

***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%



