



2004

DEPARTMENT OF THE TREASURY

BUREAU OF ENGRAVING AND PRINTING

CHIEF FINANCIAL OFFICER

PERFORMANCE AND ACCOUNTABILITY REPORT





MISSION STATEMENT

The mission of the Bureau of Engraving and Printing is to design and manufacture high quality security documents that meet customer requirements for quality, quantity and performance, including counterfeit deterrence.

VISION STATEMENT

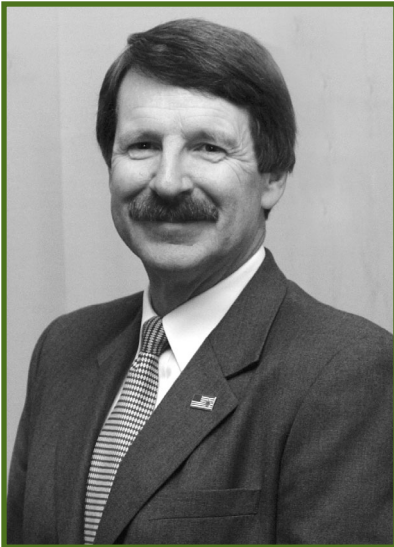
The Bureau of Engraving and Printing is a world-class securities printer providing our customers and the public superior products through excellence in manufacturing and technological innovation.

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Message from the Director



This has been a banner year for the Bureau. Following the successful issuance of the new \$20 note last year, the Bureau issued redesigned \$50 notes with subtle background colors of blue and red. The new \$50 note began circulating September 28, 2004. The successful development and issuance of this note was made possible by the continued close partnership between the Bureau of Engraving and Printing, the Department of the Treasury, the Federal Reserve and the United States Secret Service. The new \$50 note design reaffirms the Bureau's commitment to include state-of-the-art counterfeit deterrent features in U.S. currency that make it safer, smarter and more secure. The redesigned currency is harder to copy and easier to authenticate, keeping the Bureau ahead of technological advances in computer design and reprographics thus making it the currency of choice in international transactions.

In 2004, the Bureau delivered 8.8 billion Federal Reserve Notes, including nearly 3.0 billion redesigned notes. In addition, the Bureau delivered 6.1 billion postage stamps to the United States Postal Service. The currency and stamp orders were fulfilled on schedule, at lower cost and spoilage than anticipated.

The Bureau is committed to quality manufacturing and its quality management system is ISO (International Organization for Standardization) 9001 certified. In 2004, the Bureau's registration was updated to the more stringent 2000 standard, exemplifying our commitment to product quality and continuous improvement to current and potential customers.

The Bureau remains committed to maintaining state-of-the-art production capability, product quality and security, employee safety and environmental stewardship as we continue to cost effectively meet the needs of our customers and the American public. As a result, the Bureau exceeded expectations in lowering spoilage rates for currency and was able to reduce the average price of currency to the Federal Reserve by almost 6%.

The performance and financial data presented in this report is complete and accurate as outlined in guidance available from the Office of Management and Budget. The Bureau regularly uses this financial and performance data for decision-making. Consequently, every effort is made to ensure its accuracy and reliability.

The Bureau is looking forward to 2005 as it continues to produce currency and other security products of the highest quality effectively and efficiently. In 2005, the Bureau plans to begin the recapitalization of the Washington, DC facility with the installation of two new currency printing presses. This state-of-the-art equipment and our highly skilled, dedicated workforce will ensure that the Bureau remains the world's premier government securities printer.

Thomas A. Ferguson
Director



Message from the Chief Financial Officer



I am pleased to present the Bureau of Engraving and Printing's Chief Financial Officer Performance and Accountability Report for 2004. This report reflects a significant milestone in a long tradition of strong financial management and timely financial reporting at the Bureau. For the 20th consecutive year, the Bureau received an unqualified opinion on its financial statements from an independent certified public accounting firm. This sustained level of achievement is indicative of a top-to-bottom organizational commitment to maintaining world-class excellence in financial management and reporting.

The Bureau's financial statement audit was completed on October 15, 2004, as a result of our continuing efforts to streamline financial reporting while ensuring data accuracy and reliability. As in 2002 and 2003, our financial management team completed the monthly close within three business days for each month in 2004.

The financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. The annual audit helps to ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making. Again, as in 2002 and 2003, the Bureau had no material weaknesses, reportable conditions or material instances of non-conformance in 2004.

In 2004, the Bureau delivered 8.8 billion currency notes to the Federal Reserve and 6.1 billion postage stamps to the U.S. Postal Service. This resulted in revenue of \$525 million and an excess of expenses over revenue of \$28.8 million. The excess of expenses over revenue was planned and funded out of working capital.

Performance with respect to all key program performance measures was favorable during 2004. Direct manufacturing costs for both the currency and postage stamp programs were below established standards for cost and spoilage. All customer delivery dates were met for both the currency and postage stamp programs and the issuance of the redesigned \$50 note was an unqualified success. I am pleased to report that as a result of lower than anticipated spoilage rates, improved operating efficiency and staff reductions in administrative and support areas, the Bureau was able to reduce its average currency billing rate to the Federal Reserve by almost 6% for 2004.

The Bureau of Engraving and Printing has again succeeded in meeting its customers' needs for innovative, quality products from both an operational and financial management perspective. The Bureau prides itself on its commitment to product quality, superior customer service and efficient stewardship of resources in order to continue to effectively meet the needs of the American public.

A handwritten signature in green ink that reads "Gregory D. Carper". The signature is written in a cursive, flowing style.

Gregory D. Carper
Chief Financial Officer





Bureau Director, Thomas A. Ferguson (left); U.S. Treasury Secretary John W. Snow; Federal Reserve Board Governor Mark W. Olson and C. Danny Spriggs, Deputy Director of the United States Secret Service, introducing the redesigned \$50 note on April 26, 2004.



Bureau Director, Thomas A. Ferguson (left); Federal Reserve Board Governor Mark W. Olsen; Congresswoman Kay Granger; U.S. Treasury Secretary John W. Snow; C. Danny Spriggs, Deputy Director of the United States Secret Service; Mayor of Fort Worth, Mike Moncrief; Charlene Williams, Deputy Associate Director Western Currency Facility cutting the ribbon to open the Bureau's public tour in Fort Worth, TX.



Highlights of the Year

In 2004, the Bureau of Engraving and Printing focused its resources on producing the most secure currency for the Nation. The redesigned \$50 note was introduced to the public on April 26, 2004 at a ceremony held at the Bureau's Western Currency Facility in Fort Worth, Texas. The new \$50 note began circulating on September 28, 2004. It incorporates the same family of advanced counterfeit deterrent features as the redesigned \$20 note, which was introduced in 2003. The redesigned \$10 note is scheduled for production in 2005.



Legal Tender or United States \$50 Note (1880) with portrait of Benjamin Franklin.

In addition, the Bureau continues to expand the certification of its currency manufacturing quality management systems under ISO (International Organization for Standardization) standards. As part of this expansion, the Bureau's ISO certification was also upgraded to the more rigorous 2000 standards, which include a commitment to continuous improvement. The certification includes the critical currency manufacturing support functions of ink making, plate manufacturing, and roller covering.

Additional financial and operational highlights for 2004 include:

- Completed both the currency and postage stamp programs below standard cost with lower than anticipated spoilage;
- Reduced the average price of currency by about 6% in 2004 due to reduced spoilage, increased ink mileage and improved productivity;
- Completed work on the expansion of the Western Currency Facility in Fort Worth, Texas, which included the addition of a public tour and Visitor's Center;
- Received an unqualified opinion on Bureau financial statements from an independent certified public accounting firm for the 20th consecutive year;
- Received the Pretreatment Partnership Award from the City of Fort Worth for the fourth consecutive year

to honor the Western Currency Facility's creativity and innovation in protecting water quality, preserving environmental resources and minimizing by-product waste;

- Received the Government Employment Award for Employing and Empowering Texans with Disabilities from Texas Governor Rick Perry; and
- Began a multi-year effort to upgrade the infrastructure and recapitalize the Washington, DC facility.

(All Dollars in Millions)

	2003	2004
Sales Revenue	\$518.1	\$524.8
Capital Investment	\$37.9	\$17.8
General and Administrative Costs	\$50.3	\$51.7
Research and Development	\$11.4	\$8.6
Total Assets	\$619.2	\$597.7
Excess of Revenue over Expenses	(\$12.1)	(\$28.8)
Federal Reserve Notes		
Delivered (Billions)	8.2	8.8
Postage Stamps		
Delivered (Billions)	9.9	6.1





The Western Currency Facility Visitor's Center and tour opened to the public on April 26, 2004.



Profile of the Bureau of Engraving and Printing

The mission of the Bureau of Engraving and Printing is to design and manufacture high quality security documents that deter counterfeiting and meet customer requirements for quality, quantity and performance.

The Bureau of Engraving and Printing began printing currency in 1862. The Bureau operates on the basis of authority conferred upon the Secretary of the Treasury by 31 U.S.C.

321(a) (4) to engrave and print currency and other security documents. Operations are financed by a means of a revolving fund established in 1950 in accordance with Public Law 81-656. This fund is reimbursed through product sales for direct and indirect costs of operations including administrative expenses. In 1977, Public Law 95-81 authorized the Bureau to include an amount sufficient to fund capital investment and to meet working capital requirements in the prices charged for products. This eliminated the need for appropriations from Congress.

The Bureau produces U.S. currency, U.S. postage stamps and many other security documents issued by the Federal Government. Other activities at the Bureau include engraving plates and dies; manufacturing certain inks used to print security products; purchasing materials, supplies and equipment; and storing and delivering products in accordance with requirements of customers. In addition, the Bureau provides technical assistance and advice to other Federal agencies in the design and production of documents, which, because of their innate value or other characteristics, require counterfeit deterrence. The Bureau audits cash destruction and unfit currency operations at Federal Reserve Banks, and it is responsible for the accountability and destruction of internally generated security waste products. As a service to the public, the Bureau also processes claims for the redemption of mutilated paper currency.

The Bureau occupies three government-owned facilities. The Main and Annex buildings, located in Washington, DC, produce Federal Reserve Notes, postage stamps and other security products. The Western Currency Facility, located in Fort Worth, Texas, produces Federal Reserve Notes. The Main

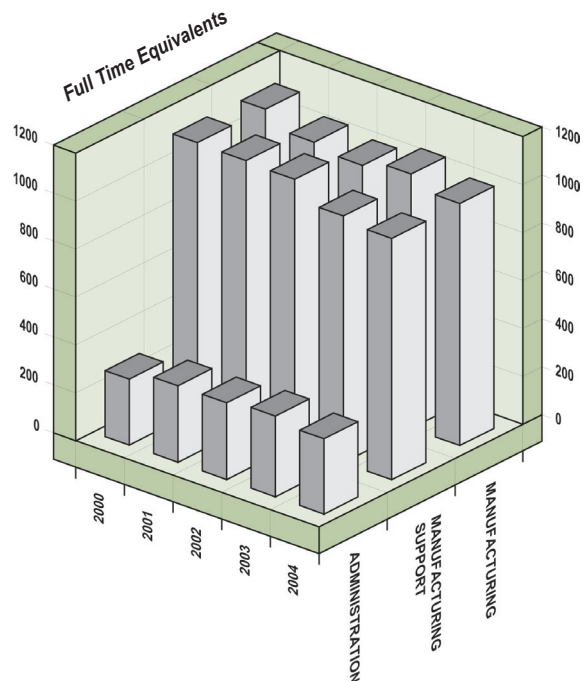


Legal Tender or United States \$50 Note (1862) with portrait of Alexander Hamilton, the first Secretary of the Treasury.

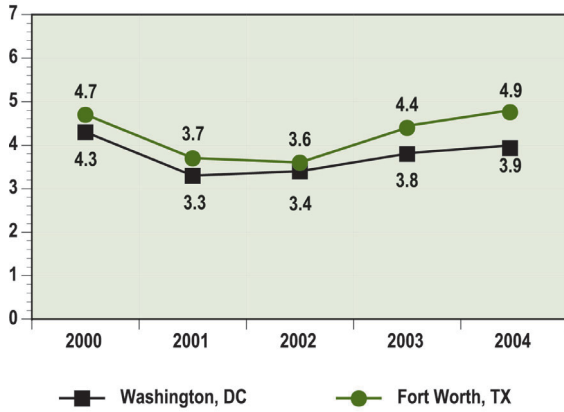
Building became operational in 1914, the Annex Building in 1938, and the Western Currency Facility began operations in 1991. The Western Currency Facility was constructed to provide increased production capacity, reduce transportation costs and enhance the Nation's emergency preparedness.

In addition to housing production facilities, free tours of currency operations are offered to the general public in both Washington, DC and Fort Worth. The tours include a

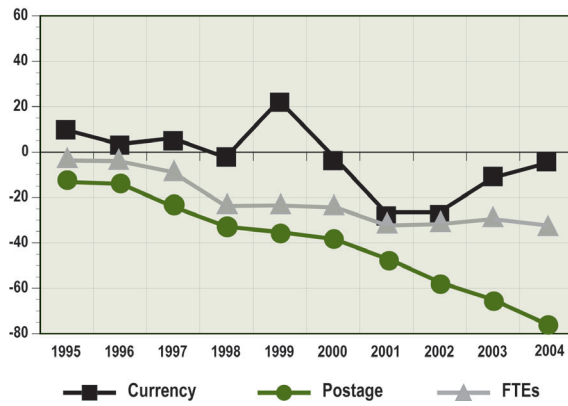
Staffing (FTE) by Function



**Currency Production by Facility
(Billions of Notes)**



**Program and Manufacturing Staffing (FTE) Changes
(Percentage change from base year)**



Visitor's Center with currency manufacturing displays, interactive kiosks and other information about the history of our Nation's currency. Sales centers that sell uncut sheets of currency, premium numismatic currency sets, and other collectibles and engravings are also open to the public at both facilities. In addition to the on-site sales center, sales are available through mail order and through the Bureau's Internet site: www.moneyfactory.gov.

Manufacturing

On April 26, 2004, in an ongoing effort to stay ahead of counterfeiters, the U.S. Government unveiled a redesigned \$50 note. The new \$50 note was released into circulation on September 28, 2004. The redesigned note includes enhanced security features, subtle background colors of blue and red, an image of a waving American flag and a



Visitors on the tour in Texas enjoying the mutilated currency redemption demonstration by Jessalyn Marcus.



small, metallic silver-blue star. The new design is part of the U.S. government's ongoing efforts to maintain the integrity of U.S. currency. The new \$50 note is the second denomination to be redesigned as part of the Series 2004 currency; the most secure series of notes in U.S. history. The first denomination in the series to be redesigned was the \$20 note, which began circulating in October 2003. The next denomination in the series will be the \$10 note. The Bureau is currently refining the design and expects to unveil the new \$10 note to the public in the spring of 2005. The \$100 note is also slated to be redesigned, but a timetable for its introduction has not been determined. There are no current plans to redesign the \$5 note, and the \$1 and \$2 notes will not be redesigned.

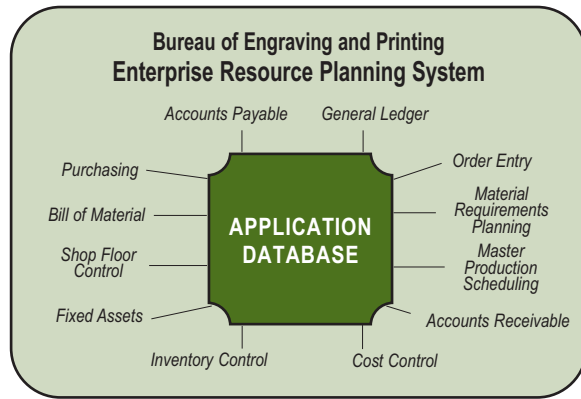
During 2004, the Bureau delivered 8.8 billion Federal Reserve Notes to the Federal Reserve System, including nearly 3.0 billion redesigned, colorized notes. The Washington and Fort Worth facilities both produced the redesigned notes in 2004 and delivered 3.9 billion and 4.9 billion Federal Reserve Notes, respectively. For 2005, the Federal Reserve System has ordered 8.6 billion Federal Reserve Notes.

The Bureau's quality management system for the production of U.S. currency has been registered as ISO 9001 compliant for four years. During 2004, the Bureau's registration was updated to the more stringent 2000 standard. The Bureau has established a project team to work towards ISO 14000 certification for its environmental management system at the Western Currency Facility in Fort Worth, Texas in 2005. Maintaining and updating ISO certifications exemplifies our commitment to product quality to current and potential customers.

In addition to the currency deliveries, the Bureau delivered 6.1 billion postage stamps to the U.S. Postal Service during 2004. For 2005, the final year of postage stamp production at the Bureau, the U.S. Postal Service has ordered 5 billion postage stamps. This is consistent with the five-year interagency agreement with U.S. Postal Service that plans for the phase out of the production of postage stamps at the Bureau by the end of 2005.

Information Technology (IT)

The Bureau is continuing its development of an Enterprise Architecture (EA) Program for effective management and strategic decision-making, especially for information technology (IT) investments that require an integrated view of the



Bureau, its operational processes and information systems. During 2004, the Bureau took steps to further enhance its Web-Based Help Desk and Request/Project Tracking System. In addition to the EA and Help Desk initiatives, the Bureau is conducting a Smart Card Pilot to use biometrics, electronic signatures and single sign-on.

Organization

The Bureau's executive structure includes the Bureau Director, five Associate Directors and Chief Counsel. The executive committee structure includes an Executive Committee, the Capital Investment Committee, the Information Resource Management Committee and various planning committees and subcommittees. The planning and subcommittees are composed of a cross-section of senior and mid-level managers representing diverse organizational units. By cutting across organizational lines, these groups serve to promote effective communication and participative, proactive management.



Vernon Gause of the Plate Preparation Division inspecting Treasury seals for quality.

The New Color of Money: Safer, Smarter, More Secure

Series 2004 \$50 Note



The new \$50 design retains three important security features that were first introduced in the 1990s and are easy for consumers and merchants alike to check:

- 1 Watermark: A faint image, similar to the portrait, which is part of the paper itself and is visible from both sides when held up to the light.
- 2 Security thread: Also visible from both sides when held up to the light, this vertical strip of plastic is embedded in the paper and spells out the denomination in tiny print.
- 3 Color-shifting ink: The numeral in the lower right corner on the face of the note, indicating its denomination, changes color from copper to green when the note is tilted.

New symbols of freedom have been designed on the face of the \$50 note to represent images of the American flag. The traditional stars and stripes of the United States flag are printed in blue and red behind the portrait of President Grant. A field of blue stars is located to the left of the portrait, while three red stripes are located to the right of the portrait. A small metallic silver-blue star is located on the lower right side of the portrait. The symbols of freedom will differ for each denomination.

The most noticeable difference in the newly designed \$50 note is the addition of subtle background colors of blue and red to both sides of the note. Also, small yellow 50s have been printed in the background on the back of the note. The Series 2004 notes mark the first time in modern American history that U.S. cash will include colors other than black and green. Different background colors will be used for the different denominations. This will help everyone to tell denominations apart.



The New Color of Money

The new \$50 note was unveiled on April 26, 2004 and was released to the public on September 28, 2004. The redesigned note includes enhanced security features, subtle background colors of red and blue, an image of a waving American flag and a small, metallic silver-blue star.

The design of the \$50 note includes the same family of features found on the \$20 note, which was released in October 2003. The next denomination to be redesigned is the \$10 note. The new design is expected to be unveiled in the spring of 2005 and the redesign of the \$100 note will follow. There are no current plans to redesign the \$5 note and the \$1 and \$2 notes will not be redesigned.

The continued redesign of U.S. currency is an ongoing effort to stay ahead of the technological advances available to counterfeiters. "The stability and integrity of U.S. paper currency is something the U.S. government takes very seriously," said Brian Roseboro, Under Secretary for Domestic Finance at the Department of the Treasury. "We believe that redesigning the currency regularly and enhancing security features is the way to keep U.S. currency safe and secure from would-be counterfeiters."

The redesigned currency retains three important counterfeit deterrent features that were first introduced in the late 1990's and are easy for consumers and merchants to verify:

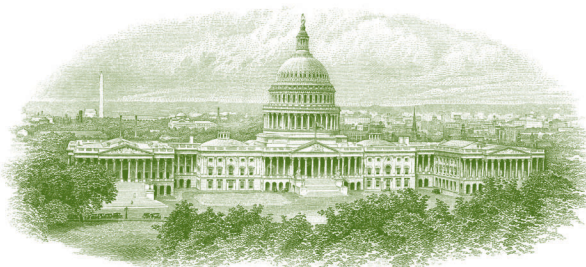
- 1) The watermark -- the faint image similar to the large portrait, which is part of the paper itself, is visible from both sides when the note is held up to light.
- 2) The security thread -- also visible from both sides when held up to light, this vertical strip of plastic is embedded in the paper and spells out "USA" as well as the denomination.
- 3) The color-shifting ink -- the numeral in the lower-right corner on the face of the note changes from copper to green when the note is tilted. The color shift is more dramatic and easier to see on the new design notes.



"Red Seal" United States Note (1869) with portrait of Henry Clay, Secretary of State.

Counterfeiting has been kept at low levels through a combination of improvements in security features, aggressive law enforcement and education efforts to inform the public about how to authenticate their currency. Currency counterfeiting has been historically done using commercial printing presses. However, since 1995, digitally produced counterfeit notes from personal computers have increased from one percent of all counterfeits detected in the U.S. to 40 percent. To stay ahead of counterfeiters as advances in technology make digital counterfeiting of currency easier and cheaper, the Bureau expects to redesign U.S. currency every seven to ten years.

Because the improved security features in the redesigned currency are more effective only if the public knows about and uses the features, a broad, public education program is an integral part of the redesign effort. This program ensures that people all over the world know that the new currency is coming, and it helps them recognize and use the security features. With nearly \$700 billion in U.S. currency in circulation worldwide, educating people is crucial to counterfeit deterrence and a major focus of the counterfeit deterrence effort.



Executive Organizational Structure

THOMAS A. FERGUSON
DIRECTOR



BUREAU MISSION

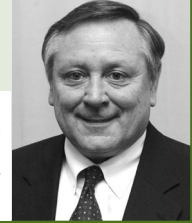
The mission of the Bureau of Engraving and Printing is to design and manufacture high quality security documents that meet customer requirements for quality, quantity and performance, including counterfeit deterrence.

KIT A. REGONE
ASSOCIATE DIRECTOR
(CHIEF OPERATING OFFICER)



The mission of the COO Directorate is to assure the manufacturing of all government security documents in a cost-effective and efficient manner that satisfies the needs of the customer, and to provide a safe and secure working environment for employees in both manufacturing facilities.

GREGORY D. CARPER
ASSOCIATE DIRECTOR
(CHIEF FINANCIAL OFFICER)



The mission of the CFO Directorate is to maintain the integrity of the Bureau's revolving fund, provide the financial resources necessary to meet customer requirements, and oversee management control functions and the mutilated currency redemption program.

JOEL C. TAUB
ASSOCIATE DIRECTOR
(MANAGEMENT)



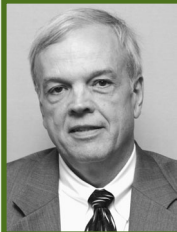
The mission of the Management Directorate is to provide the highest quality Security, Human Resources, Labor Relations, Procurement and Administrative Services in support of the overall Bureau mission.

LARRY R. FELIX
ASSOCIATE DIRECTOR
(TECHNOLOGY)



The mission of the Technology Directorate is to support the production of United States currency, postage stamps, and other government securities by incorporating new covert features that prevent counterfeiting, by developing new production processes that enhance the quality and production of securities, by providing technical support to the production process, and by providing facility support and maintenance.

RONALD W. FALTER
ASSOCIATE DIRECTOR
(CHIEF INFORMATION OFFICER)



The mission of the CIO Directorate is to provide proven state-of-the-art information technology in support of cost-effective production of U.S. Security Products, with primary emphasis on U.S. currency.

VACANT
CHIEF COUNSEL

The mission of the Office of the Chief Counsel is to provide the highest quality legal services in support of the overall Bureau mission.



Safety, Health and Environmental Management

The Bureau's commitment to environmental, health, and safety (EHS) management remains unwavering. The Office of Environment and Safety (OES) manages programs that protect individuals from injuries and minimize the Bureau's impact on the environment. The Bureau's goals are to continue to reduce occupational injury and illness rates and to minimize the impact that the Bureau's air emissions, wastewater discharge and solid waste have on the environment.

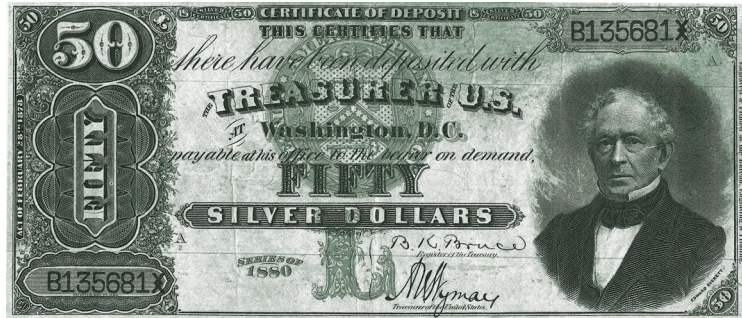
In 2004, a third party audit was conducted for all environment, health and safety programs. The findings of the audit provided valuable information that was used to improve technical program management as well as to document regulatory compliance. This was a critical step in the Bureau's quest for excellence through the Occupational Safety & Health Administration's (OSHA) Voluntary Protection Plan (VPP) designation and ISO 14000 registry.

Improving Worker Health and Safety

The Bureau's Joint Occupational Safety, Health, and Environment Committee (JOSHEC) and its injury subcommittee continued to focus close attention on reducing injuries, illnesses, and lost workdays. The subcommittee is comprised of an injury management team that includes representatives from labor, the Bureau's Health Unit, Labor-Management Relations Division and OES. Working together, this team continued to improve safety results over the past year as indicated by the following:

- Lost Workday Cases were down 44%;
- Lost Workdays were down 35%; and
- All cases were down 24%.

The Bureau's lost workday rates also exceeded, by a large measure, the injury and illness goals set under the



\$50 Silver Certificate (1880) with portrait of Edward Everett, Secretary of State.

President's Safety, Health and Return to Employment (SHARE) initiative.

In addition, the Bureau is developing a set of initiatives to more fully integrate health and safety into all employees' daily work at the Bureau. Among these initiatives are online training, an intranet-based Material Safety Data Sheet (MSDS) system as well as injury management software accessible to all employees. These initiatives will improve the Bureau's ability to work with OSHA and enter into its Voluntary Protection Program. The VPP designation is a collaborative approach between OSHA, Bureau management and labor working together to establish cooperative relationships at workplaces that have implemented a comprehensive safety and health management system. Approval to enter VPP is OSHA's official recognition of the outstanding efforts of employers and employees who have achieved exemplary occupational safety and health results.

Lost Work Days (Days Lost Due to Injury)



Reductions in Injuries and Lost Work Days in 2004

Facility	All Injury Cases	Lost Time Cases	Lost Work Days
Washington, DC Facility	-10%	-36%	-45%
Fort Worth, TX Facility	-48%	-54%	-1%
Bureau Total	-24%	-44%	-35%

Protecting the Environment

The Bureau is also committed to implementing a comprehensive environmental management system (EMS) in both facilities, which will lead to ISO 14000 certification. ISO 14000 is an internationally recognized standard for environmental management systems. Some of the benefits of certification include: identifying areas for reduction in energy and other resource consumption, reducing environmental liability and risk, preventing pollution and reducing waste while demonstrating a commitment to high-quality. The EMS was first implemented in the Bureau's Fort Worth, Texas facility. The lessons learned while implementing the system in Texas will be used to benefit the Washington, DC facility. The EMS implementation process is very employee-oriented as information is gathered from individual workers to identify critical environmental issues. Consequently, this effort includes representatives and support from the Joint Labor Council, which represents the Bureau's unions.

Significant environmental activities in 2004 include:

- A contract for water-based cleaner was awarded to replace the highly volatile petroleum-based cleaners that have been used for generations on printing presses. The Bureau is a leader in the effort to eliminate petroleum-based cleaners.
- New procedures were established using "best practices" for plate printers operating the older Intaglio printing presses that resulted in a reduction in the amount of water-based wiping solution used.
- The Bureau continued to test improved wastewater pretreatment technology. The Bureau is committed to identifying technologies that will produce wastewater of such quality that it can be reused in the industrial process rather than discharged into the municipal treatment works.



The Western Currency Facility received the City of Fort Worth's Pretreatment Award for the fourth consecutive year. From left to right: Anthony Fast, BEP; Lee Bohme, U.S. EPA; Robert Hobbs, BEP; Frank Crumb, Fort Worth Water Department; Colleen McKinney, BEP; Marcella Olson, Fort Worth Water Department.



Strategic Plan

The vision guiding the Bureau's Strategic Plan is to be "a world-class securities printer providing our customers and the public superior products through excellence in manufacturing and technological innovation." A copy of the Bureau's current Strategic Plan can be viewed by clicking "About the Bureau" on the Bureau of Engraving and Printing's web site: www.moneyfactory.gov.



\$50 Gold Certificate (1882) with portrait of Silas Wright, Jr., U.S. Senator from New York.

Customer Satisfaction: Satisfy the Federal Reserve Board and the public by providing responsive service and quality products.

Quality Manufacturing: Manufacture state-of-the-art currency of consistently high quality while improving productivity and cost performance.

Counterfeit Deterrence: Produce state-of-the-art currency that deters counterfeiting, contributes to public confidence, facilitates daily commerce and extends the useful life of notes in circulation.

Security and Accountability: Ensure an environment of comprehensive security and accountability for the Bureau's personnel, facilities, and products.

Resource Management: Manage Bureau resources to increase internal efficiency and effectiveness in support of the other strategic goals.

The Bureau of Engraving and Printing is the Government's security printer. Its customers and stakeholders expect the highest degree of security. The Bureau seeks to maintain the highest levels of security by incorporating counterfeit deterrence features into currency as well as maintaining a secure physical environment at its two facilities.

The Bureau also provides services directly to the public. The Bureau processes claims for redemption of damaged paper currency at no cost to the public.

The Bureau also offers free public tours of its facilities. The tour of the Bureau's Washington, DC manufacturing opera-

tions and the Visitor's Center are among the most popular attractions in the Nation's Capital. Public tours of the Western Currency Facility in Fort Worth began in the spring of 2004.

While manufacturing currency and other printed securities is the core business of the Bureau, the production operations are highly dependent on the effectiveness of support processes such as security, procurement, information systems, financial management, product accountability, human resources management, engineering, research, product development, and maintenance. Only when these processes work in concert can the Bureau be responsive to the needs of its customers.



Plate Printers Michael Miltner and Thomas Gudgeon monitoring image quality.



Assurance Statement Fiscal Year 2004

As required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Bureau of Engraving and Printing (Bureau) has evaluated both its management controls and financial management systems for fiscal year 2004. The results of these evaluations provided reasonable assurance that the management controls (Section 2) and the financial management systems (Section 4) are in overall compliance with standards prescribed by the Comptroller General of the United States and guidance issued by the Office of Management and Budget. In addition, the Bureau has no instances of material management control weaknesses and no material non-conformances outstanding as of September 30, 2004. Also, based on Office of Management and Budget (OMB) guidance, OMB Bulletin 01-02 (Audit Requirements for Federal Financial Statements), the Bureau can state that it is in substantial compliance with the applicable provisions of the Federal Financial Management Improvement Act of 1996. Further, the Bureau has active programs in place to provide reasonable assurance that programs achieve their intended results; resources are used consistent with the Bureau's overall mission; programs and resources are free from waste, fraud, and mismanagement; laws and regulations are followed; controls are sufficient to minimize any improper or erroneous payments; performance information is reliable; systems security is in substantial compliance with all relevant requirements, continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and financial management systems are in compliance with Federal financial systems standards.

Ta Ferguson



Plate Makers Steve Olszowy and Kenneth Garner marking obsolete currency plates for destruction.



Federal Managers' Financial Integrity Act Plans and Accomplishments

The Federal Managers' Financial Integrity Act (FMFIA), which was passed in 1982, requires agencies to perform regular evaluations of management controls and financial management systems to protect against fraud, waste, and abuse. The subsequent passage of the Chief Financial Officers Act and the Federal Financial Management Improvement Act further increased the government's management control requirements.



\$50 Silver Certificate (1891) with portrait of Edward Everett, Secretary of State.

The Bureau has a history of strong management controls and an aggressive monitoring program. Key elements of this program include comprehensive financial management controls, personnel security controls, production and quality controls, computer security and information resources management programs, and strong physical security and product accountability functions to safeguard products and assets. The Bureau's Strategic Plan reflects this emphasis. Security, accountability and resource management are major strategic goals.

To maintain and enhance product accountability, the Bureau maintains an Accountability Help Desk at its facilities in Washington, DC and Fort Worth, Texas. The Help Desks are staffed with personnel knowledgeable in all aspects of the Bureau's accountability system. They provide training and day-to-day assistance to accountability system users to prevent, minimize, or resolve product accountability issues. In addition, they review and update existing accountability procedures and reports to provide the controls needed to properly track and account for Bureau securities.

Ongoing efforts to improve internal controls include compliance reviews and an active internal control awareness program. The Bureau's Compliance Review Teams (CRTs) in both facilities promote compliance with Bureau operating policies and procedures by performing unannounced reviews in production and storage areas that have custody of security items. During 2004, the CRTs performed 379 unannounced reviews. The results of the reviews were reported to office chiefs, supervisors and managers responsible for

enforcing policies and procedures, and implementing corrective actions. The Internal Control Awareness Program is used to promote the visibility and understanding of management control issues, objectives and requirements. Internal review personnel conduct management and organizational reviews at both facilities to strengthen the Bureau's internal controls, ensure compliance with existing policies and procedures, and safeguard Bureau assets. The Bureau's quality management system for the production of U.S. currency has been registered as ISO 9001 compliant for four years. The internal review staff supports the maintenance and continuous improvement of the Bureau's quality management system by conducting quality audits throughout the Bureau.

The financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 20th consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. For 2004, the Bureau received an unqualified opinion on October 15, 2004, demonstrative of world-class financial management. The annual audit and FMFIA review process help to ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making. In 2005, the Bureau intends to expand its internal control system to be in compliance with the more stringent requirements of the Sarbanes-Oxley Act, as applicable.

In 2004, the Bureau's Chief Information Officer (CIO) continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and informa-



tion technology (IT) related processes and enhanced governance of the IT program and resources. The Bureau continued to refine its Enterprise Architecture, not only to address Federal Enterprise Architecture reference models as they were initially released and updated, but also to address the specific needs of the Bureau relative to the documentation of manufacturing and administrative processes, legacy asset portfolios and the development of performance metrics associated with assets included in legacy portfolios. In IT security, all of the Bureau's major applications and general support systems have been certified and accredited as meeting stringent Federal requirements for ensuring the integrity and security of information systems. In 2004, the Bureau's core information system was recertified after the upgrade of its operating system, and the remaining systems and applications have undergone extensive independent program reviews using methodology developed by the National Institute of Standards and Technology.

The CIO Directorate continues to maintain and refine policy and procedures for ensuring the adequacy of management controls throughout the life cycle of information technology hardware and software. The Bureau's Computer Security Incident Response Capability meets the requirements of the Departments of the Treasury and Homeland Security. In addition, the Bureau continues to be an active participant in Department of the Treasury Critical Infrastructure Protection Planning efforts in instituting policies and procedures to ensure the confidentiality, availability, integrity and reliability of information. As part of the Bureau's emphasis on governance, configuration management (CM) policy and processes continue to be developed and a formal program, which includes implementation of CM software, has been established. This software will provide detailed tracking of software, hardware and system configuration changes, as well as the reasons for and impact of these changes. The



Pressman Michael Pate pulling a sample sheet to check serial numbers during final production.

first phase of the implementation of configuration management software is nearing completion, with completion expected in 2006.

The Bureau has implemented a rigorous Capital Planning and Investment Control Process which includes IT and non-IT investment review committees. The IT Architecture and Security Subcommittee, which has membership representing IT Security, Enterprise Architecture and Technical Security, reviews all business cases and statements of work which pertain to the acquisition of IT or IT-embedded capital assets.

Continuity of Operation Planning (COOP) has a Bureau-wide focus. In May 2004, the Bureau participated in exercise "Forward Challenge" in which the Bureau's Contingency and COOP plans were tested by Crisis Management Teams in table-top and other disaster recovery exercises.

Summary of Office of Inspector General Audits

The Bureau began 2004 with six open audit recommendations issued by the Office of Inspector General (OIG). These recommendations pertained to program issues. During 2004, the Bureau received eight additional recommendations in two OIG audit reports. One recommendation resulted from an audit requested by a Bureau contracting officer and pertained to contract issues. Seven recommendations were the result of an OIG initiated audit of the Bureau's controls over security. The recommendation from the contract-type audit report was implemented or addressed in 2004 resulting in monetary benefits of about \$10,000. In addition, seven recommendations from program-type audit reports were implemented or addressed in 2004. The remaining recommendations will be addressed as appropriate.



Custody of Assets

In addition to the main-line production of currency and postage stamps, the Bureau has many high-value items that are used for various purposes, such as research, product testing and historical reference. Consequently, the Bureau has a unique fiduciary responsibility to the American public with respect to the custody and safeguarding of its assets and high-value items.



\$50 National Bank Note, First National Bank of Winnemucca, Nevada (1906), with portrait of John Sherman, Secretary of the Treasury.

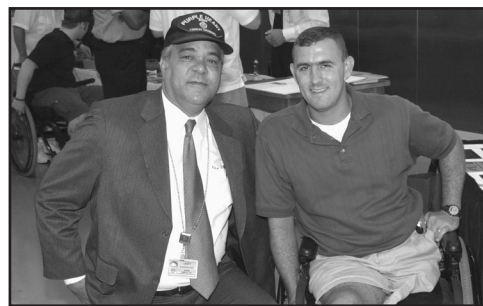
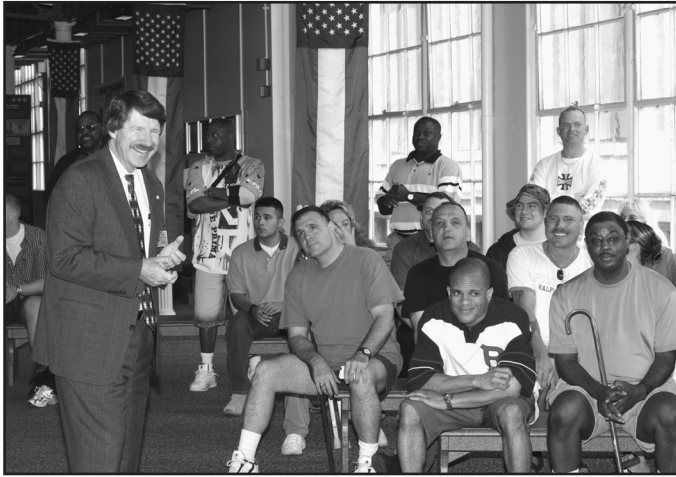
Currency products and other items used in test, experimental, research and other off-line activities are normally expensed immediately and are not carried as assets in the Bureau's financial statements. While the costs expensed may be immaterial to the financial statements, many of these items have high intrinsic value. Therefore, the Bureau ensures that adequate controls are in place to properly safeguard these items. The Bureau also has display areas at each of its facilities and maintains historical collections at its headquarters in Washington, DC. The displays and historical collections include valuable artifacts related to currency and postage stamp operations, as well as other securities produced by the Bureau. While these collections are not included in the inventory balances as reported in the financial statements, appropriate custodial records and controls are maintained. Physical inventories are performed regularly to ensure accountability for these collections.

Although the Bureau does not hold title to any land or facilities, it maintains custodial control over the buildings occupied in Washington, DC and Fort Worth, Texas. In 1999, the Bureau began a multi-year project to substantially renovate the buildings in Washington, DC. This renovation includes roof replacement and power system upgrades, as well as significant maintenance to the buildings' exteriors and ventilation systems. In 2001, the Bureau began an expansion of the Western Currency Facility in Fort Worth, Texas to provide additional production capability to print the next generation currency designs. This expansion of the production area was com-

pleted in 2003 and a public tour addition was completed in 2004.

To effectively manage its fiduciary and custodial responsibilities, the Bureau has implemented effective internal control and security systems. To ensure that these systems are functioning properly, management has institutionalized an organizational focus on the safeguarding and accountability of all assets. This focus is reflected in the Bureau's organizational structure. Reporting to the Associate Director (Chief Financial Officer), who has oversight responsibility with respect to management controls, is the Office of Management Control. This office evaluates and monitors management control systems and maintains a comprehensive product accountability system. Also, reporting to the Associate Director (Chief Financial Officer) is an Assistant Chief Financial Officer at the Western Currency Facility who is responsible for monitoring management control responsibilities at that facility. The Office of Security, which reports to the Associate Director (Management), plans, administers and monitors the Bureau's security programs. These programs include personnel, physical and operational security as well as securities destruction. Through this structure, individual unit managers are held accountable and responsible for maintaining proper custody and safeguarding of all assets under their control. To further reinforce the internal control and security structure, a security and internal control element is included in each employee's performance plan. Employees are rated annually regarding their performance with respect to this element.





Program Performance Measures

The Bureau measures the efficiency and effectiveness of its overall organizational performance by using program performance measures. Standards are developed annually by senior executive staff based on past year's performance, contracted price factors, and anticipated productivity improvement. Actual performance against standard depends on BEP's ability to meet annual spoilage, efficiency and capacity utilization goals estimated for each product line. In addition to the existing Bureau-level performance measurement system, an office-level performance measurement system was implemented in 1995 under the umbrella of the Government Performance and Results Act (GPRA).

Bureau-level performance measures and associated results for 2004 are shown in the chart at the bottom of the page.



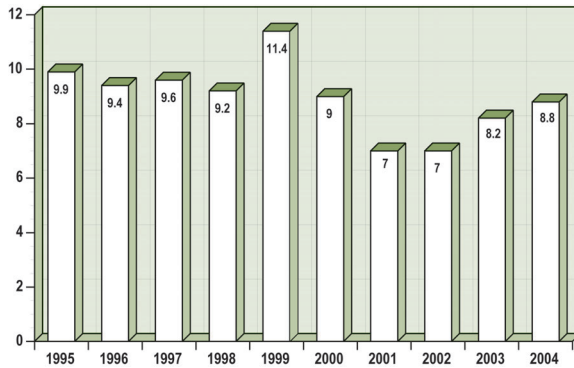
\$50 Federal Reserve Note (1914), with portrait of Ulysses S. Grant.

The Bureau does not receive Federal appropriations; operations at the Bureau are financed by a revolving fund that is reimbursed through product sales. Customer billings are the Bureau's only means of recovering the costs of operations and generating funds for capital investment. Billing rates are based on established cost standards, which are predicated on historical costs, and factors such as changes in labor, material and overhead costs. To ensure that suf-

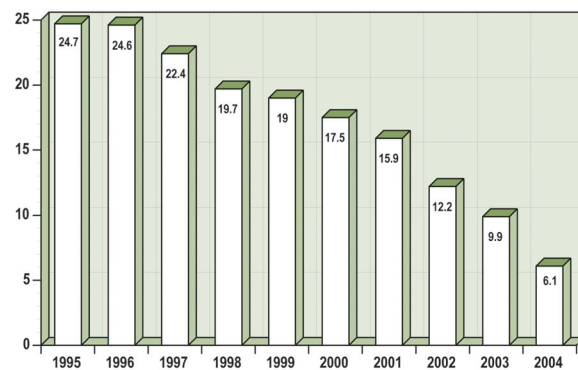
	<u>2004 Standard</u>	<u>2004 Actual</u>
1. <i>Federal Reserve Notes (Cost Per Thousand Notes)</i>	\$29.88	\$28.13
2. <i>100 Stamp Coil (Cost Per Thousand Stamps)</i>	\$1.90	\$1.62
3. <i>Federal Reserve Notes Delivered (Billions)</i>	8.7	8.8
4. <i>Postage Stamps Delivered (Billions)</i>	7.0	6.1
5. <i>Overall Productivity Change 2003 to 2004</i>	0%	5.8%
a. <i>Currency Productivity Change 2003 to 2004</i>	3%	7.4%
b. <i>Postage Productivity Change 2003 to 2004</i>	-20%	-7.8%
6. <i>Currency Spoilage</i>	5.4%	4.3%
7. <i>100 Stamp Coil Spoilage</i>	8.0%	5.7%



**Currency Deliveries
(Billions of Notes)**



**Postage Deliveries
(Billions of Stamps)**



efficient cash is provided for operations the Bureau must perform to these standard costs.

Currency (Cost Per Thousand Notes) Federal Reserve Notes	2004 Standard	2004 Actual
	\$29.88	\$28.13

The actual production cost per thousand currency notes, which includes direct labor and materials and applied manufacturing overhead, was about 6% below standard in 2004. This was due to lower than anticipated spoilage, improved ink mileage and higher productivity for the entire program.

Postage (Cost Per Thousand Stamps) 100 Stamp Coil	2004 Standard	2004 Actual
	\$1.90	\$1.62

The actual production cost per thousand stamps for the 100 Stamp Coil was approximately 15 percent below standard. This was primarily due to reduced spoilage, improved productivity, and lower labor and material costs.

Product Deliveries	2004 Order	2004 Delivery
Federal Reserve Notes (Billions)	8.7	8.8
Postage Stamps (Billions)	7.0	6.1

In 2004, the Bureau delivered 8.8 billion Federal Reserve Notes to the Federal Reserve System and 6.1 billion postage stamps to the U.S. Postal Service. Deliveries to the Federal Reserve exceeded the 2004 order because the Bureau delivered part of the 2005 program (0.1 billion notes) in 2004. Conversely, deliveries to the U.S. Postal Service during the year were less than the order in 2004 because the Bureau delivered part of the 2004 program (0.9 billion stamps) in

2003. Deliveries and billings are based on orders received from customers. Customer agencies submit their requirements to the Bureau on an annual basis and indicate expected product volume. In most years, actual production does not equal the order because production and delivery of the subsequent year's order may start before the new year.

Productivity Change	2004 Standard	2004 Actual
Overall Productivity	0%	5.8%
Currency Productivity	3%	7.4%
Postage Productivity	-20%	-7.8%



Pressman Wayne Winebrenner cleaning offset plates.



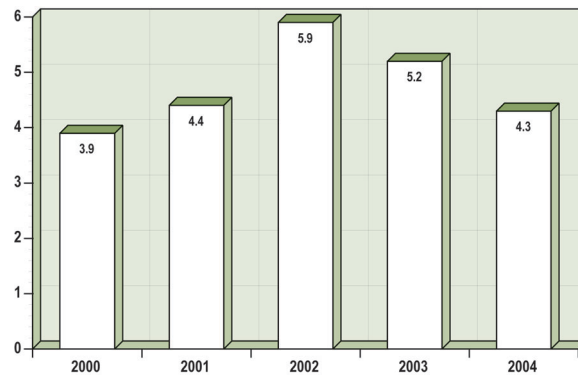
Productivity is calculated based on units of output per labor hour. In 2004, overall productivity increased by 5.8 percent. This was primarily due to a significant reduction in staffing as over 200 employees took advantage of retirement incentives offered in conjunction with the phase-out of the postage stamp program.

Staffing levels (apprenticeship and training programs) continued to focus on projected, long-term demand, demand trends and preparations necessary for the production of next generation currency, not fluctuations in year-to-year orders.

	2004 Standard	2004 Actual
Currency Spoilage Federal Reserve Notes	5.4%	4.3%

Spoilage is an inherent result of any production process. The level of spoilage is an indicator of the overall effectiveness of the production process and quality of material inputs. As the Bureau's commitment to quality and its ISO certification requirements have become institutionalized, the overall level of spoilage has fallen for the past two years. Overall currency spoilage in 2004 was below standard as result of this increased emphasis on quality and lower than anticipated spoilage on the initial roll-out of the next generation \$50 note.

**Currency Spoilage
(Percentage)**



	2004 Standard	2004 Actual
Postage Stamp Spoilage 100 Stamp Coil	8.0%	5.7%

Postage stamps are printed on web presses (roll fed). This printing process is much faster than sheet-fed printing, which is used for Federal Reserve Notes. As a result of this faster processing, spoilage rates for postage stamp printing are higher when compared to currency printing. Spoilage on the 100 Stamp Coil was below standard as a result of continued improvements in electronic inspection and increased communication throughout the production process.



Bookbinder Tommy Beck monitoring the \$20 note for quality.



Comparable Performance Measures for Three Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>
1. Federal Reserve Notes (Cost Per Thousand Notes)	\$30.03	\$29.14	\$28.13
2. Federal Reserve Notes Delivered (Billions)	7.0	8.2	8.8
3. Postage Stamps (Cost Per Thousand Stamps) 100 Stamp Coil	\$1.48	\$1.51	\$1.62
4. Postage Stamps Delivered (Billions)	12.2	9.9	6.1
5. Overall Productivity Change	-6.3%	11.1%	5.8%
a. Currency Productivity Change	-5.2%	12.1%	7.4%
b. Postage Productivity Change	-11.6%	4.3%	-7.8%
6. Currency Spoilage	5.9%	5.2%	4.3%
7. Postage Stamp Spoilage 100 Stamp Coil	6.7%	5.8%	5.7%

For those performance measures that are comparable, the results of the past three years are presented. New cost and spoilage standards are developed annually for all product lines produced at the Bureau. Because performance to standard is a meaningful performance measure only in the applicable year, only actual manufacturing cost and spoilage data are presented.



Management Discussion and Analysis

During 2004, the Bureau focused its resources and efforts on producing the most secure currency ever issued by the Federal Reserve. The Nation's new currency is enhanced by additional, advanced counterfeit deterrent features that are indicative of a world-class symbol of security and integrity.



\$50 Gold Certificate, Series of 1922, with portrait of Ulysses S. Grant.

Total deliveries of Federal Reserve Notes in 2004 increased over 2003 levels and postage stamp deliveries decreased according to plan. Revenues increased in 2004 primarily due to a six percent increase in the Bureau's currency program. The net operating loss for the year was within planned parameters. Funding for the Bureau remains adequate because depreciation, a non-cash expense offsets most of the capital investment and the planned operating loss in 2004.

Cash, Accounts Receivable and Cash Flow

Cash decreased \$7 million in 2004, while accounts receivable remained relatively unchanged from 2003. The decrease in cash was primarily the result of the planned net operating loss.

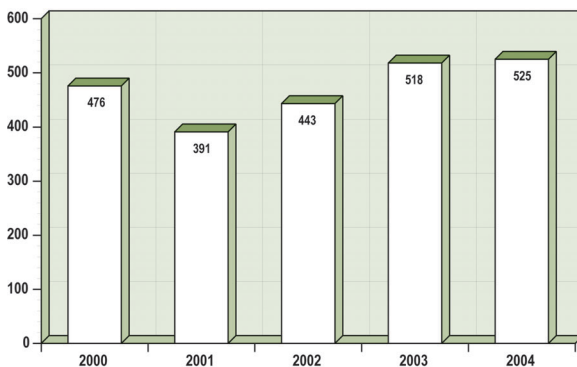
Inventories

Inventories increased from \$95 million in 2003 to \$103 million in 2004. This was primarily due to increased work in process and finished goods inventories resulting from high production levels of the redesigned \$50 note that was released into circulation on September 28, 2004.

Property and Equipment

Net property and equipment decreased from \$284 million in 2003 to \$261 million in 2004. This net decrease was due to depreciation in excess of the addition of new property and equipment.

**Total Revenue
(Millions of Dollars)**



**Annual Investment in Property & Equipment
(Millions of Dollars)**

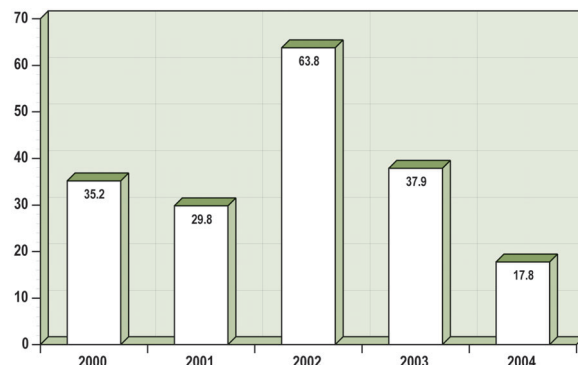
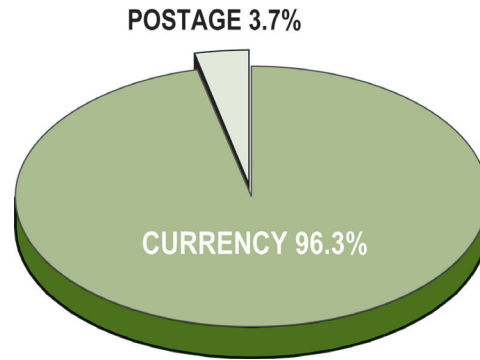




Plate Printer Deidre Veney inspecting currency to maintain quality standards.

2004 Revenue by Program



Other Assets

Other assets remained relatively unchanged in 2004.

Accounts Payable

Accounts payable increased from \$14 million in 2003 to \$19 million in 2004. The primary causes of the increase were the timing of cash disbursements for vendor payments and increased activity at year-end related to the production and release of the next generation \$50 note.

Accrued Current Liabilities

Accrued current liabilities increased from \$29 million in 2003 to \$31 million in 2004 due to payroll accruals and the timing of the pay period in relation to the end of the year.

Advances

Advances remained relatively unchanged in 2004.

Average Billing Rate for Currency

<u>Year</u>	<u>Rate Per Thousand Notes</u>	<u>Single Note</u>
1995	\$37.25	\$0.037
1996	\$39.41	\$0.039
1997	\$37.40	\$0.037
1998	\$40.20	\$0.040
1999	\$44.36	\$0.044
2000	\$45.34	\$0.045
2001	\$46.64	\$0.047
2002	\$54.39	\$0.054
2003	\$57.16	\$0.057
2004	\$55.56	\$0.056



Workers' Compensation Liabilities

The actuarial workers' compensation liability increased from \$61 million in 2003 to \$62 million in 2004. The increase in the actuarial liability was primarily due to changes in the discount rate used to calculate this liability.

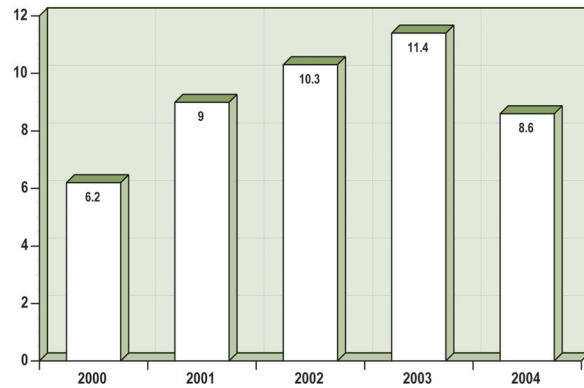
Revenue from Sales

Overall sales revenue increased by \$7 million in 2004 to \$525 million. This was due to the increase in the Bureau's currency deliveries from 8.2 billion notes in 2003 to 8.8 billion notes in 2004 - an increase of 7.3 percent.

Cost of Goods Sold

Cost of goods sold increased from \$469 million in 2003 to \$493 million in 2004. As a percentage of sales revenue, cost of goods sold increased from 90 percent to 94 percent. The overall increase in cost of goods sold was primarily due to the increase in the currency program. Gross margin as a percentage of revenue decreased as a result of the pro-

Research and Development Costs (Millions of Dollars)



duction of the costlier, counterfeit deterrent high-denomination notes and the planned net operating loss.

Operating Costs

Operating costs remained relatively unchanged in 2004.



Letter and Script Engraver Thomas Biles working on a new set of plates.





The Bureau of Engraving and Printing's Main Building in Washington, DC.

Limitations of the Financial Statements

The following financial statements are for the Bureau of Engraving and Printing, a component of the Department of the Treasury. As such, the statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. The principal financial statements have been prepared to report the financial position, results of operations and cash flows of the Bureau. They have been prepared from the Bureau's financial books and records maintained in accordance with private sector generally accepted accounting principles. These statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.



***Financial Statements and
Supplemental Information***



Report of Independent Auditors

To the Inspector General, Department of the Treasury, and
the Director of the Bureau of Engraving and Printing,
Department of the Treasury

We have audited the accompanying balance sheets of the Bureau of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, as of September 30, 2004 and 2003, and the related statements of operations and cumulative results of operations, and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as applicable. Those standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau of Engraving and Printing at September 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004 on our consideration of the Bureau's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Ernst + Young LLP

October 15, 2004
Washington, DC



**The Department of the Treasury
Bureau of Engraving and Printing**

Balance Sheets

	September 30	
	2004	2003
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash (Note 3)	\$168,928	\$175,613
Accounts receivable (Note 4)	44,607	45,324
Inventories (Note 5)	103,391	94,671
Prepaid expenses	3,148	4,538
Total current assets	320,074	320,146
Net property and equipment (Notes 2 and 6)	261,042	284,303
Other assets, principally machinery repair parts and tools (Note 2)	16,593	14,716
Total assets	\$597,709	\$619,165
 Liabilities and equity		
Current liabilities:		
Accounts payable	\$19,267	\$13,862
Accrued liabilities (Note 7)	30,980	28,912
Advances	461	1,699
Total current liabilities (Note 7)	50,708	44,473
Workers' compensation liability (non-actuarial) (Note 8)	5,593	5,491
Workers' compensation actuarial liability (Note 2)	62,304	61,291
Total liabilities	118,605	111,255
 Equity		
Invested capital	32,435	32,435
Cumulative results of operations	446,669	475,475
Total equity	479,104	507,910
Total liabilities and equity	\$597,709	\$619,165

See accompanying notes.



**The Department of the Treasury
Bureau of Engraving and Printing**

Statements of Operations and Cumulative Results of Operations

	Year Ended September 30	
	2004	2003
	<i>(In Thousands)</i>	
Revenue from sales <i>(Note 9)</i>	\$524,752	\$518,085
Cost of goods sold	493,255	468,546
Gross margin on operations	31,497	49,539
Operating costs:		
General and administrative	51,739	50,283
Research and development	8,564	11,362
	60,303	61,645
Excess of expenses over revenues resulting from operations	(28,806)	(12,106)
Cumulative results of operations at beginning of year	475,475	487,581
Cumulative results of operations at end of year	\$446,669	\$475,475

See accompanying notes.



**The Department of the Treasury
Bureau of Engraving and Printing**

Statements of Cash Flows

	Year Ended September 30	
	2004	2003
	<i>(In Thousands)</i>	
Operating activities		
Excess of expenses over revenues	(\$28,806)	(\$12,106)
Adjustments to reconcile excess of expenses over revenues to net cash provided (used) by operating activities:		
Depreciation and amortization	40,997	51,098
Loss on disposal of property and equipment	78	-0-
Changes in assets and liabilities:		
Accounts receivable	717	26,070
Inventories	(8,720)	(15,176)
Prepaid expenses	1,390	(699)
Other assets	(1,877)	(1,403)
Accounts payable	5,405	5,674
Accrued liabilities	2,068	3,254
Advances	(1,238)	(773)
Workers' compensation costs	1,115	3,721
Net cash provided by operating activities	<u>11,129</u>	<u>59,660</u>
Investing activities		
Disposal of other assets <i>(Note 2)</i>	-0-	7,347
Disposal of property and equipment <i>(Note 2)</i>	-0-	9,207
Additions to property and equipment	(17,814)	(37,935)
Advances to other Federal agencies	-0-	5
Net cash (used in) investing activities	<u>(17,814)</u>	<u>(21,376)</u>
Net increase (decrease) in cash	(6,685)	38,284
Cash at beginning of year	<u>175,613</u>	<u>137,329</u>
Cash at end of year	<u>\$168,928</u>	<u>\$175,613</u>

See accompanying notes.



**The Department of the Treasury
Bureau of Engraving and Printing**

**Notes to Financial Statements
Years Ended September 30, 2004 and 2003**

1. Reporting Entity

Basis of Presentation

The Bureau of Engraving and Printing (the Bureau), a component of the Department of the Treasury, is the U.S. Government's security printer. The Bureau designs and produces United States currency, postage stamps and other United States securities. The Bureau also advises and assists Federal agencies in the design and production of other Government documents.

The Bureau operates under basic authorities conferred by the Act of July 11, 1862 (12 Stat. 532; also, 31 U.S.C. 5114) and other Acts. In accordance with the provisions of Public Law 81-656, effective August 4, 1950, the operations of the Bureau are financed by means of a revolving fund. This fund is reimbursed through billings to the Bureau's customers for products delivered. Public Law 95-81 authorized the Bureau to include in its product prices an amount to provide funding for the acquisition of capital equipment and future working capital.

The financial statements represent the consolidation of two Federal revolving funds. The majority of all amounts and activity (over 99%) is contained in the Bureau of Engraving and Printing Revolving Fund, which finances Bureau operations. The other revolving fund, the Mutilated Currency Revolving Fund, is used to redeem damaged paper currency received from the public.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Bureau of Engraving and Printing has historically prepared its financial statements in conformity with generally accepted accounting principles, based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. In October 1999, the Federal Accounting Standards Advisory Board (FASAB) was designated by the American Institute of Certified Public Accountants (AICPA) as the standards-setting body for financial statements of federal government entities, with respect to the establishment of generally accepted accounting principles. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as in conformity with generally accepted accounting principles for those federal agencies, such as the Bureau of Engraving and Printing, that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, the Bureau of Engraving and Printing financial statements are presented in accordance with accounting standards published by the FASB.



**The Department of the Treasury
Bureau of Engraving and Printing**

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Equipment and Spare Parts

The United States Postal Service reimbursed the Bureau \$9.2 million and \$7.3 million, respectively, for the book value of idle equipment and the book value of repair parts and supplies as of September 30, 2003. The balances in the fixed assets and other assets accounts reflect this reimbursement. The \$56.9 million of accumulated depreciation associated with the idle equipment as of September 30, 2003, was also written-off. The \$0.8 million reserve for obsolescence on the repair parts and supplies as of September 30, 2003, was also written-off.

In 2004, the disposal of idle equipment and repair parts formerly used to produce U.S. postage stamps was completed. The equipment and related spare parts were turned over to the General Services Administration (GSA) for disposal in accordance with applicable government regulations.

Estimation Process

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Inventories

Inventories are valued at standard cost, except for finished goods inventories, which are valued at weighted average unit cost. Both methods approximate actual cost. Cost elements included in work-in-process and finished goods inventories are direct materials, direct labor, manufacturing overhead and manufacturing support.

Other Assets

Other assets consist principally of machinery repair parts, tools and supplies which are used in the production of the Bureau's products. Other assets are valued at standard cost, net of reserve for obsolescence, which approximates actual costs.

Property and Equipment

Property and equipment are recorded at cost. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The capitalization threshold is \$50,000.

The Bureau occupies and uses buildings and land owned by the U.S. Government. In accordance with the Act establishing the revolving fund, the Bureau is not charged for the use of the buildings or land, but is responsible for maintenance and repair of all buildings and land improvements. The land and building shell for the Bureau's Western Currency Facility were donated by the City of Fort Worth, Texas to the United States Government. See Note 6 for details.



**The Department of the Treasury
Bureau of Engraving and Printing**

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Depreciation

Depreciation of property and equipment is calculated using the straight-line method over the following estimated useful lives:

Machinery and equipment	3 - 15 years
Building improvements	3 - 40 years
Information technology (IT) equipment and software	3 - 5 years
Office machines	5 - 10 years
Furniture and fixtures	5 - 10 years
Motor vehicles	3 - 9 years

Employee Retirement Plans

Bureau employees participate in the contributory Civil Service Retirement System (CSRS) or Federal Employees' Retirement System (FERS), to which the Bureau and employees make contributions according to plan requirements. Employer contributions to the retirement plans for 2004 and 2003 were \$14.8 million and \$14.6 million, respectively. The CSRS employer contribution rate for fiscal year 2004 was 7.0%. The CSRS employer contribution rate for fiscal year 2003 was 7.5% from October through December and 7.0% beginning January. The FERS agency contribution rate for both years was 10.7%. The cost of providing the CSRS and FERS benefits is more than the amounts contributed by the Bureau and the employees to the Office of Personnel Management (OPM). The full cost of providing pension benefits, including the cost financed by OPM which is not included in the Bureau's Statement of Operations, totaled \$23.9 million and \$25.1 million in 2004 and 2003, respectively.

Consistent with reporting under multi-employer pension plans, the Bureau does not report CSRS and FERS assets, accumulated plan benefits or future liabilities, if any, applicable to its employees. This data is reported for plan participants by OPM.

Postretirement Benefits Other than Pensions

Postretirement benefits for former Bureau employees, specifically health care costs and life insurance, are administered and paid by OPM through appropriations received from the United States Government. The Bureau does not reimburse OPM for these payments. OPM paid such retirement benefit costs totaling \$9.8 million and \$8.5 million, as calculated by OPM, for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2004 and 2003, respectively. These costs are not included in the Bureau's Statements of Operations.

Consistent with reporting under a multi-employer plan arrangement, no accrued liability is required to be recorded by the Bureau for recognition of postretirement benefits other than pensions.



**The Department of the Treasury
Bureau of Engraving and Printing**

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cost of Employee Pensions and Postretirement Benefits Paid by OPM

As noted above, the Bureau's financial statements do not include the cost of employee pensions and postretirement benefits paid by OPM, or the actuarial liability for such benefits. There have been proposals made to have such costs and liabilities included at the Bureau level. If this change were made, it would have a material effect on the Bureau's financial statements.

Workers' Compensation Costs

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 death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for the Bureau's employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the Bureau. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability for future worker's compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds, which resulted in a discount rate of 4.88% in year one and 5.24% thereafter. Based on information provided by the DOL, the Department of the Treasury (Treasury) allocated the overall liability to Treasury components based on past claims paid. The Bureau's estimated liability for workers' compensation costs was \$62.3 million and \$61.3 million as of September 30, 2004 and 2003, respectively.

Annual, Sick and Other Leave

Annual leave is accrued as a liability when earned and the accrual is reduced as leave is taken. The balance in this accrued liability account reflects current pay rates.

Sick leave and other types of nonvested leave are expensed as the leave is taken.

Revenue Recognition

Revenue from sales to the Federal Reserve System and United States Postal Service is recognized when finished goods are delivered to the on-site Federal Reserve Depository Vaults or United States Postal Service Vault, and they are released for shipment. Finished goods are released for shipment in accordance with customer requirements.



**The Department of the Treasury
Bureau of Engraving and Printing**

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Advertising Cost

The Bureau incurred \$20.4 million and \$21.1 million in advertising costs for the years ended September 30, 2004 and 2003, respectively, related to the Next Generation Currency Notes public education program. These costs are expensed as incurred.

3. Cash

The year-end cash balances are as follows:

	2004	September 30 2003
	<i>(In Thousands)</i>	
Bureau of Engraving and Printing		
Revolving Fund	\$168,442	\$175,197
Mutilated Currency Revolving Fund	461	416
Other	25	-0-
Total	\$168,928	\$175,613

4. Accounts Receivable

Accounts receivable consist of the following:

	2004	September 30 2003
	<i>(In Thousands)</i>	
Billed	\$42,024	\$43,858
Unbilled	2,583	1,466
Total	\$44,607	\$45,324

The Bureau had intragovernmental accounts receivable of \$2.2 million and \$0.1 million as of September 30, 2004 and 2003, respectively. Historical accounts receivable loss experience does not warrant the establishment of an allowance for uncollectible accounts.



**The Department of the Treasury
Bureau of Engraving and Printing**

Notes to Financial Statements (continued)

5. Inventories

Inventories consist of the following:

	2004	September 30 2003
	<i>(In Thousands)</i>	
Raw materials and supplies	\$47,819	\$47,904
Work-in-process	43,546	37,997
Finished goods - regular currency	-0-	2,953
Finished goods - postage stamps and special products	3,610	246
Finished goods - uncut currency	8,416	5,571
Total	\$103,391	\$94,671

6. Net Property and Equipment

Property and equipment consist of the following:

	2004	September 30 2003
	<i>(In Thousands)</i>	
Machinery and equipment	\$442,786	\$445,005
Building and land improvements	210,997	202,225
IT equipment and software	26,157	22,844
Office machines	1,195	1,495
Furniture and fixtures	3,108	3,108
Donated assets - art work	125	125
Motor vehicles	265	265
	684,633	675,067
Less accumulated depreciation	429,586	396,889
	255,047	278,178
Construction-in-progress	5,995	6,125
Net property and equipment	\$261,042	\$284,303

Fully depreciated assets in use as of September 30, 2004 and 2003 were \$167 million and \$182 million, respectively.

The Bureau occupies and uses buildings and land owned by the U.S. Government. The land and building shell for the Fort Worth, Texas facility were donated by the City of Fort Worth to the U.S. Government in 1987, and title is held by the U.S. Government. At the time of donation, the land had an appraised value of \$1.5 million and the building shell cost was \$5.6 million. In accordance with the provisions of Public Law 81-656, Bureau financial statements include only the costs to complete the facility.



**The Department of the Treasury
Bureau of Engraving and Printing**

Notes to Financial Statements (continued)

7. Current Liabilities

All current liabilities are funded and consist of the following:

	September 30	
	2004	2003
	<i>(In Thousands)</i>	
Intragovernmental	\$4,847	\$6,185
Other	45,861	38,288
Total	\$50,708	\$44,473

Accrued current liabilities consist of the following:

	September 30	
	2004	2003
	<i>(In Thousands)</i>	
Payroll	\$15,677	\$12,761
Annual leave	9,606	10,084
Workers' compensation	4,536	4,778
Other	1,161	1,289
Total	\$30,980	\$28,912

8. Workers' Compensation Liability (Non-Actuarial)

The Bureau has recorded a liability for claims incurred and paid to claimants by the Department of Labor (DOL) as of September 30, 2004 and 2003, but not yet reimbursed to DOL by the Bureau. Such amounts, associated with workers' compensation, which will be paid in subsequent years, are approximately \$5.6 million and \$5.5 million, respectively. (See Note 2)

9. Revenue from Sales

Revenues are derived from the following principal customers:

	September 30			
	2004		2003	
	<i>(In Thousands)</i>			
Federal Reserve System	\$491,179	93.6%	\$469,642	90.6%
United States Postal Service	19,501	3.7%	37,513	7.3%
Other	14,072	2.7%	10,930	2.1%
Total	\$524,752	100.0%	\$518,085	100.0%



**The Department of the Treasury
Bureau of Engraving and Printing**

Notes to Financial Statements (continued)

9. Revenue from Sales (continued)

In 2001, the Bureau and the U.S. Postal Service entered into an agreement that will gradually phase out production of postage stamps at the Bureau over a five-year period ending in 2005, with delivery services continuing through 2006. The Bureau does not anticipate any substantial adverse impact from this change, as the five-year period will enable the Bureau to plan and prepare for the elimination of the postage stamp program.

10. Principal Suppliers

The Bureau is dependent upon sole suppliers for distinctive currency paper, certain advanced counterfeit deterrent inks and currency paper fibers.

11. Commitments and Contingencies

The Bureau is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Bureau are paid by the Department of the Treasury Judgment Fund. There was a payout from the Judgment Fund of \$0.1 million in fiscal year 2004. No payout was made in fiscal year 2003. In employee-related cases, the Bureau's liability is limited to the employer's required contribution to the retirement and Medicare funds. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the financial statements.

In 2004, the Bureau contracted to purchase currency production equipment, costing \$23.7 million, to be delivered in 2005.

The Bureau does not carry commercial insurance on its physical assets because by law the Federal Government is self-insured.

The Bureau has not entered into any long-term leasing arrangements.

12. Staffing

In 2004, in order to reduce staffing and better match facility staffing and production requirements, the Bureau offered voluntary employee separation incentives. As a result, approximately 200 employees accepted the incentives and the Bureau incurred expenses of \$5.1 million.



Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements in Accordance With *Government Auditing Standards*

To the Inspector General, Department of the Treasury, and
the Director of the Bureau of Engraving and Printing,
Department of the Treasury

We have audited the financial statements of the Bureau of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, as of and for the year ended September 30, 2004, and have issued our report thereon dated October 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as applicable.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bureau's internal control over financial reporting by obtaining an understanding of the Bureau's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions or material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management of the Bureau in a separate letter dated October 15, 2004.

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

Compliance and Other Matters

The management of the Bureau is responsible for complying with laws and regulations applicable to the Bureau. As part of obtaining reasonable assurance about whether the Bureau's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, as applicable. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*, and OMB Bulletin No. 01-02, as applicable.

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

October 15, 2004
Washington, DC

Ernst & Young LLP



Report of Independent Auditors on Other Financial Information

To the Inspector General, Department of the Treasury, and
the Director of the Bureau of Engraving and Printing,
Department of the Treasury

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Bureau of Engraving and Printing taken as a whole. The accompanying additional information in the Statements of Operations (by Product Line) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

Ernst & Young LLP

October 15, 2004
Washington, DC



**The Department of the Treasury
Bureau of Engraving and Printing**

Statements of Operations (By Product Line) (Unaudited)

	Year Ended September 30	
	2004	2003
	<i>(In Thousands)</i>	
Currency program revenues	\$505,251	\$480,572
Cost of goods sold	472,430	436,753
Gross margin on operations	32,821	43,819
Operating costs:		
General and administrative	49,592	47,693
Research and development	8,564	11,362
Currency-excess of expenses over revenues	(25,335)	(15,236)
Postage programs revenue	19,501	37,513
Cost of goods sold	20,825	31,793
Gross margin on operations	(1,324)	5,720
Operating costs:		
General and administrative	2,147	2,590
Postage-excess of expenses over revenues	(3,471)	3,130
Net results of operations	(\$28,806)	(\$12,106)

Note: Revenues and expenses for the currency product line include small amounts related to the production and sale of miscellaneous special products and services. Support, a component of cost of goods sold, and general administrative expenses are allocated to the currency and postage product lines based upon the currency and postage manufacturing costs estimated at the beginning of the year.

Product Line Statement of Operations

Deliveries of Federal Reserve Notes in 2004 increased by 0.6 billion over 2003 deliveries, while postage stamp deliveries continued to decrease according to plan. An increase in the currency program volume resulted in a revenue increase of approximately 5 percent in 2004, while postage stamp program revenue decreased approximately 48 percent. Superior performance in the manufacturing areas coupled with Bureau-wide cost containment efforts resulted in positive gross margin on operations in the currency program. When setting 2004 currency prices, the Bureau planned for a net operating loss. The net operating loss for the year was within planned parameters.



Supplemental Information

Currency Capacity Utilization	<u>2002</u>	<u>2003</u>	<u>2004</u>
Washington Currency Program			
a. Printing	66%	71%	73%
b. Processing	58%	66%	67%
Fort Worth Currency Program			
a. Printing	67%	77%	84%
b. Processing	61%	68%	76%

Capacity utilization in the currency program in 2004 shows an increase over 2003 because the currency order increased from 8.2 billion notes in 2003 to 8.7 billion notes in 2004. Capacity utilization in 2005 is expected to decrease slightly as a result of a planned decrease in the currency order to 8.6 billion notes. Capacity utilization percentages are based on a three-shift, five-day workweek.

Postage Capacity Utilization	<u>2002</u>	<u>2003</u>	<u>2004</u>
a. Printing	25%	17%	33%
b. Processing	23%	17%	56%

In 2004, printing and processing capacity utilization increased as a result of the disposal of idle equipment used in the production of postage stamps. Machine capacity utilization in the postage program continues to trend lower as a result of continuing production decreases. This is consistent with a five-year agreement between the U.S. Postal Service and the Bureau that plans for the phase-out of postage stamp production at the Bureau in 2005. As the postage stamp order decreases each year, the Bureau has focused its attention on shifting personnel to the currency program and to cross training others in related technical fields. Machine capacity significantly exceeds actual production capacity because of the Bureau's continued efforts to reduce staffing in anticipation of the end of the postage stamp program at the Bureau.

Prompt Payment

To ensure that Federal agencies pay invoices in a timely manner, Congress passed the Prompt Payment Act and the Office of Management and Budget (OMB) issued Circular A-125, which is now codified as part of the Code of Federal Regulations (CFR). Generally, the CFR requires payment within 30 days from the later of either the receipt of a proper invoice or acceptance of the goods/services. If this timeframe is not met, an interest penalty must be paid to the vendor. Within the Department of Treasury, the standard for the late payment rate is that no more than two percent of the invoices subject to prompt payment shall be paid late (at least 98 percent paid within 30 days.)

The Bureau's prompt payment performance for the past three years is presented below. As the percentages indicate, the Bureau has continued to exceed the Departmental standard for late payments. In 2004, there was a significant decrease in the number of late payments largely due to reduced staff turnover (more experienced personnel) and increased efforts to ensure timely payment of invoices.

	<u>2002</u>	<u>2003</u>	<u>2004</u>
1. Number of Invoices Paid Late	154	148	94
2. Interest Penalties Paid	\$7,452	\$7,741	\$6,619
3. Percentage of Invoices Paid Late	1.9%	1.9%	1.3%



