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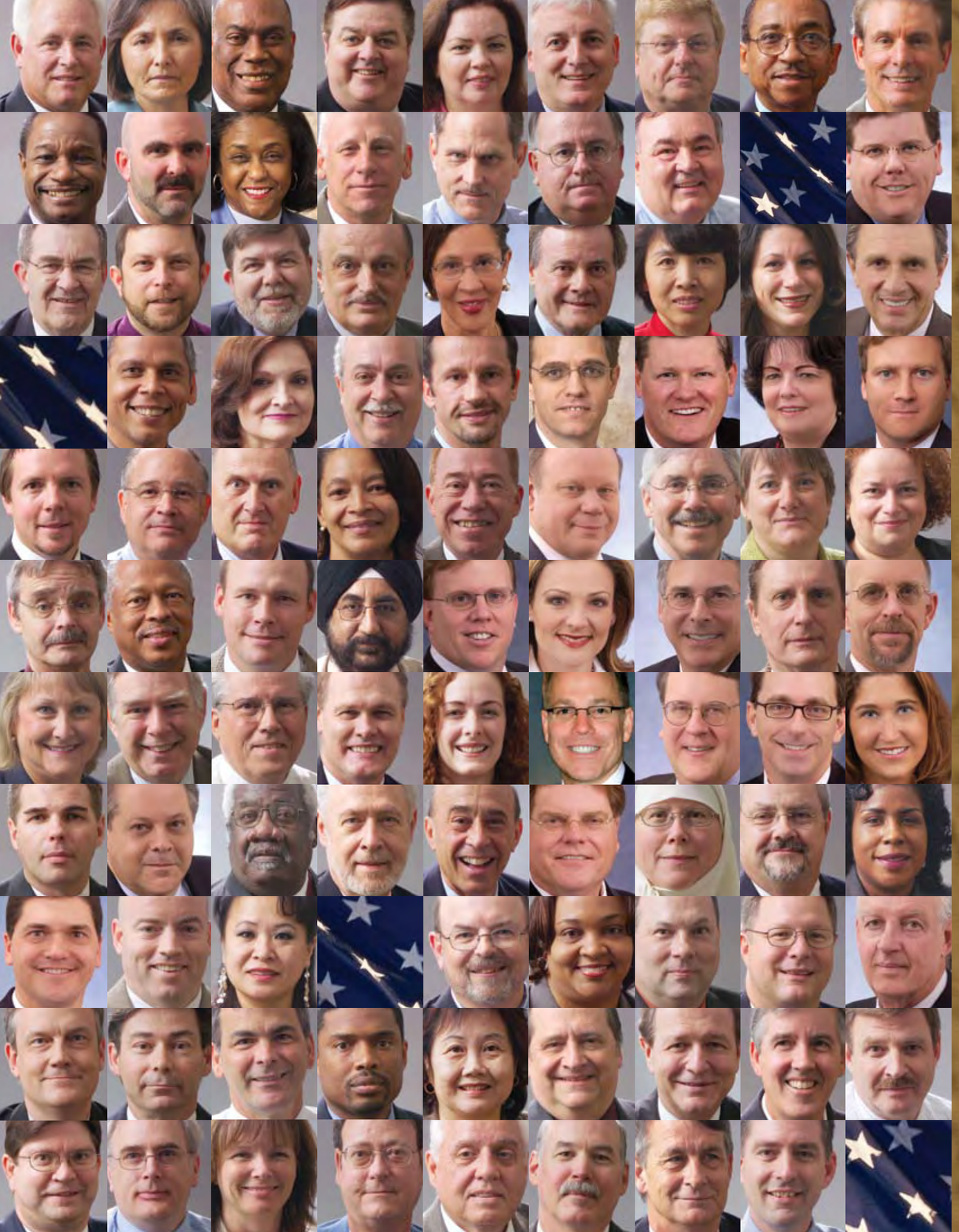

The Government Printing Office's mission is to *Keep America Informed.* In this annual report, we pay tribute to the 104 leaders of GPO who are guiding the agency's transformation from traditional printing methods to a 21st century digital information platform.

The following pages highlight some of the ways GPO has deployed its leadership team to carry out its traditional mission in the Internet age.

THE FACES OF GPO

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Bob Tapella, Chief of Staff, Bruce James, Public Printer of the United States and Bill Turri, Deputy Public Printer

Since 2002, we have been working with Congress, Federal agencies, the courts, the library community, the printing and information industries, and the public to turn the Government Printing Office in a new direction—one that promises a positive future for many years to come. Now, after four years of striving to achieve that result and much more, it is time for me to return to my home in Nevada. It is with a sense of great pride in the accomplishments of the men and women of GPO that I offer this message to the readers of our 2006 Annual Report, the last such report I will make to Congress.

The past four years have been a period of rapid and remarkable change at GPO. During that time, we have become a more efficient operation, our once top-heavy organizational structure has been collapsed and streamlined for faster decisionmaking, redundant facilities across the country have been consolidated or closed, staffing levels have been reduced, and our finances have been restored to a positive basis, reversing a pattern of financial losses that reached $100 million in previous years.

For Fiscal Year 2006, I am pleased to report that we improved this record of achievement by generating a net income of $9.8 million from operations, compared with a $6.1 million gain the year before. We also recorded another reduction to our long-term liability for the Federal workers' compensation program, freeing additional funds for future investment. GPO is now on a solid financial footing.

But perhaps more important than the turnaround in our financial outlook is the now widely acknowledged fact that this venerable agency—within which the official version of every great American state paper since President Lincoln's time has been produced—has become a leader in the Government's transition from analog to digital information technologies. By accepting the challenge of transforming GPO into a 21st century digital platform for providing a broad new range of choices in the delivery of published government information, we have set this agency on a course that will ensure we continue to fulfill our fundamental mission—*Keeping America Informed*—well into the future.

As we promised in our *Strategic Vision for the 21st Century*, GPO's operations have been restructured around six business lines, each organized to take maximum advantage of digital technology based on best practices found throughout government and industry, and each one of which recorded significant gains in 2006:

- The core of our future operations will revolve around a GPO-developed Future Digital System—currently called FDsys—which is being designed to organize, manage, and output authenticated content—in text, audio, and even video formats—for any purpose. Eventually, all known Federal documents, whether printed or born digital, produced both prospectively and retrospectively, will be cataloged and authenticated and then entered into the system according to GPO metadata and document creation standards, from which they can be retrieved in the format most convenient to the user. This strategic goal took a significant leap forward in 2006 with the award of contracts for master integrator services and equipment acquisition, and the project is on track to begin public operations in the summer of 2007.

- We are now working with our customers in Federal agencies more cooperatively, offering them more flexibility in choosing and working directly with vendors, especially with small value purchases and complex purchases involving multiple functions such as data preparation, personalization, and distribution. In 2006, we augmented our expert printing procurement services by offering GPOExpress to provide Federal agencies with innovative, digitally linked convenience duplicating and printing services across the country. This system, which is now in use at more than 50 departments and agencies, was most recently adopted by the Federal Emergency Management Agency to provide rapid, locally targeted printing supporting their disaster response efforts.

- GPO's own production capabilities are now focused in support of the Official Journals of Government, including the *Congressional Record* and *Federal Register*, Congress's requirements, and security and intelligent documents. To improve production efficiency and broaden the range of product and service options for Congress and Federal agencies, we have invested in a variety of new technologies. The product offerings that now become possible with this equipment can lead to significant future savings for Congress and other customers of our plant production services. We have also retooled our preproduction digital design services and relocated them to enhanced facilities to provide improved services to our customers.

- Security and intelligent documents—including passports, Federal identification cards, and potentially other documents—are an increasingly important business line for GPO today and perhaps as much as 50% of GPO's business in the future. The major product of this unit is U.S. passports, which by law must now include radio frequency identification (RFID) chips containing identifying information, and in 2006 we began the successful production of the new e-passport. The same skills used for this product can be used to help our customers meet other security document requirements, such as the production of new Federal e-identification cards that must also contain RFID chips. We are implementing a new capability for this product line.

- GPO's historic partnership with the library community nationwide has undergone significant change in the past four years. We have worked closely with the community to move the Federal Depository Library Program (FDLP) toward a predominately electronic basis as required by Congress, and today more than 90% of all new titles entering the program are electronic. In managing this transition, we have taken care to ensure that documents in print formats that are required at this time by some libraries, particularly law libraries, continue to be supplied. As we bring FDsys into operation, its ability to provide for security and authenticity will eventually eclipse the need for print in many cases, while vastly improving access by these libraries to Government information.

- To help realize the longstanding dream of convenient online access to the vast body of all published Federal documents, we have established a Digital Media Services business unit that will provide document scanning services for the FDLP and Federal agencies. This unit will set the standards for digitizing tangible documents, acquire both the tangible documents and digitizing services, and provide quality assurance for the content. Our Digital Media Services capability will make it possible to digitize all retrospective Government documents that can be authenticated back to the earliest days of the Nation. In 2006, we began a project to demonstrate our digitization capabilities, and we expect to move forward with it in 2007.

Setting a new direction for GPO has been a significant achievement, but equally important has been the recruitment of a management team to carry it out. Working with our oversight and appropriations committees in Congress as well as our employee representatives, we succeeded in significantly reducing and restructuring our workforce—a change that has ushered our employees forward from a manufacturing to a digital production environment while freeing additional funds for investment in GPO's future. As part of this effort we carefully recruited and successfully brought on board a unique group of leaders with extraordinary talents and skills, both from within and outside the Government, in technology and systems integration, finance, marketing, secure and intelligent documents, digital media, and related fields, all of which are fundamental to our new strategic direction.

In the pages ahead are the profiles of representative members of our leadership team, a team with a high degree of diversity in their individual skills, capabilities, and achievements, but which is singularly committed to meeting the challenge of GPO's digital transformation. While together they have made astonishing progress, there is much that remains to be done, including finding a resolution to GPO's urgent need for a modern facility equipped and staffed for our digital future. But under the guidance of our oversight and appropriations committees—without whom our successes over the past four years would not have been possible—and with the continued support of GPO's vastly talented and dedicated workforce, as well as our customers and stakeholders throughout the Government and the library and information communities, they will continue to achieve great things for GPO.

I have the utmost confidence in their ability to carry out the program that we have worked so hard to put in place, and I know that I am leaving GPO in good hands. This annual report is their story, the story of how the right strategic direction for GPO, entrusted to the most capable leadership team, will provide lasting benefits for Congress, Federal agencies, and the public, as GPO moves forward resolutely into an exciting digital future.

BRUCE R. JAMES
Public Printer of the United States
November 2006

The heart of GPO is the men and women of Plant Operations who collectively have more than 30,000 years of experience in transforming the words of Congress, the courts, and Federal agencies into printed documents that serve the information needs of the American public. Over the last 150 years, this organization has been through countless technological revolutions, moving from candlelight to light bulbs, steam power to electric motors, hand to machine typesetting, letterpress to offset printing, and now to digital document printing.

Bob Schwenk, Managing Director of Plant Operations, and GPO's most experienced leader, began 43 years ago as an apprentice craftsman and rose through the ranks to lead GPO's largest operating unit. He began in the letterpress era and has pushed through the adoption of numerous new technologies including the latest digital printing systems.

Teamed with Bob is Olivier Girod, educated in both France and the United States. He earned a Ph.D. in industrial and systems engineering from Virginia Tech and joined GPO in 2004 as Deputy Managing Director of Plant Operations, after serving 10 years in program and operations management roles at *The Washington Post*.

As GPO's production systems become ever more complex, new training programs and work methodologies are required. The blending of Bob's vast knowledge of the Government's document requirements and Olivier's extensive technical and manufacturing education and private sector experience, is the key to the transformation of GPO's manufacturing platform.

This report has been printed on our new four color press.

Bob Schwenk, Managing Director of Plant Operations and Olivier Girod, Deputy Managing Director of Plant Operations

Since 1895, all Federal Government entities have been required to bring their printing requirements to GPO unless specifically exempted by Congress. This requirement has served two purposes: first, to ensure that the Federal Government controlled publication costs and benefited from its large, collective requirements; and, second, to ensure that all Federal documents are accounted for and made easily available to the public. It is the second part, accounting for all Federal documents, that is challenging GPO as agencies are now able to create publications on desk-top computers and publish directly to the World Wide Web. As many as one-half of all Government documents will never be printed by the Federal Government nor distributed to the public by conventional means.

Facing this challenge is Jim Bradley, Managing Director of Customer Services, the GPO organization charged with interfacing with our customers which include the courts, Congress, and the 155 publishing agencies of the Government. Jim is a career public servant beginning with the Internal Revenue Service in 1971 after graduating from Sam Houston State University with degrees in printing management and business administration. In his long career he has seen service in the Department of Energy and was a professional staff member of Congress's Joint Committee on Printing. He has been a manager at GPO since 1996.

In 2003, Davita Vance-Cooks joined GPO as Deputy Director of Customer Services. After graduating from Tufts University, she received an MBA from Columbia University in marketing and finance and then spent 20 years in private industry, holding a variety of executive positions in product development, customer service, claims administration, and call center operations.

Together, Jim and Davita have completely reorganized their 400-person organization, focusing on the development of digital-age products and services to meet the changing requirements of the Federal Government. They have organized around small, highly-trained, service oriented groups, each assigned to a specific agency and able to bring services and products tailored to meet the unique program requirements of each agency. Rather than trying to meet all requirements in a Government plant, Customer Services analyzes customer requirements for make/buy decisions. Last year, they sent about 80% of the Government's printing and publishing requirements to private sector firms in more than 2,500 businesses spread across 50 States. This competitive sourcing program saves taxpayers hundreds of millions of dollars each year.

A multi-media teaching tool for the Army has been designed, illustrated, and written by GPO Creative Services staff.

Jim Bradley, Managing Director of Customer Services and Davita Vance-Cooks, Deputy Director of Customer Services

As the Nation's concern with the safety of our citizens and property has risen in recent years, GPO has been called upon to produce ever more sophisticated documents, including many with embedded electronics to verify identity and control access to facilities. Perhaps the most complex of these new documents are e-Passports, which contain integrated circuits and antenna embedded in the covers of passport booklets.

The leader of the group responsible for the design, manufacturing and security of these 21st century documents is Ben Brink, Assistant Public Printer for Security and Intelligent Documents. Ben, who joined GPO in 2006, spent more than a quarter century leading private sector high technology firms in software design, defense, and medical electronics. He holds degrees in mathematics and operations research from Stanford University and an MBA from Harvard University. Ben also serves as a captain in the U.S. Navy Reserve, where he has commanded Naval Reserve intelligence units.

Teamed with Ben is Mike Emery, a 40-year veteran of GPO who has managed business production units and currently serves as Technology Manager for Security Products. Mike travels the world for GPO, meeting with foreign Government officials, exchanging technical and security information, and monitoring emerging technologies to ensure that the United States is employing leading edge technology in this sensitive area.

While GPO purchases much of the Government's printing requirements in the private sector, the design and manufacture of highly sensitive security documents remains in GPO — managed and — controlled facilities for the protection of our citizens.

GPO is at the forefront in printing and helping develop secure and intelligent documents for all U.S. citizens.

Mike Emery, Technology Manager of Security Products and Ben Brink, Assistant Public Printer for Security and Intelligent

To best serve the American public, Congress consolidated the sales of most U.S. Government publications under GPO. GPO maintains both a Web site (www.gpoaccess.gov) and a call center (1-866-512-1800) to make it easy for citizens to order Government information. The Publication and Information Sales group also works with wholesalers throughout the United States, who purchase selected publications in bulk and distribute them through retail bookstores.

Most Government agencies do not have publishing experts and often their publications can be improved by providing information in more friendly and useful formats. That is the challenge facing Kevin O'Toole, Director of Publication and Information Sales. Drawing on more than a quarter century of sales and marketing experience in both the private and public sectors, and his University of Maryland education, Kevin and his team are working directly with agency program managers to improve both their Web sites and printed materials. To support its Government customers, GPO provides extensive Web site and graphic design services and manages the Web sites for more than 19 agencies, including the Supreme Court of the United States.

Partnered with Kevin is Lisa Williams, who joined GPO in 2004 as Director of Sales and Service Outreach. She is a 1992 graduate of the University of Illinois where she majored in speech and hearing science. Before joining GPO, Lisa managed operations at several private sector companies. In addition to managing GPO's call center, she oversees large GPO distribution centers in Laurel, Maryland, and Pueblo, Colorado.

This group has many success stories in working with Government agencies to improve the usefulness of their publications. A good example is the recent Government publication, *A Healthier You: Based on Dietary Guidelines for Americans*, authored by the Department of Health and Human Services and designed and marketed by GPO. Tens of thousands of copies have been ordered, many in bulk by employers to encourage their employees to pursue healthier lifestyles through nutrition and exercise.

A Healthier You is just one of the many Government publications distributed to the American public.

Lisa Williams, Director of Sales and Service Outreach and Kevin O'Toole, Director of Publication and Information Sales

Scott Stovall, Deputy Chief Technical Officer and Mike Wash, Chief Technical Officer

This office, created by GPO in 2003, is co-managed by Chief Technical Officer Mike Wash and his deputy, Scott Stovall. Its mission is to seek out new and emerging technologies and lead in establishing partnerships with universities, private and public sector organizations, and other Government agencies to bring innovation into the production, management and distribution of U.S. Government information.

Among programs managed by this office is the development of GPO's Future Digital System (FDsys), designed to give Americans a one-stop source for authentic U.S. Government published information. Content in the system, including text, graphics, video, and sound, will be available for Internet searching, viewing, downloading and printing, and as a document master for conventional printing, on-demand printing, and other dissemination methods.

Mike joined GPO in 2004 after a distinguished private sector career as a scientist and technology leader at Kodak and Gerber Scientific, among others. He is a Purdue electrical engineer, holds more than a dozen patents, and, in 1996, was recognized as U.S. Inventor of the Year for his leadership in developing complex digital systems.

Paired with Mike is Scott Stovall who, during his 16-year career at GPO, has gained great insight into the unique rules, regulations, and requirements of the Federal Government. After completing his education in printing management at Georgia Southern University, Scott spent time at his family's printing company before moving to GPO. His initial role was working with Government agencies to define their printing requirements and then with printers throughout the country to execute those requirements. He was a pioneer in the early efforts of GPO to move into electronic publishing.

Together, Mike and Scott are leading GPO in discovering ever better ways to use technology to keep Americans informed about the work of their Government.

As specified in GPO's *Strategic Vision*, the Digital Information System, Digital Content System (FDsys), and Digital Production Systems all share the same systems architecture.

One of the protections sought by our forefathers for our new Nation was citizen access to the work of the Federal Government. Laws passed by Congress in 1813 formed the antecedent of today's Federal Depository Library Program (FDLP), which ensures that published Government information is readily available at no cost to our citizens. GPO's Library Services and Content Management group manages this partnership program, which includes more than 1,250 libraries of every size and nature throughout the country.

The real challenge for GPO has been answering the needs of libraries and their patrons in the Internet age. Most new Federal documents are now made available by GPO on the World Wide Web and may be searched and viewed over the Internet. As more Americans turn to the Internet for information, Government agencies are printing fewer documents. Yet there remains a need to catalog, authenticate, and retain these documents in perpetuity whether or not they are printed.

Answering these challenges is GPO's Library Services and Content Management group, which is directed by Ric Davis. His group is responsible for determining the content of the FDLP and setting the standards for both printed and electronic documents. Ric's team has many new initiatives underway, including the development of a web harvesting system designed to identify documents that were posted directly to the Web by agencies. These documents will be added to GPO's electronic *Catalog of U.S. Government Publications* and incorporated into GPO's database to ensure permanent public access to all authentic published Government information.

Ted Priebe, working in partnership with Ric, is responsible for Library Planning and Development. One of his principal focuses is transforming retrospective Federal documents into searchable digital content that can be included in GPO's Future Digital System. The goal of the unit is to provide Americans with Internet access to all known Federal documents —past, present, and future.

Both Ric and Ted were recruited to GPO through the Outstanding Scholars Program, a Federal Government initiative to attract the Nation's best and brightest college graduates to public service. Ric received his undergraduate education at James Madison University, did additional graduate work at Virginia Tech, and earned a Master's in Government from the College of William and Mary. Ted, who studied Industrial Technology with a concentration in Graphic Arts, is a graduate of the University of Wisconsin-Stout. While both Ric and Ted are 15-year veterans of GPO, their career paths have been quite different. Ric has spent his entire career working with libraries and in content management, and was instrumental in launching GPO's first Web site, *GPO Access*. Ted worked in the GPO Hampton Regional office in Newport News, Virginia, for more than a decade in various management capacities. He worked with Federal, civilian, and military customers in document creation, production and distribution. Together, they have a broad understanding of the entire Federal publishing process and how libraries and the public use Government information.

When you see this symbol you know you have received authentic and accurate information you can trust.

Ted Priebe, Library Planning and Development Director and Ric Davis, Library Services and Content Management Director

Peter Barnes, Special Assistant to the General Counsel and Robert Freeman, Assistant Chief of Staff

In 1861, Congress purchased a printing plant on the very site of today's GPO. In the intervening years, four buildings were built comprising more than 1.5 million square feet of floor space. The buildings were designed to house the massive printing machines once required to meet the Government's needs. Today, the facilities are both too large and too antiquated for the requirements of digital information processing and production.

Working with Federal real estate experts and private sector real estate advisors, GPO created a plan, now before Congress, to redevelop the existing facilities into higher value commercial property, which will generate the funds necessary to build and equip a 21st century digital factory at no cost to taxpayers.

Robert Freeman, Assistant Chief of Staff, together with Peter Barnes, Special Assistant to the General Counsel, are spearheading GPO's plans for new facilities and the redevelopment of the existing real property.

Robert, recruited to GPO as an Outstanding Scholar in 1989, is a graduate of Georgia Southern University, where he majored in Printing and Industrial Management. Robert's focus on the project is from the perspective of GPO's employees and how relocation will impact them.

Peter, a graduate of Yale University and Harvard Law School, practiced commercial real estate law in the DC-Baltimore area for more than 35 years. He concentrates on the legal aspects of the real estate project, dealing with outside third parties such as consultants and potential real estate developers, and reviews development proposals made to GPO.

Relocation of GPO's facilities is the last piece of the puzzle necessary to fully transform GPO from a print-centric manufacturer into a modern digital information provider. When completed, the project will reduce GPO's annual operating costs by more than $35 million, allowing for decreases in congressional appropriations, while providing more cost-efficient services for GPO's Government customers.

GPO entrance on North Capitol Street, NW.

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 FY 06 (October 1, 2005 through September 30, 2006) the GPO received a clean audit opinion on its consolidated financial statements.

For the third year in a row, the GPO experienced positive financial results. GPO earned a contribution to new investment of $9.8M in fiscal 2006, before other expenses, compared with $6.1M in fiscal 2005. Revenue from operations increased 2.5% to $720.4M from $702.7M. Revenue increased, in part, due to a few large, one-time orders from certain customer agencies. Operating costs increased by 2% to $710.6M from $696.5M. A voluntary separation incentive program in fiscal 2006 helped maintain expenses by reducing personnel cost by approximately $6.0M.

The GPO recorded an overall positive contribution of about $16.0M in fiscal 2006, compared to an overall positive contribution of about $9.6M in fiscal 2005. It is important to note that $6.2M of the 2006 contribution, and $3.5M of the 2005 contribution, result from a reduction in the estimated expense for the GPO's future long-term workers' compensation liability which had been recorded in a prior fiscal year. The future workers' compensation liability is an estimate that is determined each year by the Department of Labor (DOL) and is adjusted up or down based on the annual analysis by DOL's actuary. When the workers' compensation liability decreases, the related workers' compensation expense also decreases. Additionally, $4.8M of the 2006 contribution is attributed to funds received for the purchase of certain assets, and the impact of revenue recognition on the placement into service of the Integrated Library System and an enhancement to *GPOAccess*, that were funded by appropriations.

Summary of Revenues, Expenses, and Net Income (dollars in thousands)	**2006**	**2005**
Operating Revenues	$ 720,379	$ 702,665
Operating Expenses	710,589	696,523
Net Income before other operating expenses	**$ 9,790**	**$ 6,142**
Decrease in long term workers' compensation expense	6,171	3,481
Net Income	**$ 15,961**	**$ 9,623**

Cash provided by operations improved by $7.67M over the prior year. During 2006, the GPO generated $30.0M from operations compared to $22.3M in 2005. The GPO made investments of $8.3M and committed an additional $4.8M toward future growth in fiscal 2006, compared to $4.8M expended in fiscal 2005.

Summary Statements of Cash Flows (dollars in thousands)	**2006**	**2005**
Cash Flows from Operating Activities		
Net Income	**$ 15,961**	**$ 9,623**
Provided by operating activities:		
Depreciation and other	$ 7,565	$ 7,636
(Increase) decrease in current assets	(7,860)	37,451
Increase (decrease) in current liabilities	20,508	(28,900)
Workers' compensation liability	(6,171)	(3,481)
Total adjustments	**$ 14,042**	**$ 12,706**
Net cash provided by operating activities	**$ 30,003**	**$ 22,329**
Cash flows (for) Investing Activities	(8,287)	(4,608)
Cash flows from (for) Financing Activities	1,378	(5,028)
Net Increase in Cash Balance	**$ 23,094**	**$ 12,693**

The GPO's Balance Sheet continued to strengthen as a result of its improved operating performance. Working Capital increased to $191M in 2006 from $180.5M in 2005, or an increase of 5.8%. Cash increased by $23.1M, or 11.2%. The net increase in Working Capital of $10.5M, or 5.8%, was achieved on an overall 2.5% revenue increase.

In fiscal 2006, the GPO recorded a $6.17M non-cash reduction in the estimate of its future long-term workers' compensation liability. The expected future liability at the end of 2006 was $70.0M, compared with $76.1M at the end of 2005.

For the second consecutive year, GPO ended the year with positive retained earnings. The GPO's retained earnings of $17.3M include a reserve of nearly $70.0M for the potential future year workers' compensation expense. Excluding the reserve for this estimated future charge, the GPO would have positive retained earnings of $87.3M.

Summary Balance Sheets (dollars in thousands)	**2006**	**2005**
Assets		
Current Assets		
Fund balance with Treasury	$ 229,805	$ 206,711
Accounts receivable, net	109,547	104,101
Inventories, net	13,093	9,054
Prepaid expenses	1,688	3,313
Total current assets	**$ 354,133**	**$ 323,179**
Property, plant, and equipment, net	56,894	56,172
Total Assets	**$ 411,027**	**$ 379,351**
Liabilities and Net Position		
Current Liabilities		
Accounts payable & accrued expenses	$ 84,008	$ 77,864
Deferred revenues	69,559	54,742
Accrued annual leave	9,586	10,039
Total current liabilities	**$ 163,153**	**$ 142,645**
Other liabilities		
Workers' compensation liability	69,951	76,122
Total Liabilities	**$ 233,104**	**$ 218,767**
Net position		
Cumulative results of operations		
Retained earnings	$ 17,281	$ 1,320
Invested capital	92,879	92,879
Unexpended appropriations	67,763	66,385
Total Net Position	**177,923**	**160,584**
Total Liabilities and Total Net Position	**$ 411,027**	**$ 379,351**

During the last four years, GPO has focused on developing and retaining proven internal leaders, as well as recruiting experienced professionals from other Government agencies and the private sector. Together, these men and women form one of the most talented and dedicated leadership teams in the Federal Government.

In 2004, GPO published its *Strategic Vision for the Future*. All 104 senior leaders are engaged in executing the plan they helped develop over two years in consultation with our stakeholders, which include Congress, Federal courts and agencies, libraries, the printing and information industries, and our employees and their union representatives.

There are not enough pages in this Annual Report to highlight all of GPO's key leaders. By featuring a few teams, we hope you have learned more about the 21st century GPO — one of America's oldest and most venerable Federal agencies. Please visit us at **www.gpo.gov** for more information.

The GPO 2006 Annual Report has been designed, written, and printed by U.S. Government Printing Office employees.

2006 GPO CUSTOMERS

U.S. House of Representatives
U.S. Senate
Library of Congress
Architect of the Capitol
International Exchange Program
Government Accountability Office
Supreme Court of the United States
Administrative Office of the U.S. Courts
Federal Judicial Center
U.S. Court of Claims
U.S. District Courts
U.S. Tax Courts
U.S. Court of Appeals – Federal Circuit
Office of Management and Budget
Office of Administration
Council of Economic Advisers
Council on Environmental Quality
Court Services and Offender Supervision Agency for D.C.
Committee on the Intelligence Capabilities of the U.S.
National Security Council
Office of Science and Technology Policy
The White House Conference or a Drug Free America
Special Representative for Trade Negotiations
The White House
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Department of Labor
Medicare Payment Advisory Commission
Department of State
Department of Treasury
Department of Transportation
Surface Transportation Board
Peace Corps
National Institute for Literacy
Agency for International Development
African Development Foundation
American Battle Monuments Commission
Appalachian Regional Commission
Federal Reserve System
Central Intelligence Agency
Civil Aeronautics Board
Office of Personnel Management
Commission of Fine Arts
Commission on Civil Rights
Office of Government Ethics
Chemical Safety and Hazard Investigation Board
Commodity Futures Trading Commission
Committee for Blind and Severely Handicapped
Consumer Product Safety Commission
Delaware River Basin Commission
Cooperation for National Service
District of Columbia
Department of Energy
U.S. Chemical Safety and Hazard Investigation Board
Environmental Protection Agency
Equal Employment Opportunity Commission
Export-Import Bank of the United States
Federal Financial Institutions Examination Council
Farm Credit Administration
Farm Credit System Insurance Corp.
Federal Communications Commission
Federal Deposit Insurance Corporation
Federal Election Commission
Federal Executive Board
Federal Energy Regulatory Commission
Federal Emergency Management Agency
Federal Home Loan Bank Board
Federal Financial Institutions Examination Council
Federal Housing Finance Board
Federal Labor Relations Authority
Federal Maritime Commission
Federal Mediation and Conciliation Service
Federal Mine Safety and Health Review Commission
Federal Trade Commission
Federal Retirement Thrift Investment Board
General Services Administration
U.S. Commission on International Religious Freedom
International Boundary and Water Commission
International Trade Commission
Inter-American Foundation
Institute of Museum Services
Legal Services Corporation
Merit Systems Protection Board
Office of Special Council
Office of Independent Council
Office of Compliance
National Aeronautics and Space Administration
National Archives and Records Administration
National Capital Planning Commission
National Commission on Libraries and Information Science
National Transportation Safety Board
National Credit Union Administration
National Endowment for the Humanities
National Endowment for the Arts
John F. Kennedy Center for the Performing Arts
National Gallery of Art
National Labor Relations Board
National Mediation Board
National Science Foundation
Neighborhood Reinvestment
Nuclear Regulatory Commission
Northeast Interstate Low-Level Radioactive Waste Commission
Occupational Safety and Health Review Commission
Pennsylvania Avenue Development Corporation
Organization of American States
Pension Benefit Guaranty Corporation
Postal Service
U.S. Commission – Preservation of America's Heritage Abroad
Railroad Retirement Board
Securities and Exchange Commission
Selective Service System
Small Business Administration
Smithsonian Institution
Tennessee Valley Authority
United States Holocaust Memorial Council
Presidential Advisory Commission on Holocaust Assets in U.S.
Architectural and Transportation Barriers
United States Soldier's Airman's Homes
Veterans Administration
U.S. Court of Veterans Appeals
National Council on Disability
The Broadcasting Board of Governors
Department of Homeland Security

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U.S GOVERNMENT PRINTING OFFICE | FINANCIAL YEAR IN REVIEW

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SECTION I

Management's Discussion and Analysis

(Unaudited)

As of September 30, 2006

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

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

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

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

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

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

Mission

Making Government information available to the public is the core of GPO's mission of *Keeping America Informed*. GPO has faithfully served the citizens of the United States of America for the past 145 years. This critically important function sustains one of the keystones of our republic: an informed and enlightened citizenry.

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

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

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

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

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

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

Programs and Operations

The Government-wide programs and operations managed by GPO are based on various public laws codified in Title 44, *Public Printing and Documents*, of the *United States Code* (U.S.C.). GPO's statutory responsibilities include fulfilling the printing needs of the Federal Government and distributing Federal Government information products to the public.

Funding of Programs and Operations

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

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

Congress has occasionally made no-year and multiyear appropriations available to the Agency for special purposes. Funds have been appropriated for building improvements, security improvements, and voluntary separation incentive payments. In fiscal year 2005, Congress authorized GPO to transfer of up to $23.7 million of previously appropriated funds to the GPO Revolving Fund to finance the development of GPO's Digital Content Management System that is presently called the Future Digital System (FDsys). In addition, these funds remained available to cover annual appropriation shortfalls through fiscal year 2006. As of September 30, 2006, GPO transferred a total of $22 million of the $23.7 million authorized to the GPO Revolving Fund. In fiscal year 2006, Congress also appropriated $2 million ($1,980,000 after rescission) to the GPO Revolving Fund for the GPO Workforce Retraining initiative.

Major Programs and Operations

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

- ***Official Journals of Government***

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

The legislative workload demands that will be placed with GPO in future years fluctuate because of many variables, and therefore, cannot be accurately forecast with a high degree of certainty for budgeting purposes. Accordingly, in those years where the Congressional 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 amount of annual CP&B Appropriation has been adequate to cover the costs of GPO services to Congress in most years. However, an estimated shortfall of around $3 million was projected for fiscal year 2006. This annual appropriation was not adequate due to a higher demand for services than anticipated and a decline in the appropriation amounts over the past two years. The CP&B appropriation decreased from $90.6 million in fiscal year 2004 to $87.2 million in fiscal year 2006. Fortunately, GPO has adequate funds available to cover this shortfall because Congress approved the transfer of prior year appropriation balances to the GPO Revolving Fund in 2005 for such purposes.

- ***Security and Intelligent Documents***

This GPO business unit works with other Federal agencies to assist in the safe and secure design, production and distribution of security and intelligent documents, many of which incorporate electronic and other fraud and counterfeit protection features. This business unit presently produces Passports and e-Passports for the U.S. Department of State and postal cards for the U.S. Postal Service. This expanding business line is planning to produce additional sensitive documents in the future, such as smart IDs, immigration forms, PKI (Public Key Infrastructure) electronic certificates for credentialing, and traditional security documents as well as those containing embedded electronics. The customers reimburse the GPO Revolving Fund for these products and services through a system of rates and prices.

- ***Digital Media Services***

This new business unit provides Website development and maintenance services to Federal customers and other GPO business units. These experts in Digital Media Services will eventually provide services to Federal agencies and the Federal Depository Library Program (FDLP). The users will be able to add content to GPO's planned FDsys, and to withdraw or receive content to produce specific products and services. The unit will develop the capability to efficiently convert printed legacy documents into searchable digital content that meets FDLP standards. This group will lead in the development of new GPO electronic products and services to better meet customer information needs, including Website design, hosting, and rich media capabilities.

- ***Customer Services***

This business unit operates a nationwide procurement program that satisfies the printing needs of customer agencies in an economical and efficient manner. A specific team of procurement experts is assigned to provide services to each agency. Each of these GPO Agency Strategic Teams has a manager who is an authority on the mission of their customer agency and is supported by a national account manager who is responsible for developing new business with that agency.

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

- ***Publication and Information Sales Program***

This business unit sells Federal Government publications and subscriptions to book dealers, libraries, and the public primarily through the GPO Online Bookstore. Although intended to be self-funding, this program has not recovered all of its operating expenses since fiscal year 1997. A downward trend in customer demand for printed publications continues to reduce sales. The operations have been downsized to lower operating costs. Some major cost reduction initiatives are complete, while other actions are underway to partner with the private sector, and adopt the industry's leading practices.

- ***Agency Distributions***

This business unit provides publication storage and distribution services to Federal agencies on a cost reimbursement basis through the Laurel Distribution Center and the Pueblo Distribution Center operated by the Superintendent of Documents. The largest customer is the U.S. General Services Administration (GSA), Federal Citizen Information Center (FCIC), which is served by the Pueblo Distribution Center.

- ***Library Services and Content Management***

The annual S&E Appropriations to the Superintendent of Documents fund the operations of the FDLP, the Cataloging and Indexing Program, the By-Law Distribution Program, and the distribution component of the International Exchange Program of the Library of Congress. The FDLP consists of 1,265 depository libraries located in the United States, and includes GPO Access, an Internet site with a wealth of information. Long recognized as the National authority for cataloging Government publications, the FDLP manages an electronic collection for permanent public access. Major investments are being made in new digital technology to improve the public's access to Government information.

Management Initiatives to Improve Agency Operations

A transformation program is underway at the Agency that places greater emphasis on direct electronic dissemination methods as GPO's primary goal, rather than printing. *The Strategic Vision for the 21st Century*, issued in December 2004, serves as a roadmap to where GPO needs to go in order to fully embrace the technology capabilities of the 21st century in the coming years. All policies and procedures, including budgeting and capital investments, workforce development, hiring and promotions, industry partnerships, customer relations, operational decision-making, and related actions are tied to this transformation at GPO.

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

- ***Creating a New Digital Platform***

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

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

- ***Refocusing Customer Services***

In the future, Customer Services will continue to provide Federal agencies with traditional printed products through private sector vendors, using GPO's experience and buying power to create the best value for taxpayers. However, Customer Services will work with them more cooperatively, offering them more flexibility in choosing and working directly with vendors, especially with small value purchases and complex purchases involving multiple functions such as data preparation, personalization, and distribution.

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

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

- ***Expanding Digital Services***

A new business unit called Digital Media Services was established to provide a platform for training GPO employees in 21st century workforce skills while providing document-scanning services for the FDLP and other customers. This business unit will also set the standards for digitizing retrospective tangible documents, acquire both the tangible documents and digitizing services, and provide quality assurance for the content. Working in cooperation

with other agencies involved in similar projects, including the Library of Congress and the National Archives and Records Administration, the goal is to digitize all retrospective Government documents that can be authenticated back to the earliest days of the Nation.

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

■ ***Developing the* Integrated Library System**
The transition to a predominantly electronic FDLP began in 1996 at the direction of Congress. In fiscal year 2002, Congress authorized GPO to develop the *Integrated Library System* (ILS). The ILS, which cost about $1.6 million to develop, became operational in 2006. The ILS public cataloging interface provides enhanced information identification and location capabilities to users.

■ ***Improving* GPO Access**
The number of titles available on *GPO Access* has increased to more than 300,000, with an average of 37 million retrievals every month. The Superintendent of Documents has budgeted about $2.5 million in funds from the S&E Appropriation to improve *GPO Access*. Planned enhancements include increased storage capacity, stronger security, and improved performance to the millions of users in the Nation. This major project is being accomplished with assistance from *GovWorks*, a Federal acquisition center. Almost $1.8 million of the budgeted funds were expended as of September 30, 2006.

■ ***Modernizing Information Systems***
GPO launched the *GPO Enterprise Program* in 2004. This major Information Technology (IT) project has been implementing modern application systems throughout the Agency that support GPO business, administrative, and financial operations. The scope of the project includes the replacement of legacy systems as well as the installation of new applications.

■ ***Acquiring a Modern Headquarters Facility***
The GPO Central Office is located in an aging, oversized facility that is expensive to maintain. Plans are under consideration to relocate to a modern, efficient facility scaled and equipped to meet GPO's needs in the 21st century. GPO is working to obtain legislative authority from Congress for this proposed project.

Managing Human Resources
Human resources are essential to the success of GPO's mission in the future. The experienced and talented workforce supports every essential program and operation of the Agency. The GPO workforce has declined from 8,500 employees in fiscal year 1976 to 2,239 employees at the end of fiscal year 2006. This gradual reduction in the workforce is in large part due to a decline in the demand for traditional printing as the digital information age expands. Accordingly, the GPO workforce is being retrained and right-sized due to the workload decline in traditional printing and advances in the information technology world of the 21st century digital world.

■ ***Retraining the Workforce***
In fiscal year 2006, Congress appropriated $2 million to the GPO Revolving Fund for workforce retraining. These funds are being used to train GPO employees in the job skills of the future at the Agency.

■ ***Rightsizing the Workforce***
GPO continued efforts to right-size the workforce in fiscal year 2006. In November 2005, the Public Printer established the *Voluntary Separation Incentive Program* (VSIP) under authority provided in Public Law 108-477. The VSIP was successfully used to reduce the workforce by 89 employees during fiscal year 2006. The VSIP authorized incentive payments of up to $25,000 per employee for voluntary separation. The Agency incurred one-time buyout costs of $2.2 million and avoided an estimated $8 million in recurring annual costs for personnel compensation and benefits.

Financial Results for Fiscal Year 2006

The following is an overview of the financial operating results reflected in GPO's basic consolidated financial statements as of and for the fiscal year ended September 30, 2006:

Consolidated Statement of Revenues and Expenses
GPO had operating revenues of $720.4 million for fiscal year 2006 and $702.7 million for fiscal year 2005. This represents an increase in revenues of $17.7 million or 2.5 percent. The Agency had operating expenses, before the effect of the decrease in the GPO's workers' compensation liability, of $710.6 million for fiscal year 2006 and $696.5 million for fiscal year 2005. This represents an increase in expenses of $14.1 million or 2 percent.

GPO realized income from operations, before the effect of the decrease in the GPO workers' compensation liability, of $9.8 million for fiscal year 2006 and $6.1 million for fiscal year 2005. Other operating expenses consisted of the annual change in the accounting estimate for the U.S. Department of Labor (DOL) actuarial estimate of the liability for GPO's long-term Federal Employees' Compensation Act (FECA) benefits (i.e., workers' compensation). The liability decreased by $6.2 million in fiscal year 2006 and $3.5 million in fiscal year 2005 due primarily to: reductions in the size of the GPO workforce; improved risk management practices; and improved vocational rehabilitation initiatives which accelerate the injured workers' return to full-time employment at GPO. Taking into consideration the reduction in the workers' compensation liability, GPO realized consolidated net income of $16 million for fiscal year 2006 and $9.6 million for fiscal year 2005.

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

■ *Printing and Binding*
The Agency earns revenues from Federal customers for printing, binding, and other related services performed by GPO business units and their nationwide pool of qualified, commercial contractors. The printing and binding revenues are based on a system of rates, prices, and surcharges designed to recover costs. The revenues for printing and binding originate from the programs and operations of four business units at GPO: (1) Official Journals of Government, (2) Security and Intelligent Documents, (3) Digital Media Services, and (4) Customer Services. Revenues from GPO in-house jobs are generally recognized on a value-added basis, as work is performed. Revenues from commercially procured jobs are recognized on the date that the contract requirements are fulfilled, generally the date of shipment to the Federal customers.

Revenues from printing and binding totaled $575.9 million for fiscal year 2006 and $552.1 million for fiscal year 2005. This represents an increase in revenues of $23.8 million or 4.3 percent. Revenues fluctuate because of the changing demand for services from customers.

■ *Appropriations*
GPO receives annual, no-year and multiyear appropriations from Congress to finance certain costs in accordance with the underlying appropriation act and enabling legislation. The two annual appropriations are the CP&B Appropriation and the S&E Appropriation. The CP&B Appropriation is primarily used to fund printing and binding services provided to Congress by GPO's Plant Operations (i.e., Official Journals of Government). The S&E Appropriation is primarily used to fund the dissemination of Federal Government information to the public by GPO's Library Services and Content Management, a business unit within the Superintendent of Documents.

Revenues earned from appropriations totaled $119.7 million for fiscal year 2006 and $123.1 million for fiscal year 2005. The decrease in revenues of $3.4 million or 2.8 percent is primarily a result budget reductions throughout the Federal Government.

■ *Sales of Publications*
GPO earns revenues from the sales of publications to the public and others. The Publication and Information Sales Program, a business unit within the Superintendent of Documents, 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 $18.6 million for fiscal year 2006 and $22.6 million for fiscal year 2005. This represents a decrease in revenues of $4 million or 17.7 percent.

■ *Agency Distributions*
GPO earns revenues from Federal agencies for the storage, packaging, and distribution of Federal Government publications to the public and others. Agency Distributions, a business unit within the Superintendent of Documents, provides these services on a cost reimbursement basis, and at rates and prices designed to recover costs. Revenues from Agency Distributions totaled $6.2 million for fiscal year 2006 and $4.9 million for fiscal year 2005. This represents an increase in revenues of $1.3 million or 26.5 percent. This increase is primarily attributable to the development of new Federal customers for the Pueblo Distribution Center.

Expenses
GPO incurred total operating expenses of $710.6 million for fiscal year 2006 and $696.5 million for fiscal year 2005, before the effect of the annual year-end adjustment for the change in the workers' compensation liability. The workers' compensation liability decreased by $6.2 million in fiscal year 2006 and $3.5 million for the fiscal year 2005. The major expense categories for the Agency are: (1) Printing and Reproduction, (2) Personnel Compensation and Benefits, (3) Supplies and Materials, (4) Rents, Communications, and Utilities, and (5) Travel and Transportation. A brief discussion for each of these expense groups follows (see Note 1L).

■ *Printing and Reproduction*
GPO incurred expenses for printing and reproduction of $404.4 million for fiscal year 2006 and $415.9 million for fiscal year 2005. This represents a decrease in printing and reproduction expenses of $11.5 million or 2.8 percent. Printing and reproduction costs are primarily incurred by three business units: (1) Customer Services, (2) Publication and Information Sales Program, and (3) Library Services and Content Management. Customer Services incurs the majority of these costs for printing purchased from the private sector, a pass-through cost. The Publication and Information Sales Program purchases and sells Government publications to book dealers, libraries, and the public. The Library Services and Content Management purchases and distributes Government publications to the 1,265 Federal depository libraries.

■ *Personnel Compensation and Benefits*
GPO incurred expenses for personnel compensation and benefits of $199.9 million during fiscal year 2006 and $196.7 million during fiscal year 2005. This represents an increase in personnel compensation and benefit expenses of just $3.2 million or 1.6 percent. This minor change was a result of two factors. First, a cost of living adjustment for most Printing Grade (PG) employees of 3.44 percent took effect on January 8, 2006, and a similar adjustment for most wage grade employees took effect on June 11, 2006. Second, a reduction in the GPO workforce by 133 employees occurred during fiscal year 2006. GPO had 2,372 employees at September 30, 2005 and 2,239 employees at September 30, 2006.

■ *Supplies and Materials*
GPO incurred expenses for supplies and materials of $37.1 million for fiscal year 2006 and $31.9 million for fiscal year 2005. This represents an increase in supplies and material expenses of $5.2 million or 16.3 percent. The two business units that incur significant costs for supplies and materials are Official Journals of Government, and Security and Intelligent Documents. These units operate large production facilities that use significant quantities of materials and supplies, including

paper and paper products. This expense group also includes equipment, furniture, and vehicle purchases that were expensed when received by GPO. The increase is primarily attributable to higher material costs for the new e-Passport produced by Security and Intelligent Documents and an increase in paper costs used to produce Official Journals of Government.

■ *Rents, Communications, and Utilities*
GPO incurred expenses for rents, communications, and utilities of $17.8 million for fiscal year 2006 and $19.3 million for fiscal year 2005. This represents a decrease in rents, communication and utility expenses of $1.5 million or 7.8 percent. This expense group includes rents for building space outside of Washington, DC, leased equipment and vehicles, and utilities such as electricity. The decrease was attributable, in part, to the closing of three regional procurement offices in fiscal year 2005 (see Note 17).

■ *Travel and Transportation*
This expense group includes travel and transportation costs of persons or things, including employee relocation costs, plus postage expenses. GPO incurred expenses for travel and transportation of $20.2 million for fiscal year 2006 and $3 million for fiscal year 2005. This represents an increase in travel and transportation expenses of $17.2 million. The increase was attributable to higher postage costs, especially reimbursable postage for two mass mailings, and a new contract for secured delivery services.

Consolidated Balance Sheet

GPO's total assets increased by $31.6 million, or 8.3 percent, from $379.4 million as of September 30, 2005 to $411 million as of September 30, 2006. This increase in total assets is primarily attributable to a $23 million increase in Fund Balance with Treasury and a $5 million increase in accounts receivable. The increase in Fund Balance with Treasury is a result of cash flows from operating and financing activities of $31 million reduced by capital purchases in fiscal year 2006 of $8 million (see consolidated statements of cash flows). The increase in accounts receivable of $5.4 million, or 5.2 percent, is primarily attributable to an increase in Printing and Binding revenues.

GPO's liabilities increased by $14.3 million, or 6.6 percent during fiscal year 2006. This increase is primarily the result of increases in accounts payable of $6.1 million and deferred revenues of $14.8 million. These increases were offset by a reduction in workers' compensation liability of $6.2 million. The increase in accounts payable includes a $5 million increase in commercial accounts payable for printing delivered to Federal customers. The increase in deferred revenues is a result of an increase in customer deposit accounts for printing and binding. The increase in GPO's net position is primarily a result of the consolidated net income of $16 million for fiscal 2006 which was discussed above under the Consolidated Statement of Revenues and Expenses.

Performance Measures

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

Operating Performance Measures

Overtime Management

Overtime is a human resource management tool used to meet peak and urgent customer workload demands primarily in production and procurement operations. GPO manages and controls overtime worked to minimize labor costs. In fiscal year 2006, GPO employees worked almost 200,000 hours of overtime ($7.5 million), which is 29 percent more than the 155,000 hours worked in fiscal year 2005 ($6.2 million). This increase is primarily attributable to the decrease in the number of employees by 133 full-time equivalents resulting from the employee buyout, and an increase in demand for Congressional services (production chargeable hours). GPO's overtime management objective, a ceiling of 180,000 overtime hours, was not achieved for fiscal year 2006. GPO's upper limit for overtime will remain at 180,000 hours for fiscal year 2007.

Production Chargeable Hours

Chargeable hours increased from 447,000 hours in fiscal year 2005 to 460,000 hours in fiscal year 2006, an increase of 13,000 hours, or 2.9 percent. This increase is primarily attributable to the increase in the demand for Congressional services. The results for 2006 met GPO's objective of keeping the Plant effectively utilized by achieving sufficient production hours necessary to break even. GPO's fiscal year 2007 goal is to have enough chargeable hours to achieve break even in production operations. Due to the mix in hourly rates charged for the various production processes, a specific chargeable hour target cannot be established.

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 89 percent for fiscal year 2006 and 78 percent for fiscal year 2005. While showing improvement, the Agency's goal of 95 percent was not met for fiscal year 2006. The Agency's goal will remain the same for fiscal year 2007.

On-Time Delivery of Procured Printing

GPO's Customer Services business unit contracted with commercial businesses to ship 114,100 jobs in fiscal year 2006 compared with 124,300 jobs in fiscal year 2005. The 8.2 percent decrease in procured printing is primarily attributable to a continued reduction in customer demand for printed documents as more electronic documents become available on the Internet. In addition, the new *GPOExpress*℠ Program enables customers to purchase small printing jobs locally from a nationwide contractor. For fiscal year 2006, GPO's goal was to have at least 95 percent of procured printing orders delivered on schedule and a quality acceptance rate of at least 99 percent. Both goals were met for fiscal year 2006. The Agency's goal will remain the same for fiscal year 2007.

Financial Performance Measures

Cash Management

■ ***Payment Performance***
In fiscal year 2006, GPO continued to save millions of dollars from taking favorable prompt payment discounts offered by contractors for the payment of invoices within the discount period. GPO earned prompt payment discounts of $6.5 million on purchased printing expense of $417 million. Last year GPO earned $6.8 million in discounts on $429.8 million in printing expenses. This represents an average discount rate of 1.6 percent for fiscal year 2006 and fiscal year 2005. The 1.6 percent discount rate earned exceeded the goal of 1.4 percent. The Agency's goal will be the same for fiscal year 2007.

Lost prompt payment discounts decreased to $263,000 in fiscal year 2006 from $488,000 in fiscal year 2005. The percentages of discounts lost to discounts offered were 3.9 percent and 6.7 percent in fiscal years 2006 and 2005, respectively. While GPO improved its performance significantly in this area in comparison to fiscal year 2005, GPO did not meet its fiscal year 2006 goal of 2.5 percent or less. The fiscal year 2006 lost discounts were generally due to inadequate supporting documentation and other information needed to examine and certify invoices for payment in a timely manner. The Agency's goal will be the same for fiscal year 2007.

■ ***Electronic Payments***
Electronic funds transfer (EFT) is the most economical and efficient method of paying the Agency's financial obligations to contractors, employees, and other non-Federal entities. EFT payments reduce the need for more expensive paper check payments that take days to arrive through the mail. In fiscal year 2006, about 74 percent of all GPO payments, were made by EFT. In comparison, about 81 percent of all payments were made by EFT in fiscal year 2005. The Agency's goal for fiscal year 2006 was 90 percent of the total payments. This goal was not met primarily because GPO has to issue individual checks to customers for the refund of unfilled publication orders throughout the year. The Agency's goal for EFT payments will be the same for fiscal year 2007.

Debt Management

■ ***Federal Receivables***
In fiscal year 2006, GPO billed Federal agencies $677 million for printing and binding services. Of this amount, $498 million, or 73.6 percent, was collected using the U.S. Department of Treasury's Intra-governmental Payment and Collection (IPAC) system; $37.5 million, or 5.5 percent, was from funds residing in Printing and Binding Deposit Accounts maintained by the GPO; and $15.2 million, or 2.2 percent, was collected via credit card. These methods enable the collection of funds within 30 days or less, as opposed to the more traditional methods of collection that require the creation and exchange of paper documents.

GPO's billed accounts receivable from Federal Government customers totaled approximately $7.8 million at the end of fiscal year 2006, compared with $7.3 million at the end of fiscal year 2005. The U.S. Department of Defense (DoD) is GPO's largest customer and debtor. DoD owed GPO about $3.8 million at September 30, 2006, of which $3.1 million, or 81.6 percent, was past due in payment (i.e., over 30 days old). DoD owed $592,000 for invoices between 31 to 60 days old, $247,000 between 61 to 90 days old, and $2.3 million over 90 days old. DoD's indebtedness to GPO of $2.3 million, over 90 days old, represents 26.7 percent of GPO's total accounts receivables, over 90 days old, at year-end. At September 30, 2005, DoD owed only $2.2 million to GPO. The increase is primarily attributable to slower payments by some DoD entities.

GPO offers customer agencies the alternative of establishing Printing and Binding Deposit Accounts for the prepayment of any and all printing and publishing services acquired from GPO. Deposit Accounts greatly simplify customer agency accounting and have the added benefit of providing detailed customer account information, via a secure Web site. Customers are able to either download or print their transactions. Separate deposit accounts may be established for different organizations, funds, or cost centers within the customer agency. At the end of the year, GPO maintained 718 printing and binding deposit accounts valued at $61 million. Additionally, GPO held $4 million in customer deposit accounts for the Publication and Information Sales Program. Therefore, customer deposit accounts totaled $65 million as of September 30, 2006. At September 30, 2005, GPO maintained printing and binding deposit accounts totaling $46 million. The $15 million increase is primarily attributable to additional customers and existing customers increasing their account balances.

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

In comparison, credit card transactions totaled $12.4 million for 15,096 printing jobs in fiscal year 2005. The average price per job paid via credit card for the past 2 years was under $1,000. This indicates that customers use it as a convenient method to pay for small printing jobs.

Possible Future Effects of Existing Events and Conditions

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

- ***Investments in New Technology***

GPO is making, or planning, significant investments in color and digital production capabilities, modern information systems, enhanced facilities, and training the workforce in the skills needed for the 21st century. The Office of Innovation and New Technology continues to identify new technologies and practices to help the Agency move forward as a world-class organization. For instance, the Agency is making significant investments in digital information technologies to improve GPO business, administrative, and financial operations under the Future Digital System Project, GPO Enterprise Project, and other IT projects. The ILS and several Oracle applications, such as Accounts Payable, Inventory, and Purchasing, were recently brought on-line under this Agency transformation.

- ***Growth of Security and Intelligent Documents***

The demand for security and intelligent documents, such as passports and Federal identification cards, are expected to continue to grow in the future as a result of continued concerns over homeland security.

- ***Expansion of the GPOExpress℠ Program***

Customer Services recently partnered with the private sector to provide convenience printing and duplicating services to Federal customers through a nationwide network of local convenience printing outlets. This program is expected to grow in the future as more and more Federal agencies participate in this new program.

- ***Proposed Relocation to a Modern Facility***

The Agency has been exploring options to relocate operations to a modern facility where space is less costly to maintain and more easily configured to meet GPO's operating needs.

- ***Possible Federal Appropriation Cut-backs***

Printing is generally considered a discretionary cost for Federal customers. The Continuing Resolutions in regard to certain fiscal year 2007 appropriation bills and possible future budget reductions and restrictions on growth may impact the availability of funds for Federal Government printing in the future.

Fiscal Year 2007 Projections

Congress established the GPO Revolving Fund to finance the business-type operations of the Agency on July 1, 1953. The Revolving Fund was intended to be financially self-sustaining. Accordingly, the Agency's overall financial objective has been to "breakeven" by recovering all costs, including overhead expenses. This is accomplished through a system of rates, prices, and surcharges used to bill customers for goods delivered and services performed by the Agency.

The Agency achieved this financial objective in fiscal years 2004, 2005, and 2006 by realizing a modest net income for each year. This recent trend represents a positive turnaround in financial performance of the Agency when viewed in the long-term. Prior to fiscal year 2004, GPO had realized net losses for five straight years.

In fiscal year 2006, the Agency realized net income of $9.8 million from operations before recognizing a decrease of $6.2 million in DOL's estimate of workers' compensation liability for GPO under FECA. Overall, the Agency realized net income of $16 million in fiscal year 2006 and $9.6 million in fiscal year 2005. GPO's financial performance goal for fiscal year 2007 is to "breakeven" by earning enough revenues to recover all costs.

To remain financially self-sustaining, the Public Printer has built a solid GPO Management Team with vast business and government experience, and a wealth of industry knowledge. Furthermore, the Public Printer reorganized the Agency into major business units and took other actions to improve customer service. The Agency is operated in a business-like manner with greater emphasis placed on serving the needs of GPO's customers. In addition, GPO managers are being closely evaluated and rated on their achievement of annual budget goals and financial performance objectives for their programs and operations. Finally, GPO employees are being financially rewarded for reducing Agency costs under the GPO Goal Sharing Program established by the Public Printer.

In conclusion, the digital transformation and other management initiatives completed and underway have put GPO's operations back on a business-like basis, both organizationally and financially. The Agency's positive trend in financial performance is expected to continue into fiscal year 2007 and beyond. The Agency transformation should help to ensure that the GPO Revolving Fund remains financially self-sustaining as Congress intended, and that GPO will be able to continue *Keeping America Informed*.

SECTION II

Independent Auditors' Report

KPMG

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, 2006 and 2005, and the related consolidated statements of revenues and expenses and cash flows 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 audits, we also considered GPO's internal control over financial reporting and tested GPO's compliance with certain provisions of applicable laws, regulations and contracts that could have a direct and material effect on these consolidated financial statements.

SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that GPO's consolidated financial statements as of and for the years ended September 30, 2006 and 2005, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We also noted that GPO implemented a new accounting standard effective October 1, 2005. Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

A. Controls surrounding the billing process should be strengthened
B. Certain reconciliation controls should be improved
C. Controls over recording and reporting environmental liabilities should be improved
D. Information Technology general controls should be improved

However, these reportable conditions are not believed to be material weaknesses.

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

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

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the United States Government Printing Office as of September 30, 2006 and 2005, and the related consolidated statements of revenues and expenses and cash flows for the years then ended.

KPMG LLP. KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

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, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, GPO adopted Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, effective October 1, 2005.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect GPO's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

In our fiscal year 2006 audit, we noted certain matters, described in Exhibit I, involving internal control over financial reporting and its operation that we consider to be reportable conditions. However, the reportable conditions are not believed to be material weaknesses.

A summary of the status of the prior year reportable condition is included as Exhibit II.

We also noted certain additional matters that we reported to management of GPO in a separate letter dated December 5, 2006.

COMPLIANCE AND OTHER MATTERS

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

RESPONSIBILITIES

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

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

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

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2006 and 2005 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 2006 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. The objective of our audit was not to provide an opinion on GPO's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether GPO's fiscal year 2006 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.

RESTRICTED USE

This report is intended solely for the information and use of the Public Printer, the Joint Committee on Printing, GPO's management, GPO's Office of Inspector General, the 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

December 5, 2006

Fiscal Year 2006 Reportable Conditions

A. Controls surrounding the billing process should be strengthened

During our fiscal year 2006 audit, we noted several internal control issues related to GPO's billing process that resulted in us taking a purely substantive approach to our audit of GPO's printing and binding revenues and the related customer accounts receivable and advance account balances as of and for the year ended September 30, 2006.

1. GPO inadvertently billed certain procured printing customers for invoices received from third-party vendors for approximately $984,000 without realizing that they had already billed the same customers based on the GPO purchase order issued to the vendor. GPO's policy is to not bill customers for procured commercial printing contracts until the order is complete and the actual total cost for the contract is billed to GPO by the third-party vendor who has performed the services. However, if GPO is expecting a delay in the receipt of the vendor invoice, they will bill these contracts based on the GPO issued purchase order and not wait to receive the vendor's invoice. Once the vendor invoice is received, GPO adjusts the customer's bill for variances between the purchase order amount and the vendor's invoice. However, due to turnover in key positions in the commercial billing division during fiscal year 2006, certain controls executed in the past to prevent duplicate billing were not consistently executed throughout the year. Although these errors were corrected and customer accounts were credited for these additional billings, without proper controls to ensure that billing errors are detected and prevented in a timely manner, revenue and related accounts receivable reported in GPO's consolidated financial statements could be overstated.

2. Section 309 of Title 44 of the U.S. Code authorizes GPO to be reimbursed for the cost of all services and supplies furnished at rates which include charges for overhead and related expenses; depreciation of plant and building appurtenances, except building structures and land; equipment; and accrued leave. On August 23, 2006, the Public Printer established GPO's rates to be 5% higher than the fiscal year 2005 rate schedule. In implementing the Public Printer's new rate schedule, the rates were inadvertently increased by approximately 10% to 15% instead of 5% due to insufficient management review. Management estimates that this error resulted in excess billings to customers of approximately $273,000 during fiscal year 2006. Our understanding is that management is currently processing credits to the affected customers.

3. At fiscal year end, GPO did not offset unbilled accounts receivable by amounts collected in advance for the same customer order. This error was attributable to turnover in key positions within the billing function which resulted in the nonperformance of previously established controls intended to identify the need for such adjustments. This error resulted in an adjustment to reduce both unbilled accounts receivable and advances by approximately $8 million at fiscal year end.

The need to establish a strong system of internal controls to ensure effective and efficient financial reporting has been well documented by many widely recognized organizations including the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The COSO has defined internal controls as: "….a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations."

Management reviews are one means suggested in COSO for ensuring that these objectives are achieved.

Recommendations:

We recommend that GPO implement appropriate supervisory review and other preventive and detective controls to ensure that:

1. Customers are only billed once for each order;
2. Amounts being billed are at rates that have been approved by the Public Printer in accordance with Title 44; and
3. Appropriate adjustments are made at fiscal year end to ensure that unbilled accounts receivable are being offset against advances received from customers.

Management Response:

Management concurs with this finding and recommendations. In addition, management notes the following:

1. GPO's legacy systems do not provide sufficient controls to prevent duplicate billings. Management has recently developed a control report to detect potential duplicate billings. This report will be reviewed monthly.
2. Insufficient IT controls, coupled with insufficient management review, caused an inadvertent rate increase to go undetected for a short period of time. IT has instituted greater controls when processing this legacy program, while Finance now has review controls in place. GPO has issued credits to the affected customers' accounts.
3. This error resulted from one large unusual transaction that was inadvertently reclassified during annual report consolidation. It was corrected on a subsequent draft of the annual report.

B. Certain reconciliation controls should be improved

During fiscal year 2006, key reconciliations were not always performed timely and when performed, differences noted were not consistently investigated and resolved in a timely manner. For example:

1. The reconciliation between GPO's Fund Balance with Treasury and the amounts reported in GPO's general ledger for the month of April 2006 was not performed until August 2006. In addition, we noted that GPO did not investigate and resolve the differences of approximately $527,000 reported to GPO by Treasury in March 2006 on the Check Issued Discrepancy Report, FMS 5206, until August 2006.

2. GPO did not investigate and resolve a difference of approximately $379,000 identified in the reconciliation performed between the accounts payable balance reflected in the general ledger and the amounts reflected in the accounts payable subsidiary ledger for the month of April 2006. As of September 30, 2006, this difference is approximately $240,000.

3. GPO did not resolve a difference of approximately $546,000 identified in the reconciliation performed between the accounts receivable balance reflected in the general ledger and the balance reflected in the accounts receivable subsidiary ledger for the month of September 2006.

GPO management considered the identified differences to be immaterial to the fiscal year 2006 consolidated financial statements, and as such, these differences were included in the Summary of Unadjusted Audit Differences attached to the management's fiscal year 2006 representation letter.

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

Recommendation:

We recommend that GPO enforces its existing policies that require these monthly reconciliations to be performed and the timely investigation and resolution of differences identified in compliance with TFM requirements and GAO standards.

Management Response:

Management concurs with this finding and recommendation.

C. Controls over recording and reporting environmental liabilities should be improved

GPO's estimate for environmental liabilities is comprised of two components. The first relates to the costs to remediate known contaminations primarily related to exposed asbestos and leakage from underground tanks as required by Federal and State laws. The second relates to clean-up costs expected to be incurred at a future date in relation to asset retirement activities as required by Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations.* The GPO Environment and Safety Division is the primary office responsible for the monitoring of environmental remediation efforts within GPO facilities. However, there currently are no formally established policies and procedures to ensure that environmental liabilities identified by the Environment and Safety Division are properly estimated and reported in GPO's consolidated financial statements in accordance with U.S. generally accepted accounting principles. FASB Statement No. 5, *Accounting for Contingencies*, requires a loss contingency to be accrued if information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Without proper communication between GPO's Environment and Safety Division and Financial Reporting Division to ensure that environmental related liabilities are properly recorded, contingent liabilities reported in GPO's consolidated financial statements could be materially understated. This lack of controls resulted in an unrecorded estimated asbestos remediation liability of approximately $160,000 as of September 30, 2006. GPO management considered the identified difference to be immaterial to the fiscal year 2006 consolidated financial

statements, and as such, this difference was included in the Summary of Unadjusted Audit Differences attached to the management's fiscal year 2006 representation letter.

Recommendation:

We recommend that GPO implement adequate controls that include the review and assessment of all potential environmental liabilities in GPO's facilities for financial reporting purposes. This review and assessment should involve representative from both the Environment and Safety Division and the Financial Reporting Division to ensure that environmental liabilities identified are properly reported in GPO's consolidated financial statements.

Management Response:

Management concurs with this finding and recommendation.

D. Information Technology (IT) general controls should be improved

During fiscal year 2006, deficiencies in the design and/or operations of GPO's IT general controls were noted in Entity-Wide Security, Access, System Software and Service Continuity. Office of Management and Budget (OMB) Circular No. A-130, *Management of Federal Information Resources*, requires that agencies complete system security plans and incorporate records management and archival functions into the design, development, and implementation of information systems. OMB Circular No. 130 states that agencies are required to establish controls to assure adequate security for all information processed, transmitted, or stored in Federal automated information systems. Technical and operational controls support management controls. To be effective, all must interrelate. OMB Circular No. A-127, *Financial Management System*, requires that all documentation, including software development, system, operations, user manuals, and operating procedures, be kept up- to-date and be readily available for examination. The lack of these policies and procedures within IT general controls is considered a reportable condition. The details of this condition, which has been reported to management in prior years' audit reports, are as follows:

1. **Entity-Wide Security Program**

   Several areas regarding GPO's enterprise-wide security program need improvement. During fiscal year 2006, GPO continued implementing an enterprise-wide security program to formalize GPO's established information security objectives and high level policy. This is a positive step for GPO. However, GPO did not complete the certification and accreditation of its key financial systems, which is an important element of an organization's overall security program. In late fiscal year 2006, GPO initiated a security awareness training program; however, there was no confirmation that all employees completed this training. Collectively, these issues are significant because 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**

   Certain access controls require modification in order to provide a more secure environment. We noted that the current password parameters for the mainframe systems do not enforce password complexity. During fiscal year 2006, GPO started an effort to modify its employee exit procedures to fully incorporate IT, which is a positive step for GPO. However, we noted

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

3. **System Software**

   Certain controls over modification of system software need improvement. We noted there are no formal procedures to manage changes to system software components; specifically GPO does not have a formal system software change management process. System software changes are not formally documented to include evidence of approval and testing. In addition, there is not a requirement to notify the system user community when system software changes affect network availability. System software controls are essential in providing reasonable assurance that operating system-based security controls are not compromised and that the system will not be impaired. If controls in this area are inadequate, unauthorized individuals might use system software to circumvent security controls to read, modify, or delete critical or sensitive information and programs. Because of the sensitivity of this information, the details of the findings are not provided in this report, but were provided to GPO management during the audit.

4. **Service Continuity**

   Losing the capability to process, retrieve, and protect data can significantly impact an agency's ability to accomplish its mission. For this reason, an agency should have (1) procedures in place to protect information resources and minimize the risk of unplanned interruptions, and (2) a plan to recover critical operations should interruptions occur. GPO has established a contingency plan but has not fully tested it.

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. Complete the certification and accreditation of key financial systems.
   b. Deploy an information security awareness program to all GPO personnel and provide confirmation that all personnel receive this training.
2. **Access Controls**
   a. Improve password settings.
   b. Enhance employee checkout procedures.
3. **System Software**
   a. Develop and implement procedures to manage changes to system software components, which include notifying the user community of network availability outages.

Fiscal Year 2006 Reportable Conditions

b. Document all system software changes in a tracking system. Documentation should evidence testing and approvals required for system software changes.

4. Service Continuity

a. Complete testing of the GPO contingency plan and update the contingency plan documentation as necessary based on analysis of contingency plan tests.

Management Response:

Management concurs with this finding and recommendations.

Status of Fiscal Year 2005 Reportable Condition

As indicated in Exhibit I, GPO made progress in fiscal year 2006 by implementing a corrective action plan that addresses a number of our fiscal year 2005 recommendations such as:

- IT General Controls: With its security program plan implementation on-going, GPO has continued to address several prior year weaknesses. Examples include: creating and implementing system development lifecycle policies and procedures; creating a statement of work for a business impact analysis used for GPO's major financial systems contingency plan; developing an improved employee checkout process; and beginning to deploy a security awareness training.

However, as discussed in Exhibit I, we believe that improvements are still needed to strengthen GPO's information technology environment.

Management Response:

Management concurs with this finding and recommendations.

SECTION III

Consolidated Financial Statements

Consolidated Balance Sheets

As of September 30, 2006 and 2005
(Dollars in thousands)

	2006	2005
ASSETS		
Current assets		
Fund balance with Treasury (Note 2)	$ 229,805	$ 206,711
Accounts receivable, net (Note 3)	109,547	104,101
Inventory, net (Note 4)	13,093	9,054
Prepaid expenses	1,688	3,313
Total current assets	**354,133**	**323,179**
General property, plant and equipment, net (Note 5)	56,894	56,172
Total assets	**$ 411,027**	**$ 379,351**
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses (Note 6)	$ 84,008	$ 77,864
Deferred revenues (Note 7)	69,559	54,742
Accrued annual leave	9,586	10,039
Total current liabilities	**163,153**	**142,645**
Other liabilities		
Workers' compensation liability (Note 8)	69,951	76,122
Total liabilities	**233,104**	**218,767**
Commitments and contingencies (Notes 9 and 10)		
Net position (Note 11)		
Cumulative results of operations:		
Retained earnings	17,281	1,320
Invested capital	92,879	92,879
Unexpended appropriations	67,763	66,385
Total net position	**177,923**	**160,584**
Total liabilities and total net position	**$ 411,027**	**$ 379,351**

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

Consolidated Statements of Revenues and Expenses

For the Fiscal Years Ended September 30, 2006 and 2005
(Dollars in thousands)

	2006	2005
OPERATING REVENUES		
Printing and binding	$ 575,885	$ 552,123
Appropriations	119,738	123,131
Sales of publications	18,560	22,560
Agency distributions	6,196	4,851
Total operating revenues	**720,379**	**702,665**
OPERATING EXPENSES		
Printing and reproduction	404,412	415,946
Personnel compensation and benefits	199,910	196,719
Supplies and materials	37,112	31,900
Rents, communications, and utilities	17,755	19,318
Publications sold	5,668	7,014
Depreciation and amortization	7,606	7,660
Other services	15,571	12,985
Surplus publications	2,374	1,962
Travel and transportation	20,181	3,019
Subtotal	**710,589**	**696,523**
Income before other operating expenses	**9,790**	**6,142**
OTHER OPERATING EXPENSES		
Decrease in workers' compensation liability (Note 8)	6,171	3,481
Net Income	**$ 15,961**	**$ 9,623**
Retained Earnings (accumulated deficit), beginning of year	1,320	(8,303)
Retained Earnings, end of year	**$ 17,281**	**$ 1,320**

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

Consolidated Statements of Cash Flows

For the Fiscal Years Ended September 30, 2006 and 2005
(Dollars in thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 15,961**	**$ 9,623**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,606	7,660
Gain on disposal of general property, plant and equipment	(41)	(24)
Changes in assets and liabilities:		
(Increase) decrease in assets-		
Accounts receivable	(5,446)	40,488
Inventory	(4,039)	(156)
Prepaid expenses	1,625	(2,881)
Increase (decrease) in liabilities-		
Accounts payable and accrued expenses	6,144	(10,684)
Deferred revenues	14,817	(18,961)
Accrued annual leave	(453)	745
Workers' compensation liability	(6,171)	(3,481)
Total adjustments	**14,042**	**12,706**
Net cash provided by operating activities	**30,003**	**22,329**
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital purchases	(8,328)	(4,758)
Proceeds from sale of general property, plant and equipment	41	150
Net cash used in investing activities	**(8,287)**	**(4,608)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in unexpended appropriations	1,378	(5,028)
Net cash provided by (used in) in financing activities	**1,378**	**(5,028)**
Net increase in fund balance with Treasury	**23,094**	**12,693**
Fund balance with Treasury, beginning of year	206,711	194,018
Fund balance with Treasury, end of year	**$ 229,805**	**$ 206,711**

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

Section III: Consolidated Financial Statements

SECTION III

Notes to Consolidated Financial Statements

September 30, 2006 and 2005

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.

GPO is dependent on two annual appropriations. The Salaries and Expenses (S&E) Appropriation finances certain public information dissemination programs of the Superintendent of Documents. The Congressional Printing and Binding Appropriation is used to reimburse GPO for the cost of all publishing services provided to the Congress. GPO's budget requests are subject to review by the House and Senate Appropriations Committees. GPO also receives funds from customer agencies as reimbursement for products and services, and from the public for the sale of Government publications and subscriptions.

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 U.S generally accepted accounting principles (GAAP) as promulgated by the Financial Accounting Standards Board (FASB). Under GAAP and the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to the timing of the receipt or disbursement of cash.

Recently Adopted Accounting Standards

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

Certain areas within the GPO Central Office contain asbestos that would require removal, containment, or encapsulation during maintenance, remodeling, or renovation. GPO has no current plans to sell these facilities or make major renovations. Accordingly, GPO did not record an asset retirement obligation since the settlement date cannot be reasonably estimated.

Basis of Presentation and Consolidation

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

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

Funds

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

Revolving Fund – The GPO Revolving Fund is an inter-governmental fund established by Congress on July 1, 1953. This business-type revolving fund is available without fiscal year limitation for financing the operation and maintenance of GPO, except for those programs of the Superintendent of Documents that are funded by specific 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 the Publication and Information Sales Program. Accordingly, the two major sources of revenue to the revolving fund are reimbursements from the Congress and other Federal customers for providing printing, binding and distribution services, and publication and subscription sales to the public.

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

The Publication and Information Sales Program, within the Superintendent of Documents, 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.

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 information dissemination services provided by the Superintendent of Documents to the public without charge to the recipients.

The Congressional Printing and Binding Appropriation (CP&B) is the larger of the two annual appropriations available to GPO. This 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 second annual appropriation available to GPO is the Salaries and Expenses (S&E) Appropriation made to the Superintendent of Documents. This appropriation is used by the Library Services and Content Management, a GPO business unit, to fund its four information dissemination programs: (1) the Federal Depository Library Program (FDLP) that includes GPO Access, (2) the Cataloging and Indexing Program, (3) the By-Law Distribution Program, and (4) the International Exchange Program. The majority of these appropriated funds are used to finance the FDLP.

Expenditures from the two annual appropriations to the Agency are used to reimburse the GPO Revolving Fund for the cost of printing and binding, and other services and supplies furnished by GPO in accordance with Title 44, *Public Printing and Documents*, of the U.S.C.

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 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 the determination of potential excess inventory on hand. Inventories of paper, materials and supplies include the cost of production material (e.g., blank paper, spare parts, ink, and book cloth), as well as the cost of administrative-use supplies. These inventories are valued at the lower of cost, using the weighted moving average cost method, or market. Inventories of materials and supplies are shown net of a provision for obsolescence. The allowance for obsolescence is determined based on historical usage of paper, materials, and supplies.

F. Property, Plant and Equipment

Property, plant and equipment purchases are valued at the acquisition cost. GPO 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. Printing equipment transferred to GPO from other Federal agencies 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 transfer. Major alterations and renovations are capitalized while normal maintenance and repair costs are expensed as incurred. Depreciation and amortization of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset.

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.

Standard Estimated Useful Life Of Capitalized Assets by Major Asset Category

Asset Category	Standard Estimated Useful Life (Years)
1. Land	N/A
2. Building Improvements	20
3. Building Appurtenances	20
4. Other Structures and Facilities	20
5. Furniture and Fixtures	20
6. Leasehold Improvements	10
7. Plant Machinery and Equipment	10
8. Office Machinery and Equipment	5
9. Motor Vehicles	5
10. Computer and Software	3

Land has an indefinite life and is not subject to depreciation. For leasehold improvements, the lesser of the estimated useful life of 10 years or the remaining life of the real property lease term is used.

G. Deferred Revenues

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

H. Accrued Annual Leave

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

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 benefit claims 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 Obligations*, arising from claims, assessments, litigation, fines and penalties, and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Loss contingencies that do not meet these criteria are not accrued. Loss contingencies that are reasonably possible and estimable are disclosed in Note 10.

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

Sales of Publications – Revenues from the sale of publications and subscriptions to customers are recognized when shipped by the Superintendent of Document under 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 by the Superintendent of Documents under the Agency Distributions Program.

L. Expense Recognition

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

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

Supplies and Materials – Paper is the most significant cost component within the category of supplies and materials. Paper and paper products are commercially procured to satisfy in-plant printing requirements and customer orders for blank paper. The expense is recorded when paper is drawn from inventory to fulfill customer orders or delivered to the customer (direct mill-to-customer shipments). This expense category also includes all other supplies and materials that are not capitalized as property, such as personal computers, furniture, and office supplies. The costs of these items are expensed when issued from the stores inventory for use.

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

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.

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 (i.e., month). The acquisition cost of each capitalized asset is depreciated, or amortized, over the asset's estimated useful life. The estimated useful life is measured in months (e.g., 60 months). Depreciation, or amortization, of a capitalized asset generally commences when the capitalized asset is placed in service.

Other Services – This expense represents the cost of services provided by contractors for audits, investigations, consulting services, tuition, and training. The expenses are recognized when services have been provided.

Surplus Publications – This expense represents an estimate of the cost of potentially unsaleable publications held in inventory by the Superintendent of Documents for sale to the public. The allowance for surplus publications is based on life cycle studies of product sales by the Superintendent of Documents that provides a historical basis for the determination of potential excess inventory on hand.

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

M. 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. The disclosure of this information is intended to help assess the ability of GPO to generate funds from current operations, to identify financing acquired from outside sources, and to identify the major non-operating (investing) uses of funds.

N. Use of Estimates

The preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and 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 management estimates that most significantly impact the assets, liabilities, revenues and expenses reflected in the accompanying consolidated financial statements are: the allowance for obsolescence related to inventories; the allowance for doubtful accounts related to accounts receivable; the estimated useful lives of fixed assets; the estimated workers' compensation liability; and estimated contingent liabilities.

O. Tax Status

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

2. Fund Balance with Treasury

A table of items included in GPO's funds with Treasury, including funds on-hand or in-transit to the Treasury, as of September 30, 2006 and 2005 follows.

(Dollars in thousands)

	2006	2005
Fund Balances:		
Revolving fund:		
Unrestricted	$ 73,195	$ 65,869
Restricted:		
Deposit accounts	65,025	50,042
Retirement Separation Incentive Program	4,562	4,607
Other	17,358	17,614
Total revolving fund	**160,140**	**138,132**
Appropriated Funds:		
Congressional printing and binding	30,413	33,394
Salaries and expenses	13,019	7,992
Supplemental and other	26,233	27,193
Total appropriated funds	**69,665**	**68,579**
Total	**$ 229,805**	**$ 206,711**
Status of Fund Balance with Treasury:		
Unobligated balance:		
Available	$ 26,938	$ 43,159
Unavailable	26,233	27,193
Total	**53,171**	**70,352**
Obligated balance not yet disbursed	176,634	136,359
Total	**$ 229,805**	**$ 206,711**

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

Supplemental and other appropriations include unexpended appropriations made to the GPO for specific purposes as discussed in Note 11B.

3. Accounts Receivable, Net

Accounts receivable, net of an allowance for doubtful accounts, as of September 30, 2006 and 2005, consisted of the following.

(Dollars in thousands)

	2006	2005
Federal Agencies:		
Unbilled accounts receivable	$ 104,852	$ 97,465
Billed completed work	7,828	7,314
Subtotal	**112,680**	**104,779**
Other receivables:		
The public	1,838	1,702
GPO employees	890	875
Subtotal	**2,728**	**2,577**
Total accounts receivable	**115,408**	**107,356**
Less: Allowance for doubtful accounts	(5,861)	(3,255)
Total accounts receivable, net	**$ 109,547**	**$ 104,101**

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 through a system of rates, prices, and surcharges maintained by GPO.

Unbilled accounts receivable result from the delivery of goods and the 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, 2006 and 2005.

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. Inventories, Net

Inventories, net of an allowance for surplus and obsolete stock, as of September 30, 2006 and 2005, consisted of the following.

(Dollars in thousands)

	2006	2005
Publications for sale	$ 9,099	$ 7,826
Paper	3,135	2,297
Materials and supplies	7,868	5,864
Total inventory	**20,102**	**15,987**
Less: Allowance for surplus and obsolete inventory	(7,009)	(6,933)
Inventory, net	**$ 13,093**	**$ 9,054**

5. General Property, Plant and Equipment, Net

Net property, plant and equipment (PP&E) as of September 30, 2006 and 2005 consisted of the following.

(Dollars in thousands)

	2006	2005
Land	$ 9,971	$ 9,971
Buildings and improvements	76,083	75,997
Plant machinery and equipment	73,579	73,448
Computers and computer software	32,126	29,247
Furniture and fixtures	6,108	6,156
Motor vehicles	565	633
Leasehold improvements	934	946
Construction and software in process	753	885
Total	**200,119**	**197,283**
Less: Accumulated depreciation and amortization	(143,225)	(141,111)
General property, plant and equipment, net	**$ 56,894**	**$ 56,172**

Depreciation expenses were $7,606,000 for fiscal year 2006 and $7,660,000 for fiscal year 2005.

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of September 30, 2006 and 2005 were composed of the following.

(Dollars in thousands)

	2006	2005
Accounts payable:		
Commercial printing	$ 43,252	$ 43,379
U.S. Government agencies	14,066	13,099
Other	14,443	9,216
Total accounts payable	**71,761**	**65,694**
Accrued salaries and payroll taxes	12,247	12,170
Total accounts payable and accrued expenses	**$ 84,008**	**$ 77,864**

7. Deferred Revenues

As of September 30, 2006 and 2005, deferred revenues from customers consisted of the following.

(Dollars in thousands)

	2006	2005
Deposit accounts	$ 65,025	$ 50,042
Subscriptions	3,666	3,780
Unfilled orders	313	260
Advance billings	555	660
Total	**$ 69,559**	**$ 54,742**

GPO held $65 million and $50 million in customer deposit accounts as of September 30, 2006 and 2005, respectively. Federal Government customers had advanced funds of $61 million and $46 million for printing and binding as of September 30, 2006 and 2005, respectively. Additionally, GPO held advance funds from the Federal Government and other customers of $4 million for sales of publications as of September 30, 2006 and 2005. The restricted funds in these deposit accounts will generally be applied to future orders placed by customers, or may be refunded upon 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 Federal Government publications in advance of delivery by the Superintendent of Documents. The revenues from subscriptions will be recognized as these periodicals are published and distributed to subscribers.

GPO also defers the recognition of revenues for unfilled orders of Federal Government publications and other information products. The revenue from these sales will be recognized when the Superintendent of Documents fills the customer's order. GPO will refund the payment to the customer in those instances where the publication is no longer available for sale.

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.

8. Workers' Compensation Liability

The DOL develops an actuarial estimate of future workers' compensation benefits for each Federal entity to use for financial reporting each year. The U.S. Department of the Treasury requires Federal entities to use DOL's estimates for intra-governmental accounting of liabilities. The workers' compensation liability estimate for GPO was $70 million as of September 30, 2006, and $76.1 million as of September 30, 2005. Therefore, the accrued liability for workers' compensation benefits decreased by $6.2 million during the year ended September 30, 2006.

The DOL liability estimate includes the expected payments for death, disability, medical, and miscellaneous costs for approved compensation cases, as well as a component for incurred but not reported claims. The liability is determined using historical benefit payment patterns related to specific incurred periods to predict the ultimate payments related to those periods. The methodology provides for the effects of inflation and adjusts historical payments to current year constant dollars by applying wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) to the calculation of projected benefits. The COLAs and CPIMs that were used in the compensation projections for 2006 and 2005 follow.

	COLA		CPIM	
Fiscal Year	2006	2005	2006	2005
2006	N/A	3.33%	NA	4.09%
2007	3.50%	2.93%	4.00%	4.01%
2008	3.13%	2.40%	4.01%	4.01%
2009	2.40%	2.40%	4.01%	4.01%
2010	2.40%	2.40%	4.03%	4.01%
2011 and beyond	2.43%	2.40%	4.09%	4.01%

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 2006, interest rate assumptions were 5.170 percent in Year 1, and 5.313 percent in Year 2 and thereafter. For 2005, interest rate assumptions were 4.528 percent in Year 1, and 5.020 percent in Year 2 and thereafter.

9. Commitments

9. A. Operating Leases

As of September 30, 2006, 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.

(Dollars in thousands)

Fiscal Year	Warehouse	Office	Total
2007	$ 1,541	$ 436	$ 1,977
2008	725	262	987
2009	75	165	240
2010	-	127	127
2011	-	10	10
2012 and beyond	-	-	-
Total minimum lease payments	**$ 2,341**	**$ 1,000**	**$ 3,341**

Rent expenses were $3.7 million and $3.3 million for the years ended September 30, 2006 and 2005, respectively.

9. B. Obligations

GPO had obligated funds of $176.6 million and $136.4 million at September 30, 2006 and 2005, respectively, out of which $136.5 million and $114 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. Contingencies

Administrative Proceedings, Legal Actions, and Claims

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

GPO recorded an estimated liability of $62,000 for contingencies as an accounts payable and award expense at September 30, 2006. At the time, management and legal counsel were of the opinion that incurrence of a liability was probable for two claims being administratively adjudicated.

GPO did not record any liability for contingencies as of September 30, 2005. Management and legal counsel were of the opinion that incurrence of a liability was not probable for any contingent matters.

Certain legal matters in which GPO is a named party may be administered and litigated on behalf of GPO by the U.S. Department of Justice (DOJ), an agency of the U.S. Government. In these cases, amounts paid under any judgment, compromise settlement, or award are funded from the Judgment Fund administered by the U.S. Department of the Treasury (31 U.S.C. § 1304). The Judgment Fund paid a total of $5,000 and $625,000 on behalf of GPO for the years ended September 30, 2006 and 2005, respectively. These amounts are not reflected in GPO's consolidated financial statements.

Contingencies for litigation involving GPO where the risk of loss was reasonably possible were approximately $200,000 as of September 30, 2006, and approximately $940,000 as of September 30, 2005.

Environmental Liabilities

GPO estimates that it will cost approximately $160,000 to remediate all friable asbestos that is located within the GPO facilities. The cost to remediate all non-friable 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.

11. Net Position

11. A. Cumulative Results of Operations

Retained Earnings (deficit) - Retained earnings (deficit) include the net operating results of the GPO Revolving Fund, since its inception, less transfers to other Federal agencies required by statute.

Invested Capital - Invested Capital represents Federal resources directly appropriated to GPO by Congress to invest in GPO assets, namely land, buildings, equipment, and capital.

11. B. Unexpended Appropriations

The following table presents the unexpended appropriation balances from September 30, 2004 through September 30, 2006, 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, 2004	**$ 4,949**	**$ 18,133**	**$ 48,331**	**$ 71,413**
Appropriations received in FY 05	-	31,697	88,090	119,787
Appropriations transfers in FY 05	24,483	(9,868)	(14,615)	-
Appropriations expended in FY 05	(2,239)	(34,164)	(88,412)	(124,815)
Unexpended balance at September 30, 2005	**27,193**	**5,798**	**33,394**	**66,385**
Appropriations received in FY 06	1,980	33,004	87,209	122,193
Appropriations transfers in FY 06	513	(513)	-	-
Appropriations expended in FY 06	(3,453)	(27,172)	(90,190)	(120,815)
Unexpended balance at September 30, 2006	**$ 26,233**	**$ 11,117**	**$ 30,413**	**$ 67,763**

As of September 30, 2006, GPO had obligated $30.4 million of the unexpended appropriations available for Congressional Printing and Binding, and $11.1 million of the unexpended appropriations available for Salaries and Expenses. This $41.5 million in obligations is based on the estimated cost of open orders as of September 30, 2006. The obligations totaled $39.1 million at September 30, 2005. This amount consisted of $33.4 million in obligations against Congressional Printing and Binding Appropriations and $5.7 million in obligations against Salaries and Expenses Appropriations.

During fiscal year 2001, Congress authorized GPO to use $9.5 million from prior year Congressional Printing and Binding Appropriations to cover the cost of congressional work submitted but not completed. These funds were transferred to the GPO Revolving Fund. At the end of fiscal year 2006, a balance of about $476,000 of the $9.5 million was unexpended and available for future expenditures.

During fiscal year 2001, Congress also authorized GPO to use about $3.3 million from prior year Salaries and Expenses Appropriations to pay for the printing and distribution of publications to depository libraries. These funds were transferred to the GPO Revolving Fund. At the end of fiscal year 2006, a balance of $1.3 million was available for future expenditures.

During fiscal year 2002, Congress appropriated $4 million in Emergency Response Funds to GPO. The funds were provided to improve security and establish backup facilities to ensure continuity of key operations in the event of a National emergency affecting the Washington, DC area. GPO expended the remaining appropriation balance of $58,000 in fiscal year 2006.

During fiscal year 2005, Congress authorized GPO to transfer of up to $23.7 million of annual appropriated funds to the GPO Revolving Fund to finance the development of the Digital Content Management System or FDsys. In addition, these funds are available for annual appropriation shortfalls through fiscal year 2006. As of September 30, 2006, GPO transferred a total of $22 million of the $23.7 million authorized to the Revolving Fund. The $22 million consisted of $14.6 million available from Congressional Printing and Binding Appropriations and $7.4 million available from Salaries and Expenses Appropriations. At the end of fiscal year 2006, the entire balance of $22 million was available for future expenditures.

During fiscal year 2005, GPO transferred $2.5 million from the prior year's unexpended Salaries and Expenses Appropriation to the GPO Revolving Fund. The funds were advanced to the U.S. Department of the Interior (i.e., *GovWorks*) for improvements to *GPO Access* that were ordered in fiscal year 2004. GPO expended $1.8 million from these appropriated funds. At the end of fiscal year 2006, a balance of $711,000 was unexpended and available for future expenditures.

During fiscal year 2006, Congress appropriated $2 million (before rescission of $20,000) to the GPO Revolving Fund for Workforce Retraining at the Agency. GPO expended a total of $261,000 from this $2 million appropriation in fiscal year 2006. At the end of fiscal year 2006, the remaining balance of $1.7 million was unexpended and available for future expenditures.

12. Appropriated Funds

12. A. Available Appropriations

The total net appropriations made available to GPO, after rescissions, for fiscal years 2006 and 2005 were as follows.

(Dollars in thousands)

	2006	2005
Congressional printing and binding	$ 87,209	$ 88,090
Salaries and expenses	33,004	31,697
Workforce retraining	1,980	-
Total available appropriations	**$ 122,193**	**$ 119,787**

12. B. Expended Appropriations

The total appropriations expended by GPO during fiscal years 2006 and 2005 were as follows.

(Dollars in thousands)

	2006	2005
Congressional printing and binding:		
Congressional Record products	$ 23,608	$ 24,669
Miscellaneous publications and printing and binding	20,540	24,269
Hearings	23,528	15,906
Bills, resolutions, and amendments	7,334	10,489
Details to Congress	2,699	2,709
Other	12,481	10,370
Total congressional printing and binding	**90,190**	**88,412**
Salaries and expenses:		
Depository library distribution	21,480	28,866
Cataloging and indexing	4,953	3,797
By-law distribution	148	273
International exchange	591	1,228
Total salaries and expenses	**27,172**	**34,164**
Revolving fund:		
Appropriation transfers	3,134	1,516
Homeland security	58	723
Workforce retraining	261	-
Total revolving fund	**3,453**	**2,239**
Total expended appropriations	**$ 120,815**	**$ 124,815**
Reconciliation of expended appropriations to the consolidated statements of revenues and expenses:		
Total expended appropriations	**$ 120,815**	**$ 124,815**
Eliminations (Intra-agency)	(1,077)	(1,684)
Consolidated revenues from appropriations	**$ 119,738**	**$ 123,131**

13. Employee Benefit Plans

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

Civil Service Retirement System

The CSRS is a defined benefit plan that covers many of the Agency's employees. Total GPO (employer) contributions to CSRS for employees covered under this retirement program were 7.5 percent of basic pay in both fiscal years 2006 and 2005 for investigators and law-enforcement officers; and 7 percent of basic pay in both fiscal years for all other employees. GPO's contributions were $4.5 million and $4.8 million for the fiscal years ended September 30, 2006 and 2005, respectively.

Federal Employees Retirement System

On January 1, 1987, FERS was created pursuant to Public Law 99-335. Using Social Security benefits as a base, FERS provides a defined benefit plan (Basic Benefit Plan) and a voluntary defined contribution plan. Employees first hired after December 31, 1983 were automatically covered by FERS and Social Security, while employees hired prior to January 1, 1984 were able to choose between joining this plan or remaining in CSRS. FERS also offers the Federal Government's Thrift Savings Plan (TSP), which requires GPO to contribute 1 percent of an enrolled employee's base pay, and to match voluntary employee contributions of up to 4 percent of base pay. Employees participating in CSRS may contribute to the TSP, but they do not receive any matching contributions from the Agency.

The employer contribution rate to FERS for GPO law enforcement officers was 23.8 percent of basic pay in both fiscal years 2006 and 2005. The FERS contribution rate for all other employees was 11.2 percent in both years. GPO contributions to FERS totaled $8.8 million for fiscal year 2006 and $8.4 million for fiscal year 2005. GPO contributions to TSP for fiscal years 2006 and 2005 were $3.1 million and $3 million, respectively.

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 $94,200 in 2006 and $90,000 in 2005) 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, 2006 and 2005 totaled $7.5 million and $7.2 million, respectively.

Pension and Other Post-Employment Benefits Provided by Others

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

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

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

Transit Benefits

In January 2001, GPO established the Transit Benefit Program to promote the use of public transportation by employees for commuting to and from the workplace. This program conserves energy resources and reduces urban congestion. The maximum tax-free monthly subsidy to an eligible employee was $105 for both 2006 and 2005. Transit benefits paid to employees for the years ended September 30, 2006 and 2005 totaled $1 million and $858,000, respectively.

Goal Sharing Program

The GPO Goal Sharing Program is an incentive award program designed to reward employees for their efforts to achieve agency goals that produce measurable cost savings. Employees may receive 50 percent of the cost savings, or paid time off. Estimated costs of $770,000 and $445,000 were accrued for Goal Sharing awards during fiscal year 2006 and fiscal year 2005, respectively. Annual awards will be given to eligible employees in the subsequent fiscal year.

14. Concentration of Credit Risk

GPO financial instruments, none of which are held for trading purposes, consist primarily of funds with Treasury, accounts receivable, and accounts payable at September 30, 2006 and 2005. GPO estimates the fair value of financial instruments at September 30, 2006 and 2005 to be the carrying value.

15. Major Customers

GPO's primary customers are the Congress and large Federal agencies in the Executive Branch of the Federal Government. In fiscal years 2006 and 2005, respectively, revenues from those customers representing 10 percent or more of GPO's operating revenues follow.

(Dollars in thousands)

	2006		2005	
	Amount	Percent	Amount	Percent
Department of Defense	$ 123,004	17.1%	$ 136,858	19.5%
Department of Health & Human Services	95,147	13.2%	100,789	14.3%
Congress of the United States	91,058	12.6%	89,841	12.8%
Department of the Treasury	75,523	10.9%	75,903	10.8%

16. Voluntary Separation Incentive Program

GPO continued efforts to right-size the workforce and control personnel costs. In November 2005, the Public Printer established the *Voluntary Separation Incentive Program* (VSIP) under authority provided in Public Law 108-477. The VSIP was successfully used to reduce the workforce by 89 employees during fiscal year 2006. The VSIP authorized incentive payments of up to $25,000 per employee for voluntary separation. The Agency incurred onetime buyout costs of $2.2 million and avoided an estimated $8 million in recurring annual costs for personnel compensation and benefits.

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

The RSIP costs include almost $4.6 million payable to OPM for early retirement contributions required by statute. The OPM contributions were unpaid at September 30, 2006. Such costs were not required by statute under the VSIP.

17. Regional Operation Closings and Consolidations

GPO employed regional operation closings and consolidations to right-size operations and reduce unnecessary operating costs during fiscal years 2005 and 2006. The general downward trend in customer demand for traditional printing has reduced operating revenues for several major programs. Accordingly, management has been evaluating programs in an effort to identify opportunities to improve the economy, efficiency, and effectiveness of their operations.

During fiscal year 2005, Customer Services closed the Los Angeles Regional Printing Procurement Office, the St. Louis Regional Printing Procurement Office, and the New Orleans Satellite Printing Procurement Office. Their customer service responsibilities were absorbed by other procurement offices. Additionally, the Rapid Response Center (RRC) in Washington, DC, was relocated from leased space at the Navy Yard to GPO owned space at Central Office. GPO accrued one-time estimated termination costs of $312,000 for severance pay and $4,000 for lease payments to the lessor for the vacated building space. The costs associated with the closing of these procurement offices are reflected in the operating expenses in the statement of revenues and expenses for fiscal year 2005.

During fiscal year 2006, Customer Services closed the RRC and transferred the workload to the new Agency Strategic Teams. This consolidation of operations at Central Office did not require the accrual of any termination liability costs.