolved in a timely manner.

GPO management considered the identified differences to be immaterial to the fiscal year 2008 consolidated financial statements. As such, these differences were not corrected in the consolidated financial statements and were included in the FY 2008 Summary of Audit Differences, which was attached to the FY 2008 Management Representation Letter.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* requires:

- Transactions 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.

- 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 timing differences within the monthly reconciliations may not be corrected timely.

In addition to the GAO criteria above, the following provides specific criteria for the proper accounting and financial reporting of the specific transactions referenced above.

- Statement of Financial Accounting Concepts (SFAC) No. 6, *Elements of Financial Statements*, states that: "Assets are recorded when there is future economic benefit and the asset is controlled by the entity."

- Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, states that: "Internal and external costs incurred to develop internal-use computer software during the application development stage should be capitalized. Costs to develop or obtain software that allows for access or conversion of old data by new systems should also be capitalized. Training costs are not internal-use software development costs and, if incurred during this stage, should be expensed as incurred."

- Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirements*, states the following: "In periods subsequent to initial measurement of the asset retirement obligation, an entity shall recognize period-to-period changes in the liability for an asset retirement obligation resulting from (a) the passage of time and (b) revisions to either the timing or the amount of the original estimate of undiscounted cash flows."

- SFAS No. 5, *Accounting for Contingencies*, states the following: "An estimated loss from a loss contingency shall be accrued by a charge to income if *both* of the following conditions are met: a) Information available prior to issuance of the financial statements indicates that it

Fiscal Year 2008 Material Weakness

is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss; and b) The amount of the loss can be reasonably estimated."

- 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, the TFM further states that, "no material prior month differences should be outstanding over three months."

The conditions above were caused by the lack of properly functioning management internal controls over financial reporting.

Recommendations:

We recommend that GPO strengthen its controls surrounding each of these areas as follows:

1. Implement controls to ensure that GPO accountants are recording PP&E in the PP&E subsidiary ledger and general ledger at the full costs upon receiving title to the assets. GPO can accomplish this by using the asset receipt and acceptance document, together with the contract and applicable invoices, to record the asset in its subsidiary ledger and general ledger. Additionally, GPO should improve controls over the review of invoices related to internal use software to determine if the items noted should be capitalized or expensed.

2. Review and properly apply historical information when recording contingent liabilities.

3. Ensure that all revenue recognition criteria have been met before recording an unbilled receivable.

4. Perform a detailed and thorough management review of the financial statements, related footnotes, and any other accompanying information to ensure the reasonableness and accuracy of the information that is being reported. We also recommend that management reassess the existing process for compiling the consolidated financial statements. Additionally, the process for compiling the consolidated financial statements should be documented. The implementation of these recommendations will also help to facilitate a more thorough management review.

5. Enforce its existing policies that require monthly reconciliations to be performed and the timely investigation and resolution of all differences identified in compliance with TFM requirements and GAO standards.

Management Response:

Management concurs with findings #1, 3, 4, and 5 and will take corrective action on each.

Management does not fully agree with KPMG on finding #2, *Review and Reporting of Product Warranty Liability*. GPO is responsible for replacing defective e-Passports up to the point of personalization by the U.S. Department of State. At September 30, 2008, there were

Fiscal Year 2008 Material Weakness

approximately 10 million e-Passports which had not been personalized. As with any new manufactured product, it is reasonably possible and potentially probable that some of these e-Passports could have latent defects for which GPO would be responsible for fixing or replacing. KPMG states that the warranty liability of $1.4 million for e-Passports is overstated by $1.4 million. Management believes that although this may be the case, it is possible that it could also be understated as there is not enough historical data available to make a reasonable estimate, nor can this unique product be benchmarked against other reasonable industry comparisons at this time. Based on favorable experience to date, Management has reduced the warranty liability from $4.8 million at September 2007 to $1.4 million at September 2008 and will continue to review the associated risk and adjust the warranty liability accordingly.

KPMG Response:

We respect management's position related to finding 2 of the material weakness. However, we continue to believe our finding and recommendation is appropriate.

Fiscal Year 2008 Significant Deficiencies

B. Controls over Processing Human Resource Information

During our fiscal year 2008 audit, we noted the following areas where GPO needs to improve its internal controls over the processing of human resource information:

1. GPO has 15 Human Capital (HC) Assistants and Specialists who are responsible for preparing the Request for Personnel Action Form (SF-52), reviewing the SF-52 for accuracy and eligibility, and uploading the changes to the National Finance Center (NFC) Entry, Processing, Inquiry, and Correction System (EPIC). While GPO's policy is that HC Assistants/ Specialists are not supposed to make changes in EPIC to their own file, there is no application control to prevent them from doing so.
2. There is no supervisory review of personnel action changes made once uploaded into EPIC to ensure accuracy and completeness of modifications.
3. For those employees whose pay rates do not follow the General Schedule, the HC Assistants/Specialists have the ability to allow EPIC to bypass NFC's edit checks, which check for correct data fields and match the individual's pay rate to the Office of Personnel Management pay step and grade. However, no compensating review is in place to ensure that what is uploaded is correct.

The GAO's *Standards for Internal Control in the Federal Government* requires the following:

- Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements or budget development and execution. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.

- Controls activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.

The causes of the conditions above were due to lack of controls and edit checks to ensure all changes made in the system were proper and accurate.

Recommendations:

We understand that GPO is planning on converting to a new Human Resources Information System -EmpowHR in March 2009, which will have security restrictions for access to the system based on the roles and responsibilities of the person performing the transaction. However, we recommend the below actions be not only considered when developing and implementing the new system, but also in the interim period:

1. Reassess access rights in EPIC for all employees within HC to ensure they are consistent with their roles and responsibilities and preventing them from being able to access their own file.

Fiscal Year 2008 Significant Deficiencies

2. Print an exception/edit report from EPIC each pay period to track changes that have been made to employee files. This report should be reviewed by supervisory personnel within HC who do not also have access to make changes to employee files to ensure all changes to each employee payroll file were appropriate and accurate.
3. Implement a system control or management review that would require additional approval and review for employees when NFC edit checks are overridden.

Management Response:

Management concurs with these findings and recommendations. The following corrective actions have been implemented or are being implemented by GPO:

1. Conducted a review of all EPIC access rights and modified access for employees' to match their role in the personnel action process.
2. Implemented that each pay period HC prints a report from EPIC and review all actions processed for accuracy and reasonableness.
3. Implemented a two-tiered management review to be performed on the 49 current employees whose pay rate determinant code (PRD) is 4. The two HC managers identified will not have access to make changes in EPIC. Additionally, during this review, GPO will determine whether the employee's PRD can be changed and the salary be placed in the appropriate table on the NFC database.

C. Information Technology General Controls

During fiscal year 2008, GPO continued to make progress in addressing information technology (IT) general control weaknesses identified in prior years. However, deficiencies in the design and/or operation of controls continue to exist in the areas of Entity-Wide Security, Access Controls, System Software, and Service Continuity. Current year testing of IT general controls revealed the following control weaknesses:

1. Entity-Wide Security Program

GPO's enterprise-wide security program needs improvement. During fiscal year 2008, GPO made progress in implementing an enterprise-wide security program to formalize GPO's established information security objectives and high level policy. GPO completed the system security plan and the risk assessment for Oracle On-Demand as well as the system security plan for the General Support System (GSS). However, as noted in the prior year, GPO has not completed the certification and accreditation of Oracle On-Demand or the GSS. This process is a critical element of an organization's overall security program. Specifically, it is used to identify risks posed to the system, plan or implement the controls necessary to mitigate those risks, and 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, access controls at GPO require strengthening in order to provide a more secure financial processing and computing environment. During fiscal year 2008, GPO implemented a process to provide monthly notifications of employee separations to GPO IT Security and End User Support personnel who are responsible for managing access to information systems. Additionally, GPO implemented procedures for the periodic review of

Fiscal Year 2008 Significant Deficiencies

user access to information systems and applications. However, several access controls at GPO need improvement:

a. First, as noted in the prior year, additional oversight is needed to ensure that documented policies and procedures for notifying all system owners of terminated employees and contractors are followed. GPO must ensure that system access, including remote access, is properly and timely removed for separated employees and contractors.

b. Second, GPO management is not consistently following documented policies and procedures for granting and reviewing access to the Data Center. We noted three users who were granted access to the Data Center via the card reader system but were not identified as authorized users during the quarterly access review process.

c. Third, program development personnel have been granted inappropriate privileged access to Oracle On-Demand. Access to financial systems must be properly restricted to limit processing errors, protect the integrity of data, and prevent the submission of unauthorized transactions.

d. Fourth, GPO does not have adequate user identification controls to verify the identity of users during phone calls requesting password resets from the Information Technology and Support (IT&S) Help Desk. Additional user identification controls are needed to ensure that passwords are not improperly communicated to unauthorized individuals.

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 or inappropriate access to sensitive files and revoke access following employee 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 maintenance of desktop system software need improvement. During fiscal year 2008, GPO management began the development of a desktop patch management plan. However, GPO has not been able to complete the implementation of the patch management plan and process. System software controls are essential to provide reasonable assurance that operating system-based security controls are not compromised and that the system will not be impaired. Therefore, system software needs to be properly maintained to ensure that security patches are appropriately implemented to enhance the security of computers and the network. If system software is not properly maintained, unauthorized individuals may exploit unmitigated security weaknesses to read, modify, or delete critical or sensitive information and programs.

4. Service Continuity

Losing the capability to process, retrieve, and protect data can significantly impact GPO's ability to accomplish its mission. For this reason, GPO 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 fiscal year 2008, GPO continued its efforts to minimize the risk of unplanned interruptions and recover critical operations should an interruption occur. GPO completed a Business Impact Analysis in

Fiscal Year 2008 Significant Deficiencies

October 2007 and drafted a contingency plan in support of the recovery of financial reporting systems and the GSS. However, the plan has not been finalized.

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-37, *Guide for the Security Certification and Accreditation of Federal Information Systems*, states that the successful completion of the security certification and accreditation process provides agency officials with the necessary confidence that the information system has adequate security controls, that any vulnerabilities in the system have been considered in the risk-based decision to authorize processing, and that appropriate plans and funds have been identified to correct any deficiencies in the information system.

Office of Management and Budget (OMB) Circular No. A-130, *Management of Federal Information Resources*, states that agencies shall (i) protect government information commensurate with the risk and magnitude of harm that could result from the loss, misuse, or unauthorized access to or modification of such information; (ii) establish a level of security for all information systems that is commensurate with the risk and magnitude of the harm resulting from the loss, misuse, or unauthorized access to or modification of the information contained in these information systems.

NIST SP 800-53, *Recommended Security Controls for Federal Information Systems*, states that the organization promptly installs newly released security relevant patches, service packs, and hot fixes, and tests patches, service packs, and hot fixes for effectiveness and potential side effects on the organization's information systems before installation.

NIST SP 800-34, *Contingency Planning Guide for Information Technology Systems*, states that it is critical that the services provided by systems are able to operate effectively without excessive interruption. Contingency planning supports this requirement by establishing thorough plans and procedures and technical measures that can enable a system to be recovered quickly and effectively following a service disruption or disaster.

Recommendations:

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

1. **Entity-Wide Security Program**
   a. We recommend that GPO complete the certification and accreditation of Oracle On-Demand and the GSS.
2. **Access Controls**
   a. We recommend that GPO management enhance policies and procedures regarding the removal of access for terminated employees and contractors and provide oversight to ensure that access to GPO IT resources belonging to separated employees and contractors is removed timely.
   b. We recommend that GPO management enhance policies and procedures regarding the assignment, removal, and review of access to the Data Center.
   c. We recommend that GPO management and the appropriate system administrators review the current access privileges and modify those privileges for Oracle On-Demand users, such that the access privileges are properly segregated and grant with the least amount of privilege necessary.

Fiscal Year 2008 Significant Deficiencies

d. We recommend that GPO management enhance its policies and procedures for fulfilling requests for password resets to include the verbal verification of users.

3. System Software

a. We recommend that GPO management continue to improve the patch management process by completing the desktop patch management plan that began in June 2008.

4. Service Continuity

a. We recommend that GPO finalize its contingency plans for all financial reporting systems and the GSS.

Management Response:

Management concurs with these findings and recommendations. Information Technology & Systems (IT&S) will develop a plan during Q2 FY09 to address the implementation of the recommendations. This plan will include the need for additional resources or investments to complete the implementation. Should the assessment determine that additional resources and/or investments are required for any of these recommendations, we will coordinate these needs with GPO's Planning and Strategy Board (PSB) for investment review and approval.

Status of Prior Year Significant Deficiencies

Prior Year Condition	Prior Year Recommendation	Status as of September 30, 2008
Certain reconciliation controls should be improved	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.	**Material Weakness**: This finding has been repeated in the current year, see Exhibit I, letter A.
Misapplication of U.S. generally accepted accounting principles	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.	**Material Weakness**: This finding has been partially repeated in the current year, see Exhibit I, letter A.

Status of Prior Year Significant Deficiencies

Prior Year Condition	Prior Year Recommendation	Status as of September 30, 2008
Information Technology (IT) general controls should be improved		
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.	**Significant Deficiency**: This finding has been repeated in the current year, see Exhibit II, letter C.
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. 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 8th 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	**Significant Deficiency**: This finding has been partially repeated in the current year, see Exhibit II, letter C.

Status of Prior Year Significant Deficiencies

	for the sanitization of electronic media to include both servers and magnetic/removable media.	
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.	**Significant Deficiency**: This finding has been repeated in the current year, see Exhibit II, letter C.
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.	**Closed**
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.	**Significant Deficiency**: This finding has been partially repeated in the current year, see Exhibit II, letter C.

SECTION IV

Consolidated Financial Statements

Consolidated Balance Sheets

As of September 30, 2008 and 2007

(Dollars in thousands)

	2008	2007
ASSETS		
Current assets		
Fund balance with Treasury (Note 2)	$ 265,251	$ 273,446
Accounts receivable, net (Note 3)	153,696	146,118
Inventory, net (Note 4)	48,291	34,592
Prepaid expenses (Note 5)	903	3,958
Total current assets	**468,141**	**458,114**
General property, plant and equipment, net (Note 6)	107,194	67,600
Total assets	**$ 575,335**	**$ 525,714**
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses (Note 7)	$ 112,858	$ 109,324
Deferred revenues (Note 8)	89,376	81,715
Accrued annual leave	10,549	9,813
Total current liabilities	**212,783**	**200,852**
Other liabilities		
Workers' compensation liability (Note 9)	67,067	66,723
Product warranty liabilities (Note 10)	1,418	4,833
Total liabilities	**281,268**	**272,408**
Commitments and contingencies (Notes 10 and 11)		
Net position (Note 12)		
Cumulative results of operations:		
Retained earnings	154,425	108,164
Invested capital	92,879	92,879
Unexpended appropriations	46,763	52,263
Total net position	**294,067**	**253,306**
Total liabilities and total net position	**$ 575,335**	**$ 525,714**

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

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

For the Fiscal Years Ended September 30, 2008 and 2007

(Dollars in thousands)

	2008	2007
OPERATING REVENUES		
Printing and binding	$ 890,630	$ 780,482
Appropriations	130,111	137,041
Sales of publications	15,866	16,032
Agency distributions	5,818	5,553
Total operating revenues	**1,042,425**	**939,108**
OPERATING EXPENSES		
Printing and reproduction	470,454	423,845
Personnel compensation and benefits	224,688	198,722
Supplies and materials	214,848	152,182
Other services	29,685	23,901
Travel, transportation, and postage	23,690	16,428
Rents, communications, and utilities	16,507	15,873
Depreciation and amortization	10,428	8,850
Publications sold	5,864	8,424
Total operating expenses	**996,164**	**848,225**
Net Income	**46,261**	**90,883**
Retained Earnings, beginning of year	**108,164**	**17,281**
Retained Earnings, end of year	**$ 154,425**	**$ 108,164**

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

Consolidated Statements of Cash Flows

For the Fiscal Years Ended September 30, 2008 and 2007

(Dollars in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 46,261**	**$ 90,883**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,428	8,850
Gain on disposal of general property, plant and equipment	(16)	(3)
Changes in assets and liabilities:		
(Increase) decrease in assets-		
Accounts receivable	(7,578)	(36,572)
Inventory	(13,699)	(21,498)
Prepaid expenses	200	585
Increase (decrease) in liabilities-		
Accounts payable and accrued expenses	3,534	25,316
Deferred revenues	7,661	12,155
Accrued annual leave	736	227
Workers' compensation liability	344	(3,228)
Product warranty liability	(3,415)	4,833
Total adjustments	**(1,805)**	**(9,335)**
Net cash provided by operating activities	**44,456**	**81,548**
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital purchases	(47,167)	(22,410)
Proceeds from sale of general property, plant and equipment	16	3
Net cash used in investing activities	**(47,151)**	**(22,407)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in unexpended appropriations	(5,500)	(15,500)
Net cash used in financing activities	**(5,500)**	**(15,500)**
Net (decrease) increase in fund balance with Treasury	**(8,195)**	**43,641**
Fund balance with Treasury, beginning of year	273,446	229,805
Fund balance with Treasury, end of year	**$ 265,251**	**$ 273,446**

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

SECTION IV (cont'd)

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

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, 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 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 Congressional Printing and Binding Appropriations 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: the Federal Depository Library Program (FDLP) that includes *GPO Access*; the Cataloging and Indexing Program; the By-Law Distribution Program; and 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.

C. Fund Balance with Treasury

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

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

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, supplies and materials 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 supplies and materials are shown net of a provision for obsolescence. The allowance for obsolescence is determined based on historical usage of paper, supplies and materials.

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 costs of major alterations and renovations to the GPO facility are capitalized and depreciated, while the costs 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

Asset Category	Estimated Useful Life (Years)
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 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 received in advance from customers for the future delivery of goods and services. 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.

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

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.

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 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.

K. Product Warranty Liabilities

Product warranty liabilities are recognized for U.S. Passports manufactured by GPO for the U.S. Department of State. The estimate is based on the number of passports produced that have not been personalized by the U.S. Department of State and an estimated percentage of potentially defective e-Passports. 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 2007 to coincide with the Federal Government's transition from the legacy passport to the new e-Passport that contains a computer chip.

L. Revenue Recognition

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 a liability 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

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 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 workers' compensation expense, transit benefits provided by GPO to employees, and the cost of incentive and performance awards to employees. 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.

Other Services – This expense category includes the costs of professional services by contractors, the expenses related to a provision for uncollectible accounts receivable, and the expenses related to the product liability for e-Passports. The expenses for professional services are recognized when the contracted services have been performed. The expenses for uncollectible accounts receivable are recognized when receivables are deemed as potentially uncollectible, based on GPO's collection experience. The expenses for product liabilities are recognized on a percentage of e-Passports produced but not personalized by the Department of State.

Travel, Transportation, and Postage – This category includes travel and transportation costs of persons or things, including employee relocation costs, and 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. Incurred 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 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.

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.

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.

N. Consolidated Statements of Cash Flows

The consolidated statements of cash flows identify cash receipts and disbursements and classify each into operating, investing, and financing activity categories. This statement assesses 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

The preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) 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 supplies, materials, and publications held for sale; the allowance for doubtful accounts related to accounts receivable; the estimated useful lives of capitalized assets; the actuarial estimated liability for future workers' compensation benefits; the product warranty liability for the replacement of defective passport books; and the estimate for 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.

Q. Reclassifications

Certain amounts included in accounts receivable, net, as of September 30, 2007, have been reclassified as inventory, net, in the consolidated balance sheet to conform to the September 30, 2008 presentation. In addition, certain amounts presented in General Property, Plant and Equipment, Net, (Note 6) as of September 30, 2007 for computers and computer software have been reclassified as computer software in process to conform to the September 30, 2008 presentation.

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, 2008 and 2007 follows.

(Dollars in thousands)

	2008	2007
Fund Balances:		
Revolving Fund:		
Unrestricted	$ 103,783	$ 117,150
Restricted:		
Customer deposit accounts	86,260	77,961
Other	26,520	23,355
Total revolving fund	**216,563**	**218,466**
General Funds:		
Congressional printing and binding	22,239	17,620
Salaries and expenses	20,035	17,645
Supplemental and other	6,414	19,715
Total general funds	**48,688**	**54,980**
Total	**$ 265,251**	**$ 273,446**
Status of Fund Balance with Treasury:		
Unobligated balance:		
Available	$ 101,752	$ 58,612
Unavailable	6,414	19,715
Total	**108,166**	**78,327**
Obligated balance not yet disbursed	157,085	195,119
Total	**$ 265,251**	**$ 273,446**

Unrestricted funds are available to meet the financial obligations of the Revolving Fund. Restricted funds are comprised of customer deposit accounts, and other restrictions for 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 general funds include unexpended appropriations made to the GPO for specific purposes as discussed in Net Position, Unexpended Appropriations (Note 12B).

3. Accounts Receivable, Net

Accounts receivable, net of an allowance for doubtful accounts, as of September 30, 2008 and 2007, consisted of the following.

(Dollars in thousands)

	2008	2007
Federal Agencies:		
Unbilled accounts receivable	$ 110,031	$ 110,183
Billed completed work	47,397	38,410
Subtotal	**157,428**	**148,593**
Other receivables:		
The public	2,571	1,685
GPO employees	1,008	934
Subtotal	**3,579**	**2,619**
Total accounts receivable	**161,007**	**151,212**
Less: Allowance for doubtful accounts	(7,311)	(5,094)
Total accounts receivable, net	**$ 153,696**	**$ 146,118**

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, 2008 and 2007.

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

Inventories, net of an allowance for surplus and obsolete stock, as of September 30, 2008 and 2007, consisted of the following.

(Dollars in thousands)

	2008	2007
Publications for sale	$ 6,199	$ 5,406
Paper	4,324	3,455
Supplies and materials	32,518	25,435
Work in process	10,274	4,859
Total inventory	**53,315**	**39,155**
Less: Allowance for surplus and obsolete inventory	(5,024)	(4,563)
Inventory, net	**$ 48,291**	**$ 34,592**

The supplies and materials inventory included $25.1 million in electronic chips at September 30, 2008, compared to $18.4 million at September 30, 2007. The computer chips are used in the production of electronic passports.

5. Prepaid Expenses

Prepaid expenses totaled $.9 million as of September 30, 2008, and $4.0 million as of September 30, 2007. This represents a decrease of $3.1 million. During fiscal 2007, GPO made advances of $2,854,000 to two contractors manufacturing speciality equipment with long construction periods. This plant machinery and equipment was delivered to the new SPF in fiscal 2008, thereby reducing the prepaid expenses account. On the *Consolidated Statement of Cash Flows* this transaction has been treated as a capital purchase.

6. General Property, Plant and Equipment, Net

Net property, plant and equipment as of September 30, 2008 and 2007, consisted of the following.

(Dollars in thousands)

	2008	2007
Land	$ 9,971	$ 9,971
Buildings and improvements	77,886	76,910
Plant machinery and equipment	88,818	74,128
Computers and computer software	43,201	35,501
Furniture and fixtures	6,268	6,231
Motor vehicles	556	565
Leasehold improvements	10,162	729
Software in process	20,978	10,963
Total	**257,840**	**214,998**
Less: Accumulated depreciation and amortization	(150,646)	(147,398)
General property, plant and equipment, net	**$ 107,194**	**$ 67,600**

The increases in plant machinery and equipment and in leasehold improvements were attributable primarily to the purchase of new equipment and building improvements to the leased property for the new SPF. The increases in computers and computer software and in software in process result primarily from purchases for the FDsys.

Depreciation expense was $10.4 million for fiscal 2008 and $8.9 million for fiscal 2007.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of September 30, 2008 and 2007, were composed of the following.

(Dollars in thousands)

	2008	2007
Accounts payable:		
Commercial printing	$ 51,619	$ 42,761
U.S. Government agencies	14,305	13,488
Other	31,454	39,573
Total accounts payable	**97,378**	**95,822**
Accrued salaries and payroll taxes	15,480	13,502
Total accounts payable and accrued expenses	**$ 112,858**	**$ 109,324**

The increase in accounts payable of $3.5 million was attributable to the net effect of increased demand for goods and services acquired by GPO from the commercial sector for printing, and a decrease in other accounts payable. Other accounts payable are for the purchase of materials, supplies, and services necessary to continue Agency operations. These include $14.4 million in computer chips used in the production of e-Passports in fiscal 2008 and $22.5 million in fiscal 2007.

8. Deferred Revenues

As of September 30, 2008 and 2007, deferred revenues from customers consisted of the following.

(Dollars in thousands)

	2008	2007
Deposit accounts	$ 86,260	$ 77,961
Subscriptions	2,773	3,072
Unfilled orders	294	396
Advance billings	49	286
Total	**$ 89,376**	**$ 81,715**

GPO held $86.3 million and $78.0 million in customer deposit accounts as of September 30, 2008 and 2007, respectively. Of these amounts, Federal Government customers had advanced funds of $82.9 million and $74.3 million for printing and binding deposit accounts, while customers had advanced $3.4 million and $3.7 million for publication and information sales program deposit accounts as of September 30, 2008 and 2007, respectively. Additionally, GPO held advanced funds from the Federal Government and other customers of $2.8 million and $3.1 million for subscriptions for the sales of publications as of September 30, 2008 and 2007, 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 instances where the subscription 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 orders are 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 this liability. The workers' compensation liability estimate for GPO was $67,067,000 as of September 30, 2008, and $66,723,000 as of 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 used in the compensation projections for 2008 and 2007 follow.

	COLA		CPIM	
Fiscal Year	2008	2007	2008	2007
2008	N/A	2.63%	NA	3.74%
2009	3.87%	2.90%	4.01%	4.04%
2010	2.73%	2.47%	3.86%	4.00%
2011	2.20%	2.37%	3.87%	3.94%
2012	2.23%	2.30%	3.93%	3.94%
2013 and beyond	2.30%	2.30%	3.93%	3.94%

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 2008, interest rate assumptions were 4.368 percent in Year 1, and 4.770 percent in Year 2 and thereafter. For 2007, interest rate assumptions were 4.930 percent in Year 1, and 5.078 percent in Year 2 and thereafter.

10. Commitments

10. A. Operating Leases

As of September 30, 2008, 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
2009	$ 1,004	$ 513	$ 1,517
2010	993	360	1,353
2011	534	176	710
2012	381	147	528
2013	64	1	65
2014 and beyond	—	—	—
Total minimum lease payments	**$ 2,976**	**$ 1,197**	**$ 4,173**

Lease and rental expenses for real and personal property were $4.1 million and $3.7 million for fiscal 2008 and 2007, respectively.

10. B. Obligations

GPO had unliquidated obligations of $157.1 million and $195.1 million, at September 30, 2008 and 2007, respectively, of which $125.9 million and $166.4 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 (State) share responsibility for the replacement of defective e-Passports. State is responsible for the cost associated with the replacement of the first 2-percent, per order, of blank e-Passports containing defective computer chips. GPO is liable for any warranty expense that exceeds 2-percent, per order, of passport books that are deemed to have failed due to GPO production problems.

The following table summarizes the warranty activity for the years ended September 30, 2008 and 2007.

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

	2008	2007
Beginning Balance	$ 4,833	$ —
Provision and adjustments	(3,415)	4,833
Cost of replacement U.S. Passports	—	—
Ending Balance (September 30)	$ 1,418	$ 4,833

GPO reserved $1.4 million and $4.8 million for product warranty liabilities at September 30, 2008 and 2007, respectively. This liability was reduced in fiscal 2008 because there were no replacement claims made by State in fiscal 2007 or 2008.

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 resolved 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, 2008 and 2007, GPO has recorded estimated liabilities of $155,000 and $90,000, 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. 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 $67,000 and $64,000 on behalf of GPO for the years ended September 30, 2008 and 2007, respectively. These amounts are not reflected in GPO's consolidated financial statements.

There were no litigation contingencies involving GPO where the risk of loss was reasonably possible as of September 30, 2008 and 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 costs to remove exposed asbestos within the GPO facility, mainly pipe insulation that has been encapsulated, were $580,000 as of September 30, 2008 and $570,000 as of September 30, 2007. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheet. 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, 2006 through September 30, 2008, for the appropriations made available to GPO.

(Dollars in thousands)

Appropriations	Revolving Fund Appropriation	Salaries and Expenses Appropriation	Congressional Printing and Binding Appropriation	Total
Unexpended balance at September 30, 2006	**$ 26,233**	**$ 11,117**	**$ 30,413**	**$ 67,763**
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)
Unexpended balance at September 30, 2007	**19,715**	**14,927**	**17,621**	**52,263**
2008 fiscal year appropriation activity:				
Received	—	34,913	89,775	124,688
Transferred	1,230	—	(1,230)	—
Expended	(14,531)	(31,730)	(83,927)	(130,188)
Unexpended balance at September 30, 2008	**$ 6,414**	**$ 18,110**	**$ 22,239**	**$ 46,763**

As of September 30, 2008, GPO had obligated all the $22.2 million of the unexpended appropriations available for Congressional Printing and Binding, and all the $18.1 million of the unexpended appropriations available for Salaries and Expenses. This $40.3 million in obligations is based on the estimated cost of open orders as of September 30, 2008. The obligations totaled $32.5 million at September 30, 2007. This amount consisted of $17.6 million in obligations against Congressional Printing and Binding Appropriations and $14.9 million in obligations against Salaries and Expenses Appropriations.

The Revolving Fund unexpended appropriations balances at September 30, 2008 and September 30, 2007 were $6.4 million and $19.7 million, respectively. The Revolving Fund unexpended appropriations balances are the results of the following appropriation activities:

In fiscal 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 2008, the entire $9.5 million was expended. In fiscal 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 years 2008 and 2007, a balance of $1.3 million was available for future expenditures.

In fiscal 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. As of September 30, 2008, GPO has expended $20.9 million of these appropriated funds. At the end of fiscal years 2008 and 2007, balances of $1.1 million and $10.0 million were available for future expenditures, respectively.

In fiscal 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 2004. System enhancements included increased storage capacity, stronger security, and improved user performance. This major project was completed during fiscal 2008 with procurement assistance from GovWorks, a Federal acquisition center. As a result, the entire $2.5 million was expended as of September 30, 2008.

In fiscal 2006, Congress appropriated $2 million (before rescission of $20,000) to the Revolving Fund for workforce retraining. GPO expended a total of $1,407,000 from the $1,980,000 in available appropriations. At the end of fiscal 2008, $573,000 was available for future expenditures. In fiscal 2007, Congress appropriated an additional $1 million to the GPO Revolving Fund for workforce retraining. At the end of fiscal 2008, the entire balance of $1 million was available for future expenditures.

In fiscal 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 appropriation shortfalls through fiscal 2007. At the end of fiscal 2008, a balance of $1.3 million was available for expenditure.

In fiscal 2008, Congress authorized the transfer of $1.23 million to the GPO Revolving Fund from prior year Congressional Printing and Binding Appropriations to help cover appropriation shortfalls. At the end of fiscal 2008, a balance of $1.1 million was available for expenditure.

13. Appropriated Funds

13. A. Available Appropriations

The total net appropriations made available to GPO, after rescissions, for fiscal years 2008 and 2007, were as follows.

(Dollars in thousands)

	2008	2007
Congressional printing and binding	$ 89,775	$ 87,954
Salaries and expenses	34,913	33,096
Workforce retraining	—	1,000
Total available appropriations	**$ 124,688**	**$ 122,050**

13. B. Expended Appropriations

The total appropriations expended by GPO during fiscal years 2008 and 2007, were as follows.

(Dollars in thousands)

	2008	2007
Congressional printing and binding:		
Congressional Record products	$ 23,615	$ 25,920
Miscellaneous publications and printing and binding	20,177	23,690
Hearings	16,019	19,595
Bills, resolutions, and amendments	7,378	11,624
Details to Congress	2,619	2,922
Other	14,119	11,295
Total congressional printing and binding	**83,927**	**95,046**
Salaries and expenses:		
Depository library distribution	23,309	21,235
Cataloging and indexing	6,368	6,347
By-law distribution	705	547
International exchange	1,348	1,157
Total salaries and expenses	**31,730**	**29,286**
Revolving Fund:		
Appropriations	13,854	12,749
Workforce retraining	677	469
Total revolving fund	**14,531**	**13,218**
Total expended appropriations	**$ 130,188**	**$ 137,550**
Reconciliation of expended appropriations to the consolidated statements of revenues, expenses, and changes in retained earnings:		
Total expended appropriations	**$ 130,188**	**$ 137,550**
Eliminations (Intra-agency)	(77)	(509)
Consolidated revenues from appropriations	**$ 130,111**	**$ 137,041**

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 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. In accordance with FASB, and consistent with multi-employer pension plans, GPO has reflected only the required contribution to these programs in its financial statements. OPM is responsible for funding any other costs. Therefore, GPO is not required to disclose the unfunded pension liability and post-employment benefits relative to its employees.

Civil Service Retirement System

The CSRS is a defined benefit plan. Generally, it covers Agency employees first hired before 1984. Total GPO (employer) contributions to CSRS for employees covered under this retirement program were 7.5 percent of basic pay in both 2008 and 2007 for investigators and law-enforcement officers, and 7 percent of basic pay in both years for all other employees. GPO contributions were $4.1 million and $4.4 million for the years ended September 30, 2008 and 2007, respectively.

Federal Employees Retirement System

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 24.9 percent of basic pay in fiscal 2008 and 23.8 percent in fiscal 2007. The FERS contribution rate for all other employees was 11.2 percent in both years. GPO contributions to FERS totaled $11.6 million for fiscal 2008 and $9.6 million for fiscal 2007.

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 2008 and 2007. Employees, who were 50 years or older, were allowed additional catch-up contributions of $5,000 in 2008 and 2007. For FERS employees, the employer is required to contribute 1 percent 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 $3.6 million in fiscal 2008 and $3.2 million in fiscal 2007.

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 $102,000 in 2008 and $97,500 in 2007) 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, 2008 and 2007 totaled $9.4 million and $8.0 million, respectively.

Employment, 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 (FEGLIP), and/or Federal Long Term Care Insurance Program (FLTCIP) before and after their retirement from the Agency.

15. Concentration of Credit Risk

GPO financial instruments, none held for trading purposes, consist primarily of funds with Treasury, accounts receivable, and accounts payable at September 30, 2008 and 2007. GPO estimates the fair value of financial instruments at September 30, 2008 and 2007 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 2008 and 2007, billings to those customers representing 10 percent or more of GPO's total billings follow.

(Dollars in thousands)

	2008		2007	
	Amount	Percent	Amount	Percent
Department of State	$ 366,302	35.1%	$ 230,424	24.5%
Department of Defense	162,506	15.6%	145,218	15.5%
Congress of the United States	90,498	8.7%	95,477	10.2%
Department of Health & Human Services	83,797	8.0%	97,124	10.3%

The increase in billings to the U.S. Department of State in fiscal 2008 is attributable to the increased demand for U.S. Passports.

17. Regional Operations

The GPO Central Office and regional offices work to serve the Agency's customers 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 changes to regional operations occurred during fiscal 2008.

GPO opened a new Secure Production Facility (SPF) to produce e-Passports. The new SPF is in a remote, secure location on Federal Government property leased from another Federal agency. The project, budgeted at $41.4 million, was completed at a cost of approximately $32.1 million. As agreed to with the U.S. Department of State, funding for the project was derived from the price GPO charged for e-Passports. This new facility supplements existing passport production operations and supports the Agency's plans for continuity of business operations.

GPO completed efforts that had started in fiscal 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.

ACRONYM LIST

COLA	Cost of Living Adjustments
CP&B	Congressional Printing and Binding
CPIM	Consumer Price Index Medical
CSRS	Civil Service Retirement System
DoD	U.S. Department of Defense
DOL	U.S. Department of Labor
EFT	Electronic Funds Transfer
e-Passport	Electronic Passport Book
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FDLP	Federal Depository Library Program
FDsys	GPO's Federal Digital System
FECA	Federal Employees' Compensation Act
FEGLI	Federal Employees' Group Life Insurance
FEGLIP	Federal Employee Group Life Insurance Program
FEHB	Federal Employees Health Benefits
FEHBP	Federal Employees Health Benefit Program
FERS	Federal Employees Retirement System
FICA	Federal Insurance Contributions Act
FLTCIP	Federal Long Term Care Insurance Program
GAAP	U.S. Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GBIS	U.S. Government Printing Office Business Information System
GPO or Agency	U.S. Government Printing Office
GSA	U.S. General Services Administration
IPAC	Intra-governmental Payment and Collection
ISO	International Organization for Standardization
JCP	Joint Committee on Printing
OASDI	Old Age, Survivors, and Disability Insurance
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PKI	Public Key Infrastructure
RSIP	GPO Retirement Separation Incentive Program
S&E	Salaries and Expenses
SPF	Secure Production Facility
SSA	U.S. Social Security Administration
State	U.S. Department of State
Treasury	U.S. Department of the Treasury
TSP	Thrift Savings Plan
U.S.C.	United States Code

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