



**CHIEF FINANCIAL OFFICER
PERFORMANCE AND ACCOUNTABILITY REPORT**



**DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING**

2005



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John W. Snow

Secretary of the Treasury.

MESSAGE FROM THE DIRECTOR



This past year at the Bureau of Engraving and Printing has been one of progress and significant change. While reducing costs and redesigning the \$10 currency note, the Bureau reached the end of an era in 2005 with the close-out of more than 100 years of postage stamp production for the U.S. Postal Service. The redesigned \$10 note was introduced to the public on September 28, 2005, and will begin circulating in the spring of 2006. In addition, the Bureau continued to assess possible new counterfeit deterrent features for inclusion in the redesign of the \$100 note and to work on design concepts.

Concurrent with the redesign efforts, the Bureau delivered 8.5 billion Federal Reserve Notes to the Federal Reserve and 5 billion postage stamps to the U.S. Postal Service. Both the currency and stamp orders were fulfilled on schedule and at lower cost and spoilage than anticipated. In fact, currency manufacturing performance, as measured by the leading indicators - productivity, spoilage and manufacturing cost - has steadily improved over the last three years.

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 continues to strive to provide the highest level of customer service. To meet this challenge, as well as the expectations of our customers, the pace of change at the Bureau is accelerating. Substantial investments in technology and people are planned to meet the competitive forces that the Bureau faces and to ensure compliance with environmental regulations. In 2006, the Bureau will begin to recapitalize the Washington, DC facility with the installation of two new currency printing presses.

Most importantly, I want to thank the Bureau's outstanding employees for their tremendous support and amazing accomplishments over the seven years that I have been the Bureau Director. I am planning to retire in early 2006 after more than 30 years of service to the Bureau. I feel fortunate to have been given the opportunity to lead the Bureau's many talented employees. None of the successes of the past seven years would have taken place without their focused dedication. With their continued support, the Bureau will remain the world's premier government securities printer.

A handwritten signature in gold ink that reads "T A Ferguson". The signature is written in a cursive, flowing style.

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 (CFO) Performance and Accountability Report for 2005. This report reflects a tradition of strong financial management and timely financial reporting at the Bureau. For the 21st consecutive year, the Bureau received an unqualified opinion on its financial statements from an independent certified public accounting firm.

At the end of 2004, the Bureau decided to seek an opinion on internal controls over financial reporting for 2005 in accordance with the Sarbanes-Oxley Act. While this has been a major undertaking, I am pleased to report that the Bureau is one of the first government entities to receive an opinion based on stringent standards similar to those set by Sarbanes-Oxley. This level of achievement is indicative of the top-to-bottom organizational commitment to maintaining excellence in financial management and reporting.



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.

In 2005, the Bureau delivered 8.5 billion currency notes to the Federal Reserve and 5 billion postage stamps to the U.S. Postal Service. This resulted in revenue of \$512 million and an excess of expenses over revenue of \$18.5 million.

Performance with respect to all key program performance measures was favorable during 2005. 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. This year was the final year of postage stamp production at the Bureau. Despite reduced currency and postage stamp volumes, the Bureau was able to reduce its average currency billing rate to the Federal Reserve as a result of reduced spoilage rates and improved operating efficiency.

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. This tradition of excellence will continue as the Bureau innovates and takes advantage of opportunities to streamline manufacturing processes and strengthen financial management practices.

Finally, I would like to take this opportunity to thank the employees within the CFO Directorate for their professionalism and support during my tenure at the Bureau. I am retiring this year after more than 30 years of service, including the last nine as CFO. I feel fortunate to have led such dedicated, hard working employees and to have been able to contribute to making the Bureau the world's preeminent currency printer.

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

Gregory D. Carper
Chief Financial Officer





The Director, Chief Financial Officer, and Associate Director (Management) Retirement Ceremonies, marking over 100 years of combined government service.



HIGHLIGHTS OF THE YEAR



In 2005, the Bureau of Engraving and Printing focused its resources on producing the most secure currency for the Nation. The redesigned \$10 note was introduced to the public on September 28, 2005, at a ceremony held at the Statue of Liberty in New York Harbor. The ceremony's location was in keeping with one of the symbols of freedom depicted on the new note, Lady Liberty's torch. The \$10 note, which will enter circulation in early 2006, is the third denomination in the new currency series which incorporates enhanced security features, subtle background colors and symbols of freedom into their design. Work is continuing on the development and identification of new counterfeit deterrent features and redesign of the \$100 note.

Additional financial and operational highlights for 2005 include:

- Issued new series notes bearing the signatures of the new Treasurer of the United States, Anna Escobedo Cabral, and the Secretary of the Treasury, John W. Snow;
- Completed both the currency and postage stamp programs below standard cost with lower than anticipated spoilage;
- Reduced the average price of currency in 2005 due to reduced spoilage, increased ink mileage and improved productivity;
- Received an unqualified opinion on Bureau financial statements from an independent certified public accounting firm for the 21st consecutive year;
- Received an unqualified opinion on management assertion on the effectiveness of internal controls over financial reporting based on similar challenging requirements set by the Sarbanes-Oxley Act (the Bureau was one of the first government entities to receive such an opinion.);
- Completed comprehensive reviews of security and accountability procedures at both facilities;
- Implemented a web-based time and attendance system;
- Initiated an executive development program to provide for succession planning;
- Successfully completed the phase-out of postage stamp production at the Bureau without a reduction-in-force and no adverse cost impact on the Bureau's currency manufacturing program; and
- Continued the recapitalization of the Washington, DC facility by placing an order for two new intaglio currency printing presses with an option for up to six more.

(All Dollars in Millions)	2004	2005
Sales Revenue	\$524.8	\$512.1
Capital Investment	\$17.8	\$23.9
General and Administrative Costs	\$51.7	\$50.5
Research and Development	\$8.6	\$7.6
Total Assets	\$597.7	\$570.9
Excess of Revenue over Expenses	(\$28.8)	(\$18.5)
Federal Reserve Notes Delivered (Billions)	8.8	8.5
Postage Stamps Delivered (Billions)	6.1	5.0





Clockwise from top left: Bureau Director and Deputy Director, Tom Ferguson (l) and Larry Felix (r); Director Ferguson taking questions from young reporters for Scholastic News; the unveiling of the redesigned \$10 note, Director, Bureau of Engraving and Printing, Tom Ferguson; Treasurer of the United States, Anna Escobedo Cabral; Secretary of the Treasury, John W. Snow; Vice Chairman, Board of Governors of the Federal Reserve System, Roger W. Ferguson; and Director, United States Secret Service, W. Ralph Basham.



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 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 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,

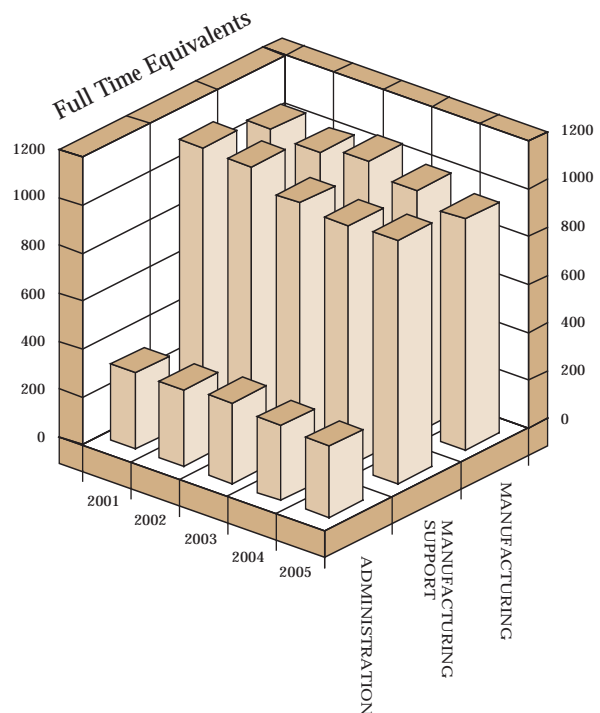


\$10 United States Note, Series 1901, face.

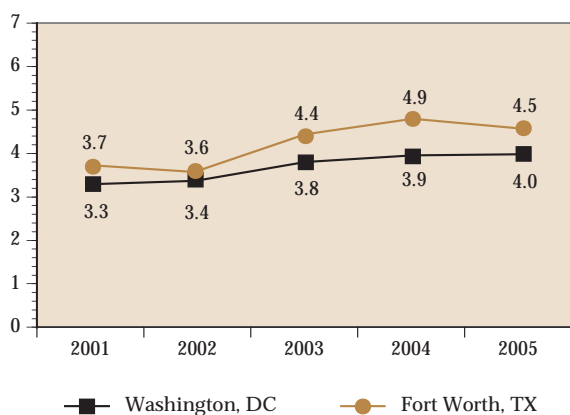
the Bureau also processes claims for the redemption of mutilated paper currency.

The Bureau occupies three government-owned facilities. The Main and Annex buildings, located in Washington, DC, produce Federal Reserve Notes and other security products. The Western Currency Facility, located in Fort Worth, Texas, produces Federal Reserve Notes. The Main Building became operational in 1914, the Annex Building in 1938, and

Staffing (FTE) by Function



Currency Production by Facility (Billions of Notes)



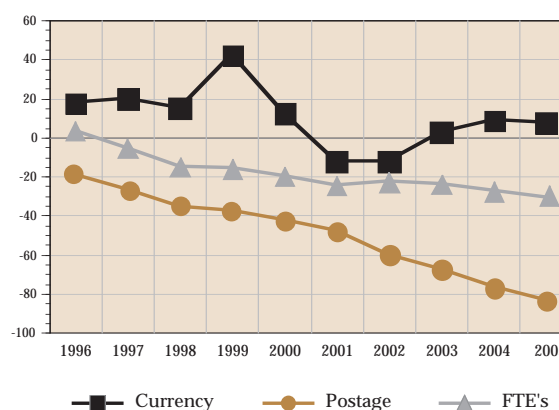
the Western Currency Facility began operations in 1991. The Western Currency Facility was constructed to provide increased production capacity, reduce transportation costs and enhance the Nation's emergency preparedness.

In addition to housing production facilities, free tours of currency operations are offered to the general public in both Washington, DC and Fort Worth, TX. The tours include Visitor Centers 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 September 28, 2005, in an ongoing effort to stay ahead of counterfeiters, the U.S. Government unveiled a redesigned \$10 note. The new \$10 note will be released into circulation in the spring of 2006. The new \$10 note, which is the third denomination to be redesigned in the series, includes subtle shades of orange, yellow and red along with enhanced security features which include images of freedom depicting the Statue of Liberty's torch and the words "We the People" from the Constitution. The new design is part of the U.S. Government's ongoing efforts to maintain the integrity of U.S. currency. Work is continuing on the redesign of the \$100 note and the

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



development of new counterfeit deterrent features that may be used. There are no plans to redesign the \$1 and \$2 notes.

During 2005, the Bureau delivered 8.5 billion Federal Reserve Notes to the Federal Reserve System. The Washington and Fort Worth facilities both produced the redesigned notes in 2005 and they delivered 4 billion and 4.5 billion Federal Reserve Notes, respectively. For 2006, the Federal Reserve System has ordered 8.2 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 five years. During 2005, the Bureau committed to obtaining ISO 14001 certification for environmental management systems (EMS) at both the Washington and Fort Worth facilities. Maintaining and updating ISO certifications exemplifies the Bureau's commitment to product quality to current and potential customers.

In addition to the currency deliveries, the Bureau delivered 5 billion postage stamps to the U.S. Postal Service during 2005. This was the final year of postage stamp production at the Bureau. By any measure, the phase-out of the postage stamp program was managed in a highly effective manner as the Bureau used hiring controls and retirement incentives to reduce staffing over the past five years. This enabled the Bureau to avoid a reduction-in-force and to prevent shifting overhead costs to currency production in future years.



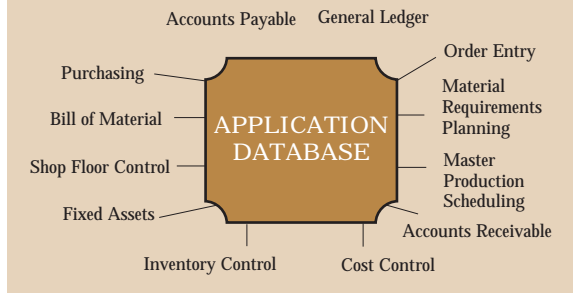
Information Technology (IT)

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.

In addition to the EA efforts, the Bureau continued its Smart Card Pilot using fingerprint biometrics, electronic signatures and single sign-on. The Bureau is currently using the smart card/biometric and Treasury Certificate Authority as a resource to encrypt and transmit sensitive images between our facilities. Another ongoing pilot program involves using Treasury's Public Key Infrastructure (PKI) to evaluate digital signature capability.

During 2005, the Bureau implemented an automated time and attendance system for all of its employees. With the new system, the manual process for completing and submitting timecards was replaced with a system that provides for electronic signatures and routing using an automated Internet rules-based process.

Bureau of Engraving and Printing Enterprise Resource Planning System



Organization

The Bureau's executive structure includes the Bureau Director, a Deputy 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.



The development of a new inspection system will help pressman like Robert Lopez (l) and Dennis Lang (r) improve the quality of currency.



THE NEW COLOR OF MONEY - SAFER, SMARTER, MORE SECURE
THE REDESIGNED \$10 NOTE



The new \$10 note design retains three of the most important security features that were first introduced in the 1990s and are easy to check: watermark, color-shifting ink and security thread.

- 1 Watermark:** Hold the bill up to the light and look for the watermark, or faint image, similar to the large portrait. The watermark is part of the paper itself and can be seen from both sides of the note. A blank oval has been incorporated into the back of the new \$10 note to highlight the watermark's location.
- 2 Security Thread:** Hold the bill up to the light and look for the security thread, or plastic strip, that is embedded in the paper and runs vertically to the right of the portrait. Close inspection will reveal, the words "USA TEN" and a small flag are visible along the thread from both sides of the note. This thread glows orange when held under ultraviolet light. In the redesigned \$10 note, the thread has shifted slightly to the right of its location on older series \$10 notes.
- 3 Color-Shifting Ink:** Look at the number "10" in the lower right corner on the front of the note. When you tilt the note up and down, the color-shifting ink changes color from copper to green.

The United States Government continues issuing currency with enhanced designs and security features. New \$20 and \$50 notes were introduced in 2003 and 2004, respectively. The new \$10 note will enter circulation in early 2006, followed later by a new \$100 note. New currency designs are part of an ongoing effort by the United States government to stay ahead of currency counterfeiting and to protect the economy and your hard-earned money.

THE NEW COLOR OF MONEY



The new \$10 note was unveiled on September 28, 2005, and will be released to the public early in 2006. The new \$10 note, which is the third denomination to be redesigned in the series, includes subtle shades of orange, yellow and red along with images of the Statue of Liberty's torch and the words "We the People" from the United States Constitution.

The design of the \$10 note also retains three of the most important security features that were first introduced in the 1990s and are easy to use: color-shifting ink, watermark, and security thread. Work is continuing on the development of new counterfeit deterrent features and redesign of the \$100 note. There are no current plans to redesign the \$1 and \$2 notes.

The continued redesign of U.S. currency is an ongoing effort to stay ahead of the technological advances available to counterfeiters. "People around the world rely on the strength and stability of United States currency. Thanks to the changes we've made in currency design, thanks to aggressive law enforcement led by the U.S. Secret Service, and thanks to an informed public, we've been able to stay ahead of counterfeiters," said Secretary of the Treasury, John W. Snow, at the unveiling of the new \$10 note.

The counterfeit deterrent features that are the easiest to verify include:

The color-shifting ink – Tilt the \$10 note to check that the numeral "10" in the lower right-hand corner on the face of the note changes color from copper to green. The color shift is more dramatic on the redesigned notes, making it even easier to use this feature.

The watermark – Hold the \$10 note up to a light to see a faint image of the first Treasury Secretary,

Alexander Hamilton, to the right of his large portrait. It can be seen from both sides of the note. On the redesigned \$10 note, a blank oval has been incorporated into the back of the note to highlight the watermark's location.

The security thread – Hold the \$10 note up to a light and make sure there is a small strip embedded in the paper. The words "USA TEN" and a small flag are visible in tiny print on the thread. It runs vertically to the right of the portrait and can be seen from both sides of the note. This thread glows orange when held under ultraviolet light.

Also at the unveiling ceremony, Treasurer of the United States, Anna Escobedo Cabral, said, "Along with introducing a new note, we also continue a public education program to raise awareness about the changes we're making to the \$10 note and to our currency in general. An informed public that knows about the note's security features and how to use them is one of our best allies as we stay ahead of counterfeiters."

Since 2003, more than 62 million pieces of training materials have been ordered by businesses and other organizations to help them train their cash-handling employees about the notes' enhanced security features. It is estimated that fewer than 1 in 10,000 ten dollar notes is a counterfeit, yet, an increasing proportion of counterfeit notes are digitally produced. Since 1995, digitally produced counterfeit notes have increased from less than 1 percent of all counterfeits detected in the United States to about 54 percent in 2004. In the past ten years, as advanced reprographic technology has become available to the general public, the amount of digitally produced counterfeits has risen.

To continue to stay ahead of counterfeiters, as advances in technology make digital counterfeiting of currency less difficult, the Bureau expects to redesign U.S. currency every seven to ten years.



EXECUTIVE ORGANIZATIONAL STRUCTURE

