



Department of the Treasury
Bureau of Engraving and Printing



**Chief Financial Officer
Performance and Accountability Report
2011**

MISSION

The Bureau of Engraving and Printing develops and produces United States currency notes, trusted worldwide.

CORE VALUES

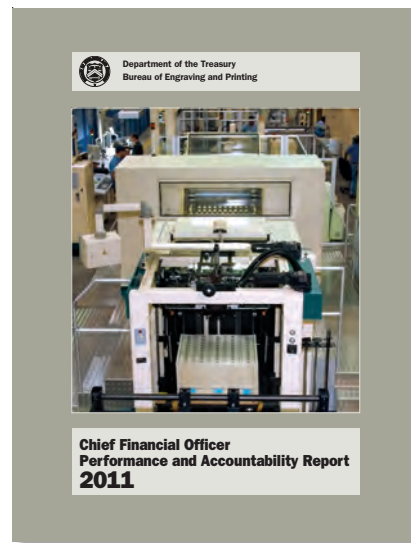
Integrity • Fairness • Performance • Respect

VISION

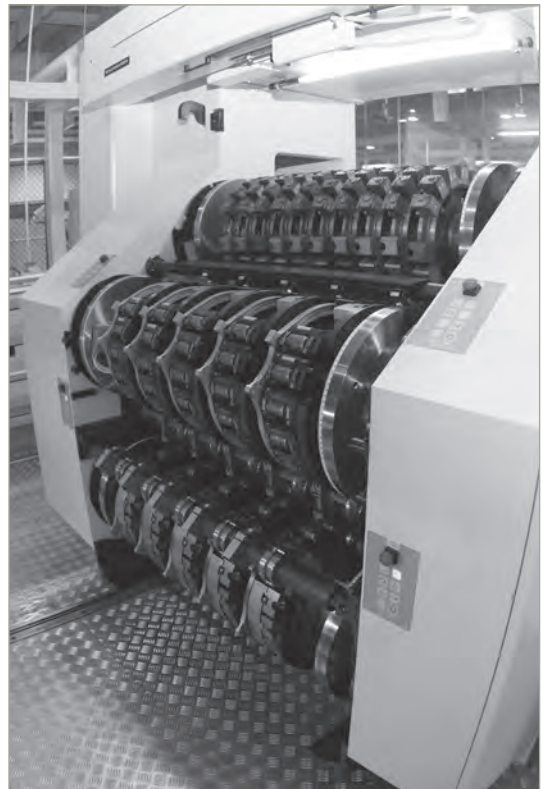
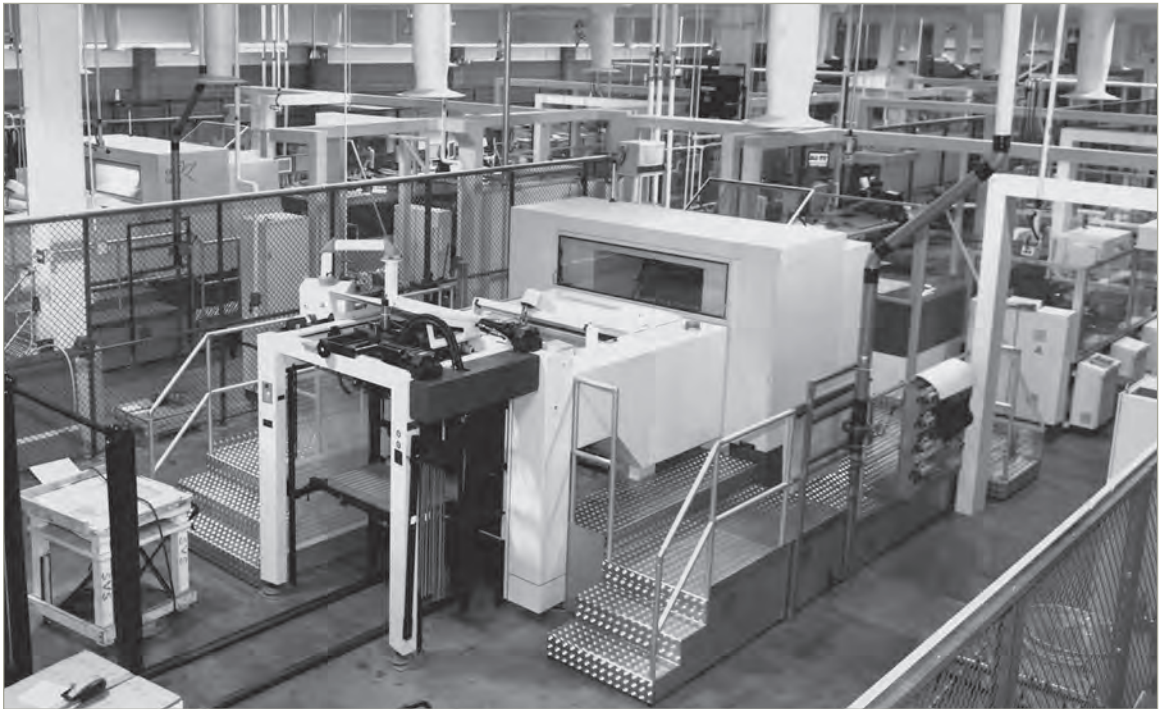
The Bureau of Engraving and Printing is a world-class securities printer providing our customers and the public superior products through excellence in manufacturing and technological innovation.

ABOUT THE COVER

The photograph featured on the cover is of the Large Examining and Printing Equipment (LEPE) recently installed at the Bureau's Western Currency Facility. The equipment is capable of processing 50-subject sheets (current capacity is 32-subject), and examining printed notes, trimming notes to final size and packaging finished notes for delivery to the Federal Reserve Board.



LEPE IN PRODUCTION



The Bureau completed the installation of two Large Examining and Printing Equipment (LEPE) machines at the Western Currency Facility (WCF). These LEPE machines are capable of processing 50-subject sheets (current capacity is 32-subject), and examining printed notes, trimming notes to final size and packaging finished notes for delivery to the Federal Reserve Board. An additional LEPE will be installed in the Washington, DC facility in 2012.



TABLE OF CONTENTS

Message from the Director	4
Message from the CFO	5
Highlights of the Year	6
Profile of the Bureau of Engraving and Printing	8
Executive Organizational Structure	11
Safety, Health and Environmental Management	12
Strategic Plan	16
Business Transformation	18
Currency Quality Assurance Program	20
Program Performance Measures	22
Management Discussion and Analysis	25
FMFIA Plans and Accomplishments	28
Custody of Assets	30
Assurance Statement Fiscal Year 2011	31
Independent Auditors' Report	34
Financial Statements	35
Notes to Financial Statements	38
Management's Report on Internal Control Over Financial Reporting	46
Independent Auditors' Report on Internal Control Over Financial Reporting	47
Independent Auditors' Report on Compliance and Other Matters	50



MESSAGE FROM THE DIRECTOR



The mission of the Bureau is to develop and produce United States currency notes, trusted worldwide. The Bureau moved forward in 2011 and overcame significant challenges, while strengthening its capability to produce consistently high quality notes expected of a world class currency producer.

During 2011, the Bureau partnered with the Federal Reserve Board and worked with other major stakeholders to resolve the technical challenges preventing consistent, quality production of the NexGen \$100 note, the most problematic of which was creasing. I am pleased to report that the Bureau addressed the most significant technical problem (creasing) and successfully began production of the redesigned \$100 notes in early 2012.

The many technical challenges associated with the development and production of the redesigned \$100 note pointed to a need for a top-to-bottom assessment of the Bureau's quality management system. Through a joint initiative with the Federal Reserve Board, the Bureau has undertaken a major Currency Quality Assurance (CQA) Program to ensure that quality is built into the currency production process from design through production. The CQA Program objective is to instill a proactive quality assurance environment which incorporates collaboration by all quality system stakeholders. The first phase of the program (Wave 1) focused on four major improvement initiatives: Design Review, Corrective and Preventative Action, Management Review, and Process Change.

In addition, the Bureau released a free currency denominating application for Apple iOS® devices and continued researching tactile feature technology for inclusion in future note designs in 2011. The increasing sophistication of digital technology requires the Bureau to continually research and develop advanced counterfeit deterrence features for inclusion in future currency designs.

The Bureau also achieved marked improvement in becoming a better place to work based on the results of the annual Federal Employee Viewpoint Survey. The survey measures employee opinions on their organization's leadership and programs relating to fairness, employee empowerment and recognition. Compared to other Federal agencies, the Bureau improved its ranking by 45 places in 2011. I thank everyone for their efforts in making BEP a better place to work. Going forward, the Bureau will continue to improve employee engagement to drive continuous improvement in the work environment. With continued executive support, I am confident that this positive direction will continue. Our goal is to fully engage our employees and move into the top 100 "Best Places to Work" in the Federal government.

In 2012, the Bureau will commemorate its 150th Anniversary. The Bureau of Engraving and Printing began operations on August 29, 1862, as a result of the foresight of President Abraham Lincoln's Secretary of the Treasury, Salmon P. Chase. Because of our productive and innovative workforce at every level, we have met many challenges and are ready to move forward. I expect 2012 to be a banner year for the Bureau as we build on the Bureau's history of manufacturing excellence and innovation to make great strides in quality, production and customer satisfaction.

A handwritten signature in black ink that reads "Lanny Felt". The signature is written in a cursive, flowing style.



MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased and privileged to present the Bureau of Engraving and Printing's Performance and Accountability Report for 2011.

In 2011, we continued a commitment to strong financial management; timely, accurate financial reporting, and continual improvement at the Bureau. This tradition of quality financial management resulted in an unqualified audit opinion on the Bureau's financial statements for the 27th consecutive year. Further, the Bureau received, for the seventh consecutive year, an unqualified opinion on management's assertion on internal control over financial reporting based on the criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Both accomplishments spring from the efforts of a long, unbroken line of outstanding employees committed to excellence.



The financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. The annual audit and opinion on management's assertion on internal control over financial reporting help to ensure the integrity of the revolving fund, as well as the reliability of financial data used for managerial decision-making.

Challenges in the production of the redesigned \$100 note had a significant, negative impact on Bureau operations in 2011. As a result, the Bureau did not meet the Federal Reserve Board's currency order for 2011. Revenues were below plan, costs were higher and working capital diminished. The Bureau delivered 5.8 billion currency notes, resulting in revenue of \$548 million and an excess of revenue over expenses of over \$16 million. The excess of revenues over expenses funds Bureau working capital requirements and investments in plant and equipment.

In 2011, the Bureau implemented the BEP Enterprise (BEN), which will provide an integrated information technology platform that will simplify and standardize the integration of disparate information technology systems and applications used in the Bureau. BEN includes the Manufacturing Support Suite (MSS), the Data Management Module (DMM), and an asset management module known as Maximo. BEN will provide real-time enterprise data and information for improved decision-making. In April 2011, MSS became the sole automated system of record for BEP's financial transactions for accounts receivable, cash management and general ledger processing.

During the year, the Bureau continued the recapitalization of its Washington, DC and Fort Worth, Texas facilities. Investments in new production and test equipment will improve productivity, reduce the Bureau's environmental impact, and provide the capability to produce increasingly sophisticated and complex currency designs. In 2011, BEP also completed a facility study that developed longer-term options for the Washington, DC buildings, which are both more than 75 years old. Over the course of 2012, BEP will be working with its stakeholders to develop a plan to strategically address this aging infrastructure.

As the Bureau prepares for the future, we must maintain our focus on quality manufacturing, superior customer service, and efficient stewardship of resources so we can continue to effectively meet the needs of all stakeholders. The Bureau has identified a number of targeted cost-reduction efforts for 2012 and 2013 to support Treasury's focus on fiscal sustainability. These efforts will ensure that the Bureau has the financial resources necessary to invest in its employees to maintain a talented workforce, and support a well-disciplined capital investment strategy to enhance product quality, promote counterfeit deterrence, and improve the cost efficiency and effectiveness of the manufacturing processes.

Leonard R. Olivo



HIGHLIGHTS OF THE YEAR

The Bureau's primary goal in 2011 was to optimize the production of the redesigned \$100 note. The Bureau worked with the Federal Reserve Board and other major stakeholders to improve the materials and production process to enable the Bureau to consistently produce the redesigned \$100 note. This effort was supported by a multi-year Currency Quality Assurance (CQA) Program, which encompasses all stages of production from currency design through printing and processing to delivery. CQA will move the Bureau to a proactive quality assurance system for both the Washington, DC and Fort Worth, Texas facilities.

In 2011, the Bureau of Engraving and Printing received an unqualified opinion on its financial statements for the 27th consecutive year and for the seventh consecutive year the Bureau received an unqualified opinion on its internal control over financial reporting.

Additional operational highlights for 2011 include:

Best Place to Work Initiative

The Best Place to Work (BPTW) Initiative improved employee engagement through increased organizational communication, transparency, and employee involvement. BEP's ranking as a "Best Place to Work" increased by 45 places in 2011, based on the results of the 2011 Federal Employees Viewpoint Survey.

LEPE

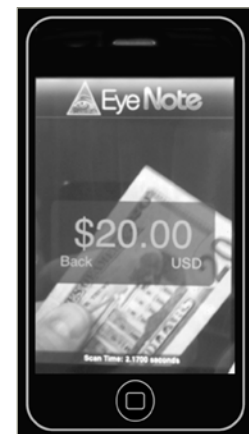
The Bureau completed the installation of two Large Examining and Printing Equipment (LEPE) machines at the Western Currency Facility (WCF). The Factory Inspection Test (FIT) has been completed for a third LEPE, and this press will be installed in the Washington, DC facility before the end of 2012. These LEPE machines are capable of processing 50-subject sheets (current capacity is 32-subject), and examining printed notes, trimming notes to final size and packaging finished notes for delivery to the Federal Reserve Board.

EyeNote® Application

The Bureau launched the EyeNote® application for Apple® devices with cameras (iPhones®, iPads® and iPods®) in April 2011. EyeNote® is a mobile device application which uses image recognition technology to denominate US currency. The application, which is free, was recognized by Government Executive as one of the "10 mobile apps that are changing the way government does business."

BEP Enterprise – BEN

The Bureau continued the modernization of its business information technology systems under the BEN program. During 2011, the Bureau



*iPhone, iPad, iPod are registered trademarks of Apple Inc.



HIGHLIGHTS OF THE YEAR

went live with the second phase of the BEN program with the release of the Manufacturing Support Suite (MSS). MSS is fully integrated business software designed to manage day-to-day business activities, including financial, acquisition, supply chain, manufacturing and inventory functionality.

Bring Our Children to Work Day

In July, the Bureau hosted its 3rd annual “Bring Our Children to Work Day.” Employees at both the Washington, DC and Fort Worth, Texas facilities were encouraged to bring their children to work for a fun and educational tour and activities illustrating the vital services Bureau employees provide in support of the nation’s economy. More than 300 children were registered for the event.

Limestone Facade Project

During the year, work continued on the renovation of the limestone facade of the Bureau’s Main Building in Washington, DC. This investment will preserve the facade and serve to protect the vital structural system from weather related deterioration and damage.

Clean Texas Program

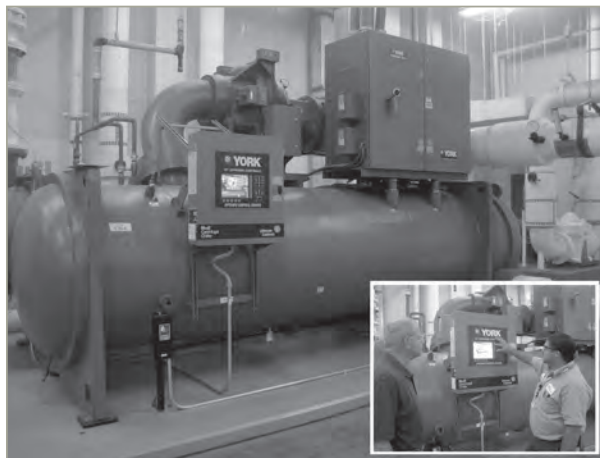
The Western Currency Facility (WCF) was accepted into the Texas Commission on Environmental Quality’s (TCEQ) Clean Texas Program in 2011 at the Silver level. The Clean Texas Program is an environmental leadership program that recognizes organizations that set high targets and go beyond compliance levels required by regulations. To date, approximately 120 facilities have been accepted into the program, with only 25 accepted at the Silver level or higher.



Office of Financial Management employees Robert Deans, Gwendolyn House and Robinessa Prior use the new information system (MSS).



Colleen McKinney, Robert Hobbs, and Charlene Williams accept the “Clean Texas Program” award.



Gary Barton, FOH Environmental Engineer and Sergio Portales, EMCOR reviewing the control panel for one of the new chillers installed at the WCF.



PROFILE OF THE BUREAU OF ENGRAVING AND PRINTING

The mission of the Bureau of Engraving and Printing is to develop and produce United States currency notes that are trusted worldwide.

The Bureau of Engraving and Printing came into existence on August 29, 1862, to help finance the United States during the Civil War. 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 now financed by a revolving fund that was 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 reviews 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 buildings. 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 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.

The Washington, DC and Fort Worth, Texas facilities offer free tours of currency operations to the general public. The tours include Visitor Centers with currency manufacturing displays, interactive kiosks and other information about the history of our Nation's currency. The Visitor Centers also sell uncut sheets of currency, engravings, numismatic collectibles and other souvenirs. In addition to the on-site sales centers, these items are available through mail order and the Bureau's internet site: www.bep.gov.

Manufacturing

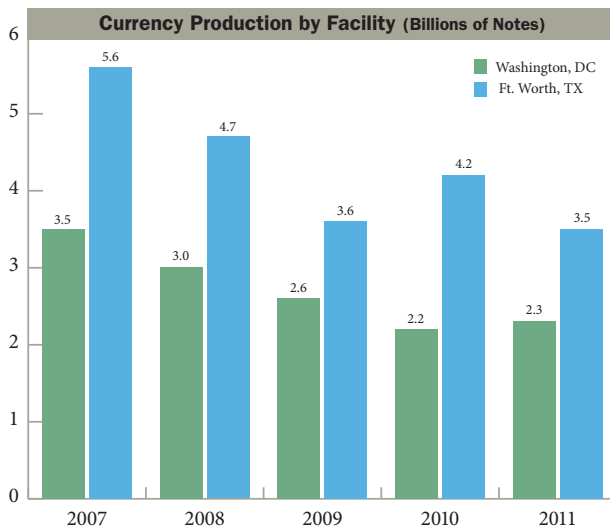
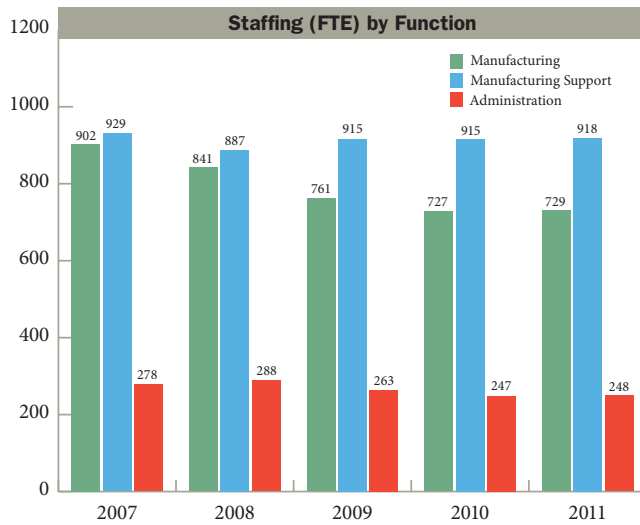
In recent years, the Bureau has redesigned the \$5, \$10, \$20, and \$50 Federal Reserve notes and they have been issued by the Federal Reserve System. The new designs are part of the U.S. government's ongoing efforts to maintain the integrity and safety of U.S. currency. A redesigned



Raymond Sheriff, Plate Printer, printing the President Obama portrait.



PROFILE OF THE BUREAU OF ENGRAVING AND PRINTING



\$100 note was unveiled in 2010. A rigorous quality assurance program, including significant production testing, was performed in 2011 to overcome creasing and other production problems encountered during initial production runs of this note in late 2010. Production of the redesigned \$100 note resumed in 2012.

During 2011, the Bureau delivered 5.8 billion Federal Reserve notes to the Federal Reserve Board. The Washington, DC and Fort Worth, Texas facilities delivered 2.3 billion and 3.5 billion Federal Reserve notes, respectively. For 2012, the Federal Reserve Board has ordered 8.4 billion Federal Reserve notes. This order is one of the most challenging in Bureau history as it includes all denominations (\$1, \$2, \$5, \$10, \$20, \$50 and \$100 notes). In fact, the Bureau will be producing old design and new design \$100 notes as the Federal Reserve Board plans for the issuance of the new note.

In keeping with its tradition of product innovation and production efficiency, the Bureau continued to upgrade its manufacturing processes at both facilities. The acquisition of Large Examining and Processing Equipment (LEPE) will enable the manufacturing of 50-subject

currency sheets. Successful implementation of this advanced technology will improve productivity, reduce the Bureau's environmental impact and provide the ability to produce increasingly more complex currency note designs.

The Bureau's quality management system for the production of U.S. currency has been registered as ISO 9001 compliant for the past ten years. In 2011, the Bureau and Federal Reserve Board began a multi-year, continuous improvement effort to move the currency quality management system from quality inspection to quality assurance. The Currency Quality Assurance Program is comprehensive; encompassing the processes from currency design through production and delivery.

In 2011, the Bureau's environmental management systems (EMS) at both the Washington, DC and Fort Worth, Texas facilities were re-certified ISO 14001 compliant. The ISO certifications are indicative of the Bureau's commitment to reduce its environmental impact, continuous process improvement and world class management practices.



PROFILE OF THE BUREAU OF ENGRAVING AND PRINTING

Information Technology (IT)

In 2011, the Bureau continued to emphasize increased IT security and accountability, standardization of Bureau hardware, software, and IT related processes and enhanced governance of the IT program and resources.

The Bureau continued the modernization of its business information technology systems under the BEN program. BEN includes the Manufacturing Support Suite (MSS), the Data Management Module (DMM), and an asset management module referred to as Maximo. During 2011, the Bureau went live with the second phase of the BEN program with the release of the Manufacturing Support Suite (MSS). MSS is fully integrated business software designed to manage day-to-day business activities, including financials, acquisitions, supply chain, manufacturing and inventory.

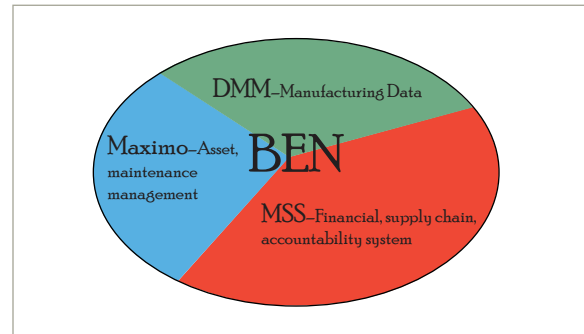
MSS is a financial application utilizing the Oracle E-Business Suite that is hosted through the cloud at the Oracle Federal On-Demand site. MSS is a fully integrated business solution that will reduce manual processes, increase efficiency, improve data quality, and provide real-time enterprise data and information for improved decision-making.

DMM is the component of BEN that focuses on the shop floor and will modernize the way in which BEP captures and utilizes operational data to improve efficiency and quality. DMM allows for real-time machine and production status information. Maximo will help BEP manage its physical assets from the time they are purchased until they are ready for disposal by providing a central source of information regarding the maintenance activities and costs associated with those assets.

Also during 2011, the Bureau's IT systems and controls were subject to a number of reviews related to the Federal Information Security Management Act (FISMA), OMB Circular A-123 and the Government Accountability Office's Federal Information System Controls Audit Manual (FISCAM) in support of the annual financial statement audit. For 2011, there were no FISMA audit findings at BEP. The Bureau continues to be an active participant in Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises and through biannual tests of the COOP plans for the Bureau's enterprise management information and public sales systems.

Organization


The Bureau's executive structure consists of the Bureau Director, a Deputy Director, seven Associate Directors and Chief Counsel. The executive committee structure includes an Executive Committee and various planning committees and subcommittees. The planning committees and subcommittees are composed of a cross-section of Bureau senior and mid-level managers that represent diverse organizational units. By cutting across organizational lines, these groups serve to promote effective communication, increased collaboration and participative, proactive management.





Three main components of the BEN program.




EXECUTIVE ORGANIZATIONAL STRUCTURE

LARRY R. FELIX DIRECTOR		BUREAU MISSION The Bureau of Engraving and Printing develops and produces United States currency notes, trusted worldwide.
--	---	--


	PAMELA J. GARDINER DEPUTY DIRECTOR BUREAU VISION 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.
---	--

	JON J. CAMERON ASSOCIATE DIRECTOR (EASTERN CURRENCY FACILITY) The mission of the ECF is to assure the manufacturing of high quality 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 the Washington, DC facility.
--	---


	CHARLENE WILLIAMS ASSOCIATE DIRECTOR (WESTERN CURRENCY FACILITY) The mission of the WCF is to assure the manufacturing of high quality 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 the Fort Worth, Texas facility.
--	---

	LEONARD R. OLIJAR ASSOCIATE DIRECTOR (CHIEF FINANCIAL OFFICER) The mission of the CFO Directorate is to provide superior customer service while: maintaining the integrity of the Bureau's revolving fund; executing financial management responsibilities; ensuring proper authorization for production activities; promoting compliance with internal controls, ISO standards for quality and environmental management systems and Treasury regulations; providing acquisition services, and redeeming mutilated paper currency.
---	--

	SCOTT WILSON ASSOCIATE DIRECTOR (MANAGEMENT) The mission of the Management Directorate is to provide the highest quality Security, Human Resources, Facilities Support, Environmental, Health and Safety Services, Employment Opportunity, and Labor Relations, in support of the overall Bureau mission.
---	---

	PETER O. JOHNSON ASSOCIATE DIRECTOR (CHIEF INFORMATION OFFICER) The mission of the CIO Directorate is to provide proven, secure, state-of-the-art information technology in support of cost-effective production of U.S. security products, with primary emphasis on U.S. currency.
---	---

	JUDITH DIAZ MYERS ASSOCIATE DIRECTOR (TECHNOLOGY) The mission of the Product & Technology Development Directorate is to design innovative currency; develop advanced materials, security features, equipment and processes that enhance counterfeit deterrence; and provide technical support for the production of U.S. currency.
---	--

	ANDREW D. BRUNHART ASSOCIATE DIRECTOR (CORPORATE PLANNING & STRATEGIC ANALYSIS) The mission of the Corporate Planning & Strategic Analysis Directorate is to guide development and execution of overall strategies, actions, and key success measures to continuously improve enterprise-wide performance as well as lead currency order management and delivery, quality assurance, and portfolio and project management.
---	--

	KEVIN J. RICE 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.
---	---



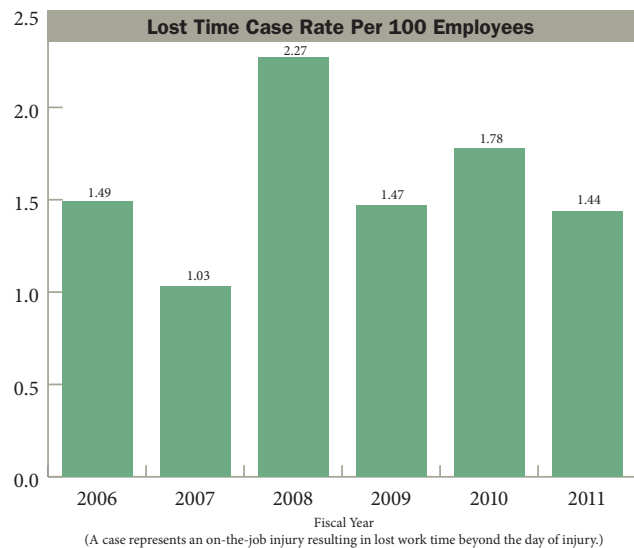
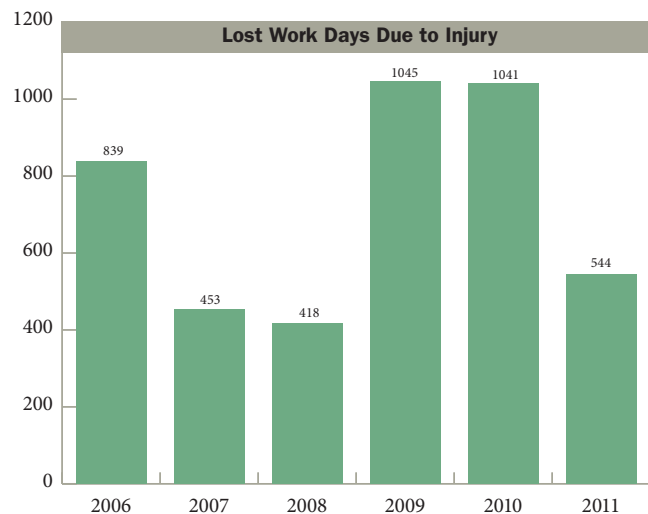
SAFETY, HEALTH AND ENVIRONMENTAL MANAGEMENT

Since 2007, the Bureau has used its ISO14001 registered environmental management systems (EMS) as the core driver for its environmental, health and safety programs at both of its production facilities. Unlike other organizations, BEP's EMS includes all aspects of environmental protection, as well as health and safety. In 2011, the Bureau completed a variety of initiatives to improve its EHS systems and performance. The Bureau's effectiveness was affirmed in the results of the ISO14001 third party surveillance audits, which had no findings at either facility, while the registrars noted numerous improvements. The Bureau's key operating metrics also showed positive progress. The Office of Environment, Health, and Safety (OEHS) manages programs that minimize the Bureau's impact on the environment and protect workers from injuries, illnesses, and disabilities. The Bureau's EHS goals are to reduce occupational injury and illness rates, and minimize the environmental impact of operations on air emissions, wastewater discharge and solid waste.

Improving Worker Health and Safety

The primary focus of the Bureau's Safety and Health function is to prevent injuries and illnesses from occurring, as measured by the Occupational Safety and Health Administration's (OSHA) reportable lost time case rate and the number of lost workdays attributable to OSHA reportable cases.

Over the past decade, the Bureau has successfully reduced workplace injuries. Much of the injury reduction is due to continuous improvement efforts which target high-volume, high-risk injuries for preventive initiatives. The Bureau benchmarks against the private printing industries as it seeks to reduce its rate for injuries. In 2011, the Bureau significantly reduced both the OSHA reportable lost time case rate (LTCR) and the number of total lost workdays. The OEHS expects to continue this downward trend by focusing on the types and causes of injuries that are the most difficult to control. This includes improving the work force's personal health status, correcting individual behaviors that can lead to injuries, and instilling employee and supervisory accountability. In 2012, BEP will continue to focus on injury analysis at the corpo-



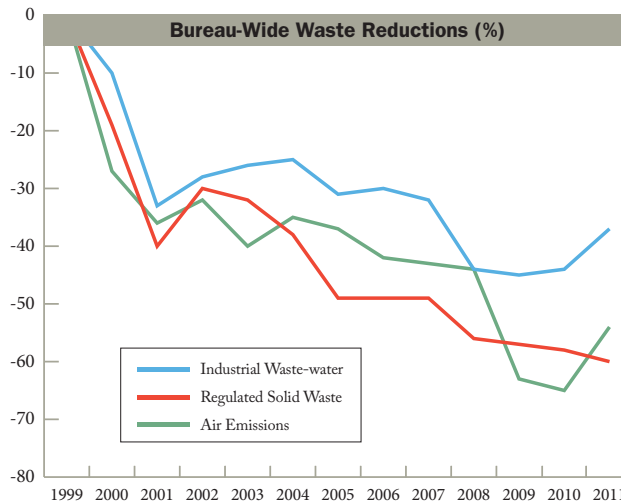
rate level and strengthen root cause analysis of injuries. The OEHS will also seek opportunities to find new ways to allocate resources for the greatest impact in injury prevention, such as better personal protective equipment.

The Bureau's lost time case rate in 2011 was 1.44 lost time injuries per 100 employees. This represents a 19% decrease from the 2010 rate of 1.78, and is significantly below our corporate goal of 1.6. In January 2012, the Bureau's annual OSHA injury and illness analysis will focus on identifying new ways to further reduce our injury and illness rates, consistent with our continuous improvement goal.

BEP had 544 lost workdays due to injuries in 2011, a 53% decrease from the 2010 level. This achievement is attributed to changes in the limited and light duty programs at our Western Currency Facility in Fort Worth, Texas.

Protecting the Environment

The Bureau's environmental performance reflects a long held commitment to minimize our impact on the environment and focus on sustainability. Long-term waste reduction trends continued in 2011. Improvements were made as a result of employee suggestions, technical work groups, and projects led by environmental professionals. Employee engagement is a crucial aspect of our EMS, and projects led by production and facilities employees yielded several significant advances in pollution prevention and waste minimization.



The following environmental plans and programs were improved or continued in 2011:

- **Wiper solution recycling** is a process to reclaim approximately 95% of our water-based intaglio press wiper solution. The wiper solution recycling process will save approximately 12 million gallons of water annually. In addition to water savings, the project will reduce the amount of chemicals used in wiper solution production, as well as reducing the energy used to heat the wiper solution. The total savings for water, chemicals, and energy is projected to be approximately \$1 million annually. The conceptual design phase was completed in 2011, and design will be done in 2012.
- The Bureau maintains **active recycling programs** at its facilities, and continuously seeks cost-effective ways to increase recycling and divert waste from landfills. In 2011, the Bureau evaluated opportunities for recycling its two largest solid waste streams, paper trimmed during currency production and solids from pretreatment of the currency printing press wiper solution.



SAFETY, HEALTH AND ENVIRONMENTAL MANAGEMENT

- Through the **development of a water-based cleaner** for intaglio inks, the Washington, DC Facility (DCF) was able to eliminate the use of solvent-based cleaners that contained high levels of volatile organic compound (VOC) enabling the shutdown of two aging thermal oxidizers. These thermal oxidizers were required to control the VOCs that would otherwise contribute to air pollution. On an annual basis, this initiative eliminated approximately 600 tons of carbon dioxide emissions and several tons of particulate and nitrogen oxide emissions.
- **The Western Currency Facility (WCF) was accepted into the Texas Commission on Environmental Quality's (TCEQ) Clean Texas Program** in 2011 at the Silver level. The Clean Texas Program is an environmental leadership program that recognizes organizations that set high targets and go beyond compliance levels required by regulations. To date, approximately 120 facilities have been accepted into the program, with only 25 accepted at the Silver level or higher.
- **A more efficient thermal oxidizer installed** at the WCF in 2010 reduced VOC emissions by approximately 8 tons per year in 2011, while also reducing natural gas usage by 37%.
- The Bureau completed several investments to **increase energy efficiency** at the WCF in 2011. These included installing high efficiency chillers, upgrading the HVAC automation system and installing high efficiency lighting.
- The annual **DCF Spring Green-Up** was a great success. Teams of employees at DCF helped identify and remove more than 5 tons of chemicals that were either expired, no longer needed, or could be replaced with less hazardous alternatives.

In 2012, the Bureau will continue to focus on initiatives that reduce its environmental impact and improve the safety of its employees in a cost-effective way. Selected initiatives that are currently planned or in process include:

- **Increasing recycling of trimmed edges** of currency paper from production operations, and recycling disintegrated non-securities waste, provided that appropriate security controls can be maintained.
- **Reformulating a solvent** used in production on COPE letterpress equipment to reduce VOC content by 30%, or lower its vapor pressure. A reformulated solvent will result in lower VOC emissions than the current alternative.
- **Completing evaluation of low VOC solvent alternatives** for use in press cleaning at WCF. This project has the potential to reduce air emissions.
- Maintaining progress on the **wiper solution recycling project**, and evaluating alternatives for recycling or reuse of wiper solution waste water pretreatment plant residual solids.
- **Installing three new high-efficiency boilers** at WCF. These are estimated to reduce natural



gas consumption by 15 to 30%; reduce carbon dioxide emissions by approximately 1,700 tons per year; and to cut nitrogen oxide emissions by 70%.

2011 BSAFE and GREENBACK Award Winners



Larry Felix, Bureau Director, and Rosie Rios, Treasurer of the United States, present Joe Copeland, Sheet Metal Mechanic, with the 2011 Greenback Award.

To recognize employees that have made significant contributions to the Bureau's commitment to minimizing its environmental impact, several awards have been created.

GREENBACK Award: Joe Copeland, Sheet Metal Mechanic, was recognized for designing and fabricating an offset press ductor roller cleaning machine.

Prior to this effort, Pressmen on the offset presses manually cleaned ductor rollers using a solvent-based cleaner. The machine that Mr. Copeland designed is mobile and can wash up to 5 ductor rollers at one time, automatically. Pressmen only need to place the rollers into the machine, run it, and wipe the cylinders off when the cleaning cycle is completed. Not only is intensive labor with a solvent-based cleaner avoided, but the machine recycles the cleaning solution which minimizes waste. The "green" cleaning solution used in the machine produces lower air emissions.

BSAFE Award: Richard Zuehsow, Plate Printer, and Steve Morton, Printing Plant Worker, were recognized for their effort to eliminate a slip/fall risk where water-based cleaner was dispensed for cleaning intaglio presses. Together they designed and installed a safety drip pan that was custom-made to fit the work area. As a result, the slip/fall risk was abated.



STRATEGIC PLAN

The Bureau's Strategic Plan is aligned with the Department of the Treasury's Strategic Plan. It serves as a roadmap to guide the Bureau toward its goal of creating a new environment that will ensure high quality, cost-effective, and flexible business operations for years to come. While committed to meeting the many new challenges of implementing innovative technology, the Bureau remains resolute in producing quality currency, controlling costs, being environmental stewards, and working safely as we move towards our vision — to be a world-class security printer. The Bureau will rely on the ingenuity, industriousness, and commitment of every employee to meet the challenges of printing currency in the 21st century. This will require the near-perfect alignment of innovative design, advanced manufacturing technology, and a highly skilled workforce.

The Bureau has three strategic goals:

- (1) To produce United States currency notes that function flawlessly in commerce;
- (2) To produce innovative currency designs that provide effective counterfeit deterrence and meaningful access for all; and
- (3) To achieve organizational excellence and customer satisfaction by balanced investment in people, processes, facilities, and technology.

First, the Bureau is committed to producing high quality U.S. currency that works the “first time, every time” in commerce. The quality management system for production of U.S. currency has been registered as International Organization for Standards (ISO) 9001 compliant for the past ten years. As another sign of its commitment to world class quality standards, the Bureau, in partnership with the Federal Reserve Board and the U.S. Secret Service, has embarked on a major initiative to implement a currency quality assurance program and focus the organization on continuous improvement.

Second, innovative currency designs instill confidence in the integrity of U.S. currency. The Bureau will continue to collaborate with the Federal Reserve Board, the U.S. Secret Service, and other stakeholders to identify, evaluate, and improve features in currency design, particularly those aimed at counterfeit deterrence, while ensuring acceptance in the marketplace. As the world's currency, counterfeiting of U.S. currency is an international issue which requires continued vigilance to ensure its world-wide acceptance.

Of particular concern is meaningful access, which is providing those who are blind or visually impaired the ability to denominate U.S. currency. BEP is exploring technological solutions to provide access to U.S. currency, including use of cell phones, computers, and imaging and reading devices, as well as incorporating tactile features into note design. One such solution, known



Larry Felix, Bureau Director, speaking to employees at a Town Hall Meeting.





Pamela Gardiner, Deputy Director, participating in the Walk In My Shoes Program.

as EyeNote[®], is a free, downloadable application that is available for the Apple iOS[®] platforms; iPhones[®], iPods[®], iPads[®], and iTouch[®] devices.

The Bureau's third strategic goal is to achieve organizational excellence and customer satisfaction by balanced investment in people, processes, facilities, and technology. The Bureau is committed to being a Best Place to Work (BPTW) and is working to create a work environment that fosters high levels of job satisfaction, employee engagement, performance, and pride. The Bureau's BPTW effort is a multi-year, cultural transformational initiative to move the Bureau into the top 100 Best Places to Work in the Federal Government.

Effective human resource management is a priority at the Bureau. Continuous effort is put forth to hire, develop, train, and retain the most adaptive and effective workforce possible. Initiatives to assess and remedy skill gaps and provide BEP with a more flexible workforce and more adaptive supervisory staff are underway.

The Bureau is also committed to providing a safe and healthy environment for its employees. The Bureau has reached a long-term objective by achieving and maintaining ISO 14001 registry on the effectiveness of the Bureau's environmental management system for all facilities and operations.

The Bureau has positioned itself to meet its strategic goals and related objectives from operational, developmental, and resource perspectives. It will uphold its tradition of excellence by taking advantage of opportunities to maintain a balanced and talented workforce, enhance product quality, promote counterfeit deterrence, and streamline its manufacturing process.

*iPhone, iPad, iPod are registered trademarks of Apple Inc.



BUSINESS TRANSFORMATION

To prepare the Bureau to meet the demands of the Federal Reserve Board, the vendor community, and the general public in a cost effective, quality conscious, and timely manner, continuous improvements to the Bureau's production equipment, information systems, and process control (quality) are ongoing efforts.

Retooling: BEP is continually in the process of retooling equipment and manufacturing systems used in the production of Federal Reserve notes. With an emphasis on the production of the redesigned \$100 note, improving quality, and maintaining consistency between production facilities, the Bureau has installed new equipment and initiated improved quality assurance and control in its production areas.

Simultan Quality Initiative: The Simultan is a dry-offset printing press used to print color on all redesigned Federal Reserve notes. Color control and image registration have been improved with the adaptation of revised color bars, an automated roller pressure program, and a computerized image registration device called the Accu-gauge.



Eugene Turner, Printing Plant Worker, prepares currency sheets for face printing.

Single Note Inspection: The Single Note Inspection (SNI) Team was established to focus on the inspection of individual NexGen \$100 notes. The team works closely with representatives from the Federal Reserve, Secret Service and other Treasury employees.

Inspection System: To prepare for the production of a large format sheet (50-subject) BEP has installed a large format Computerized Inspection System (CIS). The equipment was installed in the Washington, DC Facility (DCF).

Overprinting Quality Initiative: BEP has invested in new overprinting equipment (LEPE) capable of processing 50-subject sheets (current capacity is 32-subject), and examining printed notes, trimming notes to final size, and packaging finished notes for delivery to the Federal Reserve Board. As of the end of 2011, two LEPE machines have been installed in the Western Currency Facility with an additional LEPE scheduled for delivery to the Washington, DC Facility in 2012.



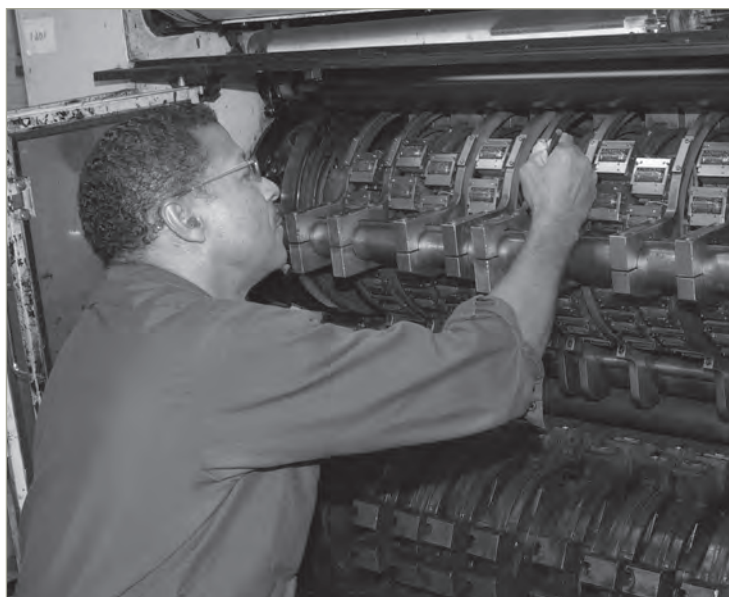
James Weaver, Cash Pack/FRDV/General Stores, Shipping & Receiving Manager, prepares currency for delivery to the FRB vault.



BUSINESS TRANSFORMATION

Information Systems: Bureau of Engraving and Printing Enterprise (BEN) – In 2011, the Bureau of Engraving and Printing began using the financial portion of the new Oracle based system and continued to phase-in other modules of this comprehensive management information system. The previous information system (BEPMIS) was BEP's first automated information system and had been in use since the late 1980's. In April 2011, Release 1 became the sole automated system of record for BEP's financial transactions to include accounts receivable, fixed assets and general ledger processing.

Through the BEN project, BEP is modernizing its data-processing systems and business processes. The project utilizes standard industry software that has been adapted to meet the specific needs of the Bureau.



Alvin Mitchell, Cope-Pak Pressman, resets serial numbers on the currency overprinting equipment.

Lean Six Sigma: To improve the printing of the Optical Variable Ink (OVI), BEP initiated a Lean Six Sigma effort at both production facilities. Results from these efforts have led to better quality and consistency of the printed images for denominations with OVI.

ISO 9001 Quality Management System: BEP retained ISO certification for the manufacturing and support processes required in the production of U.S. Federal Reserve notes. BEP is required to maintain accurate and timely records of production and support activities to include the

design, development, scheduling, production and raw material ordering and storage.

ISO 14001 Environmental Management Systems: BEP retained ISO certification for the environmental stewardship and responsibility required to maintain large production facilities.

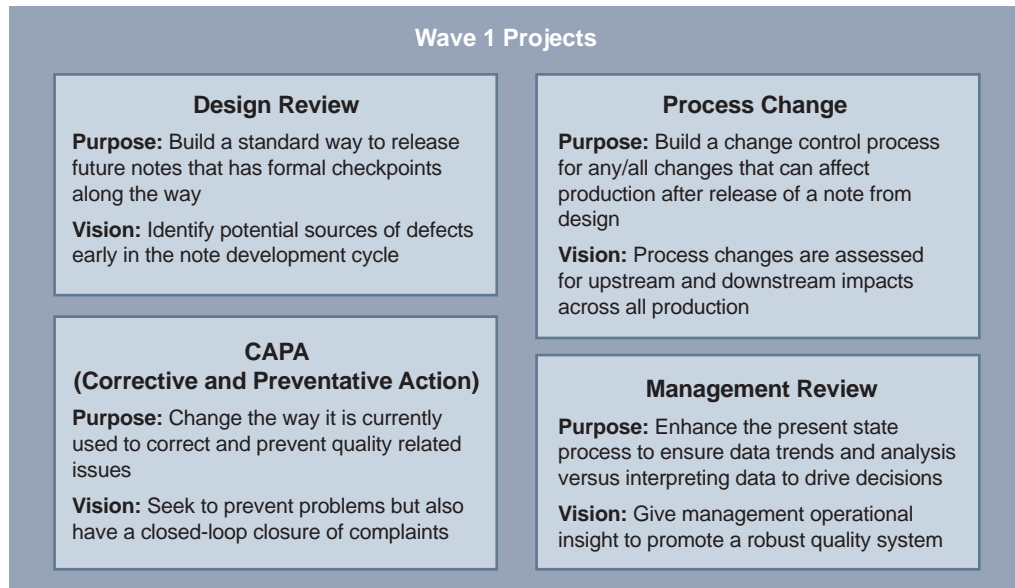
Warehouse Consolidation: The Landover, MD Warehouse Consolidation Plan (WCP) is an initiative in support of the Presidential directive to reduce the real property footprint and increase utilization of existing space in the federal government. The WCP will enable the Internal Revenue Service/Criminal Investigations Division (IRS/CI), Financial Management Service (FMS) and Departmental Offices (DO) to relocate their material to the BEP Landover warehouse. The BEP warehouse is approximately 75% utilized, affording the opportunity to absorb the warehouse requirements of IRS/CI, FMS and DO. The WCP is designed to maximize the use of the BEP warehouse, eliminate separate warehouse requirements for IRS/CI, FMS and DO, resulting in fewer lease agreements, and provide cost savings to BEP and across Treasury.



CURRENCY QUALITY ASSURANCE PROGRAM

United States Federal Reserve notes are increasing in complexity, counterfeit deterrence, and person-to-machine usage. As a result, BEP must consistently produce a higher quality note. The redesigned \$100 note has truly evolved into a high-tech consumer good, as will future generations of U.S. currency designs. In order to keep pace with this complexity, which includes new technologically advanced design and counterfeit deterrence features, a dedicated, persistent effort is needed to bring the Bureau's quality management system to a proactive focus on quality assurance, as opposed to a reactive focus on quality inspection.

Prioritization of Quality System Gaps and Wave 1 Focus



To make this transition, the Bureau and its stakeholders have begun a robust **Currency Quality Assurance (CQA) Program** to address every aspect of the product lifecycle – from product development to acquisition of material, through process and production control, to final release and delivery. The CQA Program will help move the Bureau from its current model of quality control, and move toward a new model of quality assurance — building quality in, not inspecting for it.

To meet the demands placed on the world's currency in the 21st century, the first wave of the CQA Program in 2011 focused on four major initiatives: product design, process change, corrective/preventive action and management review. Project teams were established that include leadership and subject matter experts from BEP, as well as stakeholder representatives from the U.S. Secret Service and Federal Reserve Board.

Design Review Project Team: Responsible to establish a structured process to ensure finished products possess the form, fit, and function expected by the customer. Reviews will provide opportunities to evaluate products and technologies and proactively respond to prevent or mitigate defects.



CURRENCY QUALITY ASSURANCE PROGRAM

Process Change Project Team: Responsible to establish a process change system with clear communication channels and feedback mechanisms to inform all parties of pending or approved changes, calling attention to potential upstream and downstream impact prior to an implemented change. Process change controls provide structure for the decisions associated with product or process changes after design completion.

Corrective and Preventative Action (CAPA) Project Team: Responsible to update the CAPA process to seek more input from the organizations that have an impact on product quality, and to improve the input process for issues and the visibility of CAPAs to the organization. The CAPA process will provide proactive identification and correction of systemic quality issues. The CAPA process will be a closed-loop process for resolving product quality issues.



Management Review Project Team: Responsible to provide management operational insight to avoid quality issues and waste. It is a tool to provide the management team critical quality data to maintain control over the quality system. It is a decision-making forum where critical data-driven questions are raised to management, decisions are made on a path forward, and action items are tracked to resolution.

Additional teams will be formed under the CQA Program in 2012 as the first wave of a multi-year effort comes to a close and the second wave begins.



Kevin Case (left), Offset Press Operator, and Fred Galindo (right), Offset Press Assistant Foreman, perform quality checks.



PROGRAM PERFORMANCE MEASURES

The Bureau measures the effectiveness and efficiency of its overall organizational performance by using program performance measures. Standards are developed annually by the senior executive staff based on the prior year's performance, contracted price factors, and anticipated productivity improvement. Actual performance against standard depends on the Bureau's ability to meet annual spoilage, efficiency, and capacity utilization goals established for currency production.

Bureau-level performance measures and associated results for 2011 are as follows:

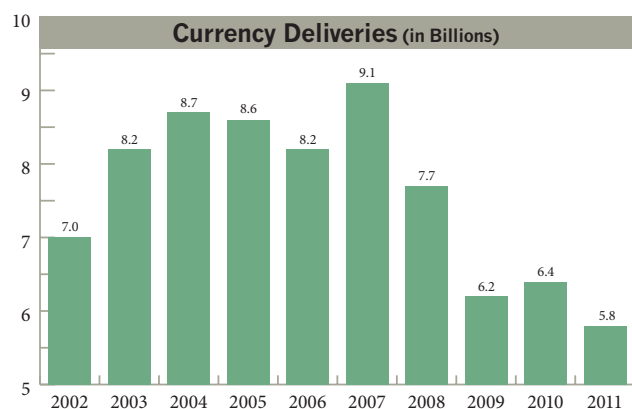
	<u>2011 Standard</u>	<u>2011 Actual</u>
1. Federal Reserve Notes (Cost per Thousand Notes)	\$34.94	\$34.60
2. Federal Reserve Notes Delivered (Billions)	7.6	5.8
3. Productivity Change 2010 to 2011	-5.69%	-1.9%
4. Currency Spoilage	6.0%	6.2%

The Bureau does not receive Federal appropriations; operations of 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 necessary 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 sufficient cash is provided for operations, the Bureau must perform to these standard costs.

<u>Currency – Cost per Thousand Notes</u>	<u>2011 Standard</u>	<u>2011 Actual</u>
Federal Reserve Notes	\$34.94	\$34.60

The actual production cost per thousand currency notes, which includes direct labor, materials, and applied manufacturing overhead, was below standard in 2011. This was due primarily to lower than expected labor costs.

<u>Currency Deliveries</u>	<u>2011 Standard</u>	<u>2011 Actual</u>
Federal Reserve Notes (Billions)	7.6	5.8



In 2011, the Bureau delivered 5.8 billion Federal Reserve notes to the Federal Reserve Board (FRB). Deliveries and billings are based on orders received from the customer. The FRB submits their requirements for currency deliveries to the Bureau on an annual basis. Due to continuing production problems with the redesigned \$100 note, the Bureau was unable to meet the FRB 2011 order. For 2012, the Federal Reserve has ordered 8.4 billion notes.



PROGRAM PERFORMANCE MEASURES

	<u>2011 Standard</u>	<u>2011 Actual</u>
Productivity Change 2010 to 2011	-5.69%	-1.9%

Productivity is calculated based on units of output per labor hour. In 2011, overall productivity decreased by 1.9%. This was directly attributable to lower volume arising from production issues relating to the redesigned \$100 note. The impact of these issues was offset in part by the Bureau's ongoing efforts to reduce staffing in administrative and support areas.

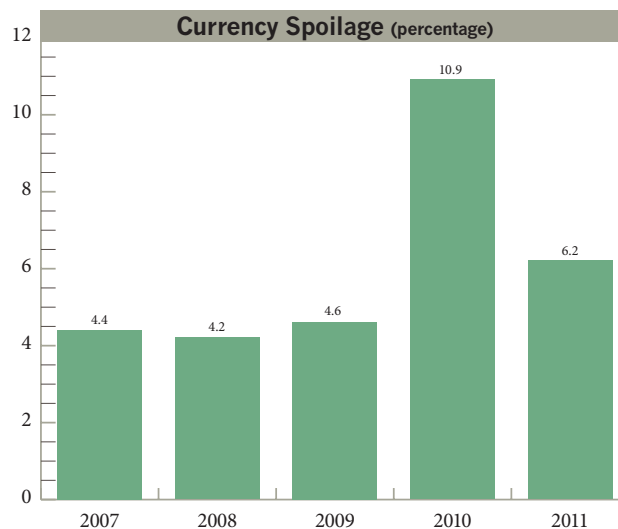
During 2011, BEP continued retooling its facilities to improve efficiency and effectiveness while minimizing its environmental impact. This included the acquisition of new processing equipment for the Washington, DC and Fort Worth, Texas facilities.

Staff development and training programs have intensified as the advanced technology incorporated in the new equipment requires a highly skilled and adaptive workforce.

In order to ensure training efforts were optimized, BEP developed core competencies for all positions and prepared Individual Development Plans (IDPs). All employees are encouraged to continue their skill enhancement through cross-training opportunities and other types of professional development. To this end, the Bureau is leveraging the use of the Treasury Learning Management System (TLMS). The TLMS empowers employees, through a web-based application, to take training online that meets their individual needs.

<u>Currency Spoilage</u>	<u>2011 Standard</u>	<u>2011 Actual</u>
Federal Reserve Notes	6.0%	6.2%

Spoilage, an inherent result of any production process, is an important indicator of the overall effectiveness of the production process and quality of material inputs. In 2011, overall currency spoilage was slightly above standard, primarily due to the implementation of more rigorous quality standards.



PROGRAM PERFORMANCE MEASURES

	<u>2009</u>	<u>2010</u>	<u>2011</u>
1. Federal Reserve Notes (Cost per Thousand Notes)	\$31.55	\$44.85	\$34.60
2. Federal Reserve Notes Delivered (Billions)	6.2	6.4	5.8
3. Productivity Change	-7.8%	-8.8%	-1.9%
4. Currency Spoilage	4.6%	10.9%	6.2%

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.

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 latter of either the receipt of a proper invoice or acceptance of the goods/services. If this time frame is not met, an interest penalty must be paid to the vendor. Within the Department of the Treasury, the standard for the late payment rate is that no more than 2% of the invoices subject to prompt payment shall be paid late (at least 98% paid within 30 days).

The Bureau's prompt payment performance for the past three years is presented below. As the data indicates, the Bureau has continued to perform much better than the Department standard for late payments.

	<u>2009</u>	<u>2010</u>	<u>2011</u>
1. Number of Invoices Paid Late	38	25	92
2. Interest Penalties Paid	\$1,521	\$229	\$2,012
3. Percent of Invoices Paid Late	0.60%	0.41%	1.47%



MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the Financial Statements and Notes thereto and selected financial data included elsewhere in this report.

Cash

The Bureau's current cash requirements include operating expenses and capital expenditures. Cash decreased by \$23.5 million in 2011. The decrease to cash is attributed to an increase in finished goods inventory at year end as work began early on the 2012 currency program. Cash flows provided by operations for the years ended September 30, 2011 and 2010, were \$44.3 million and \$80.3 million, respectively. The decrease to cash flows provided by operations is attributable to the advance start of the 2012 currency program resulting in a significant increase to finished goods.

Accounts Receivable

Accounts receivable increased by \$9.8 million in 2011. This was due to a change in the amount of currency delivered in the final month of the year and the related billing.

Inventories

Inventories increased by \$8.6 million in 2011. This is primarily due to the early completion of the 2011 currency program and the advance start of the 2012 currency program resulting in a significant increase to finished goods.

Property and Equipment

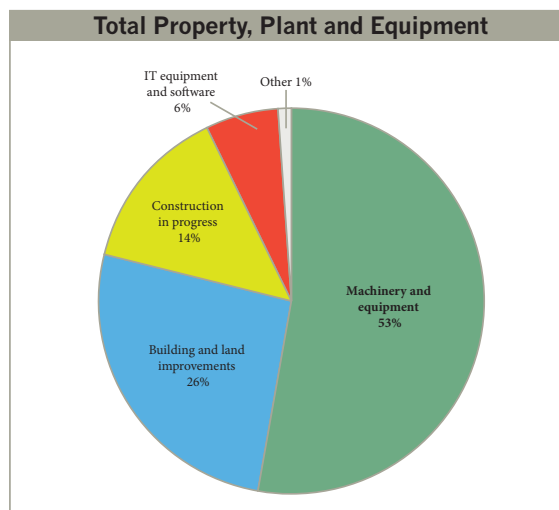
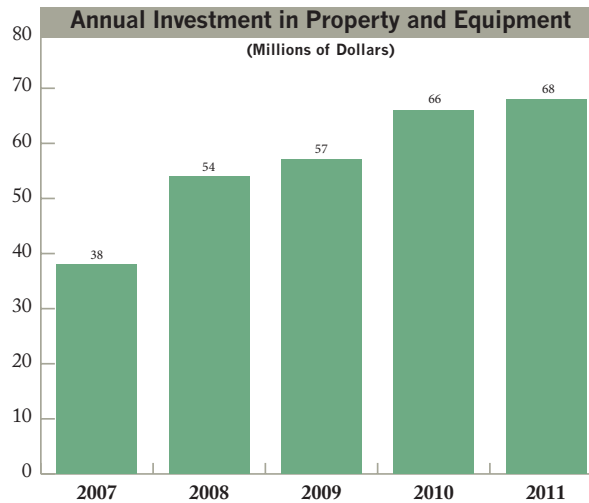
Net property and equipment increased \$35.2 million in 2011 to \$381.5 million. The increase was related to the purchase of currency manufacturing equipment as part of the retooling effort and the investment in the Bureau's technology infrastructure.

Other Assets

Other assets increased by \$3.5 million in 2011. The increase was related to the purchase of spare parts for the new currency manufacturing equipment purchased as part of the retooling program.

Accounts Payable

Accounts payable increased from \$20 million in 2010, to \$33.7 million in 2011. The principal cause for the increase was an increase in outstanding invoices related to the Bureau's technology and equipment investments.



MANAGEMENT DISCUSSION AND ANALYSIS

Accrued Current Liabilities

Accrued current liabilities increased from \$33.5 million in 2010, to \$35.9 million in 2011, due to an increase in the year-end payroll accrual.

Advances

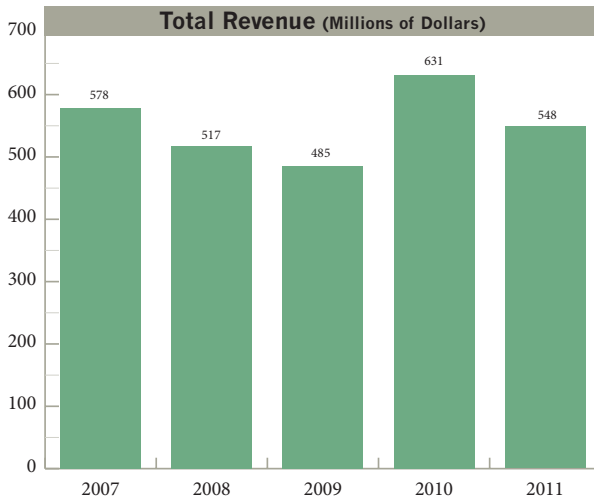
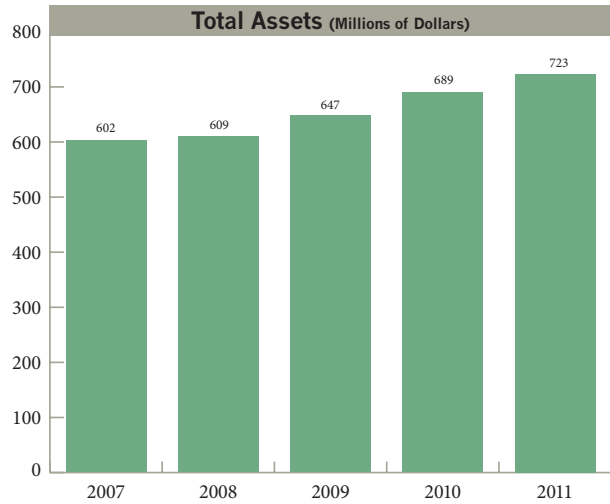
Advances decreased by \$2.9 million in 2011. The decrease is attributed to the reduction in non-currency security product orders.

Workers' Compensation Liabilities

The actuarial workers' compensation liability increased \$3.6 million in 2011. The increase in the actuarial liability primarily resulted from decreases in the discount rates used to determine the present value of this liability.

Revenue from Sales

Overall revenue from sales decreased from \$631.4 million in 2010, to \$548.1 million in 2011. This \$83.3 million decrease is attributable to the lower deliveries in the currency program during the year while efforts were made to resolve production problems with the redesigned \$100 note.



Average Billing Rate for Currency

Year	Rate per Thousand Notes	Single Note
2002	\$54.39	\$0.054
2003	\$57.16	\$0.057
2004	\$55.56	\$0.056
2005	\$56.08	\$0.056
2006	\$54.56	\$0.055
2007	\$60.99	\$0.061
2008	\$63.82	\$0.064
2009	\$74.82	\$0.075
2010	\$96.34	\$0.096
2011	\$90.57	\$0.091



MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Goods Sold

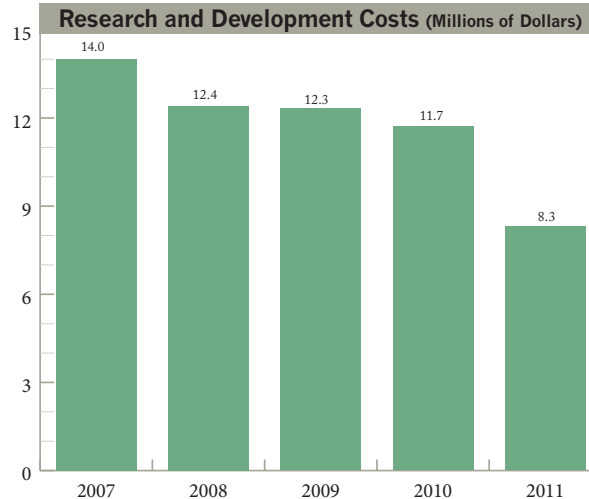
Cost of goods sold decreased from \$508.8 million in 2010, to \$442.8 million in 2011. The \$66.0 million decrease relates to the decline in currency deliveries. The gross margin as a percentage of revenue decreased from 19.4 percent in 2010, to 19.2 percent in 2011.

Operating Costs

Operating costs increased by \$9.6 million in 2011. The change is primarily attributed to increased support costs for the Bureau's new technology infrastructure.

Legal Compliance

The Bureau of Engraving and Printing is committed to ensuring its financial activities are carried out in full compliance with applicable laws and regulations. To ensure this responsibility is met, financial managers direct annual reviews of financial operations and programs compliance with applicable laws and regulations. For 2011, the Bureau of Engraving and Printing complied substantially with all laws and regulations considered material with internal control over financial reporting.



Cindy Rawlinson, Currency Overprinting Assistant Foreman, prepares press for printing of seals and serial numbers.



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 internal controls and financial management systems to protect against fraud, waste, and abuse. The subsequent passage of the Chief Financial Officers Act, the Federal Financial Management Improvement Act, and the Sarbanes-Oxley Act of 2002 further increased the internal control requirements.

The Bureau has a history of strong internal 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.

To 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, storage, and off-line components that have custody of security items. During 2011, the CRTs performed 984 unannounced reviews. The results of the reviews were reported to office chiefs, supervisors and managers responsible for enforcing policies and procedures, as well as implementing corrective actions. The Internal Control Awareness Program is used to promote the visibility and understanding of internal 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, as well as the environmental management system have both been ISO registered. The internal review staffs support the maintenance and continuous improvement of the Bureau's quality and environmental management systems by conducting internal quality audits throughout the Bureau.

The Bureau's Internal Control Policy Committee (Committee) provides overall guidance and coordination to the internal control program and fosters a management environment in which accountability for results and cost effective controls are maintained to ensure the reliability of financial reporting, effectiveness of operations, and compliance with applicable laws and regulations. The Committee is comprised of senior level executives and is chaired by the Chief Financial Officer.

The accompanying financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 27th consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. Additionally, for the seventh consecutive year, the Bureau received an unqualified opinion from the auditors on management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework) and the requirements of Appendix A of Office



FEDERAL MANAGERS FINANCIAL INTEGRITY ACT PLANS AND ACCOMPLISHMENTS

of Management and Budget Circular A-123, "Management's Responsibility for Internal Control." The unqualified audit opinion on the financial statements, the unqualified opinion on the internal control over financial reporting, and the FMFIA review process, ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making.

In 2011, the Bureau continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and information technology (IT) related processes and enhanced governance of the IT program and resources. In IT security, 100% of the Bureau's Major Applications and General Support Systems are fully accredited. In responding to concerns about lost computers and data throughout the Federal Government and the private sector, the Bureau has implemented technologies to encrypt all laptop hard drives and removable Universal Serial Bus (USB) and optical media.

The Bureau continues to refine policy and procedures for ensuring the adequacy of management controls throughout the life cycle of all hardware and software. In support of OMB initiatives, the Bureau has implemented Networx/TIC conversion under the Treasury TNet contract. Additionally, the Bureau remains committed to full implementation of the National Institute of Standards and Technology (NIST) SP800-53 and SP800-53A management, operational, and technical controls for IT systems, as well as 100% implementation of the Federal Desktop Core Configuration for Microsoft software and NIST approved configurations for other operating systems and databases.

During 2011, the Bureau was subjected to a number of audits and reviews of financial and support IT systems, and FISMA implementation. The Bureau continues to design and implement controls to comply with the Sarbanes-Oxley Act Section 404 and the Government Accountability Office's Federal Information System Controls Audit Manual audit standards, in order to support the annual audited financial statements. The CIO Directorate is an active participant to Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises. The Directorate also tests COOP plans for the Bureau's mainframe computer and enterprise management information systems.



CUSTODY OF ASSETS

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

Currency products and other items used in test, experimental, research and other off-line activities normally are 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 the former 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 order 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 internal controls, is the Office of Compliance. This office evaluates and monitors internal control systems and maintains a comprehensive product accountability system. 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.

James (Jim-Bob) Thompson, Intaglio Plate Maker Foreman, shows Jeremy Clemons, Pipefitter, a 32 subject intaglio currency plate during the Office of Engraving open house.



ASSURANCE STATEMENT FISCAL YEAR 2011

The Bureau of Engraving and Printing (Bureau) made a conscientious effort during fiscal year 2011 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Federal Financial Management Improvement Act (FFMIA) of 1996, Office of Management and Budget (OMB) Circular A-123, and the Reports Consolidation Act of 2000. The Bureau, taken as whole, is operating in accordance with the procedures and standards prescribed by the Comptroller General of the United States and OMB guidelines.

As required by the FMFIA, the Bureau evaluated both its internal controls and financial management systems for fiscal year 2011. The results of these evaluations provided reasonable assurance that the internal 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 had no instances of material internal control weaknesses and no material nonconformances outstanding as of September 30, 2011.

The Bureau evaluated its internal control over financial reporting in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control." Based on the results of this evaluation, the Bureau can provide reasonable assurance that internal control over financial reporting as of September 30, 2011, is operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. 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.



SUMMARY OF OFFICE OF INSPECTOR GENERAL AND GOVERNMENT ACCOUNTABILITY OFFICE AUDITS

The Bureau began Fiscal Year 2011 with two open and fourteen new audit recommendations, issued by the Office of Inspector General (OIG). These recommendations pertained to training, policy and/or procedure adherence. The Bureau implemented corrective action on all but two and they are being addressed as appropriate.





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.

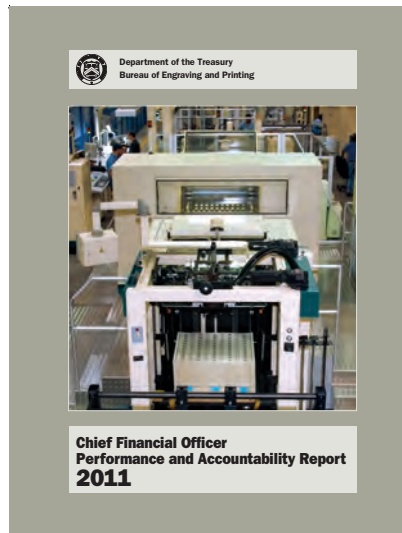




**THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING**

Financial Statements

Years ended September 30, 2011 and 2010
(With Independent Auditors' Reports Thereon)





KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

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 (the Bureau) as of September 30, 2011 and 2010, and the related statements of operations and cumulative results of operations, and cash flows (hereinafter referred to as "financial statements") for the 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 of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 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, 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 as of September 30, 2011 and 2010, and the results of its operations, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

We have also examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, management's assertion, included in the accompanying Management's Report on Internal Controls Over Financial Reporting, that the Bureau maintained effective internal control over financial reporting as of September 30, 2011, and have issued our report thereon dated December 14, 2011. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our fiscal year 2011 audit.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011, on our tests of the Bureau's compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our fiscal year 2011 audit.

KPMG LLP

December 14, 2011

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

Balance Sheets

As of September 30, 2011 and 2010

	(In Thousands)	
	2011	2010
ASSETS		
Current assets		
Cash (Note 3)	\$ 130,178	\$ 153,662
Accounts receivable (Note 10)	38,436	28,622
Inventories, net (Note 4)	148,826	140,229
Prepaid expenses	3,698	3,908
Total current assets	321,138	326,421
Property and equipment, net (Note 5)	381,507	346,358
Other assets, net (Note 6)	20,220	16,706
Total assets	\$ 722,865	\$ 689,485
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities (Notes 7 and 8)		
Accounts payable	\$ 33,683	\$ 20,044
Accrued liabilities	35,949	33,513
Advances	8,460	11,321
Total current liabilities	78,092	64,878
Workers' compensation liability (Note 8)	62,423	58,835
Total liabilities	140,515	123,713
Contingencies and commitments (Notes 12 and 13)		
Equity		
Invested capital	32,435	32,435
Cumulative results of operations	549,915	533,337
Total equity	582,350	565,772
Total liabilities and equity	\$ 722,865	\$ 689,485

See accompanying notes to the financial statements.

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

Statements of Operations and
Cumulative Results of Operations

For the Years Ended September 30, 2011 and 2010

	(In Thousands)	
	2011	2010
Revenue from sales (Note 10)	\$ 548,094	\$ 631,422
Cost of goods sold	442,769	508,832
Gross margin	105,325	122,590
Operating costs:		
General and administrative expenses	80,433	67,448
Research and development	8,314	11,714
	88,747	79,162
Excess of revenues over expenses	16,578	43,428
Cumulative results of operations at beginning of year	533,337	489,909
Cumulative results of operations at end of year	\$ 549,915	\$ 533,337

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the Years Ended September 30, 2011 and 2010

	(In Thousands)	
	2011	2010
Cash flows from operating activities		
Excess of revenues over expenses	\$ 16,578	\$ 43,428
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	32,566	27,759
Loss from inventory obsolescence	720	917
Loss from disposal of property and equipment	53	—
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(9,814)	367
(Increase) decrease in inventories	(8,729)	8,954
Decrease in prepaid expenses	210	1,351
Increase in other assets	(4,102)	(1,176)
Increase in accounts payable	13,639	3,106
Increase (decrease) in accrued liabilities	2,436	(4,500)
Decrease in advances	(2,861)	(2,744)
Increase in workers' compensation liability	3,588	2,868
Net cash provided by operating activities	44,284	80,330
Cash flows from investing activities		
Purchases of property and equipment	(67,768)	(66,188)
Net cash used in investing activities	(67,768)	(66,188)
Net increase (decrease) in cash	(23,484)	14,142
Cash at beginning of year	153,662	139,520
Cash at end of year	\$ 130,178	\$ 153,662

See accompanying notes to the financial statements.

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

Notes to the Financial Statements
September 30, 2011 and 2010

1. Reporting Entity

The Bureau of Engraving and Printing (Bureau), a component of the United States (U.S.) Department of the Treasury, is the U.S. Government's security printer. The Bureau designs and produces U.S. currency. The Bureau also advises and assists federal agencies in the design and production of other U.S. Government documents requiring counterfeit deterrence or secure production.

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 laws and regulations. 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. Invested capital represents the historical value of the initial contribution made by the Federal Government.

The financial statements represent the consolidation of two federal revolving funds. The majority of all financial transactions are 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. All significant balances and transactions between the funds have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Bureau has historically prepared its financial statements in conformity with U.S. generally accepted accounting principles (GAAP), based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. Under such standards, the Bureau prepares its financial statements using the full accrual basis of accounting under which revenues are recognized when earned and expenses are recognized as incurred, regardless of when cash is exchanged.

The Federal Accounting Standards Advisory Board (FASAB) has been designated by the American Institute of Certified Public Accountants as the standards-setting body for financial statements of Federal Government entities, with respect to the establishment of GAAP. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as in conformity with GAAP for those federal agencies, such as the Bureau, that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, the Bureau's financial statements are presented in accordance with accounting standards published by the FASB.

Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related revenues and expenses. Those estimates most significant to the Bureau's financial statements are the actuarial estimates made by the Department of Labor (DOL) in arriving at the liabilities for workers' compensation, allowances for obsolescence, the useful lives of property and equipment, the likelihood of losses associated with contingent liabilities, and certain accrued expenses at the date of the financial statements. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

(continued)

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

Notes to the Financial Statements
September 30, 2011 and 2010

Cash

Cash represents the aggregate amount of the Bureau's funds held on deposit with the U.S. Treasury and are available to pay liabilities.

Inventories

Raw material and supply inventories are stated at standard cost, except for one advanced counterfeit deterrent material, which is valued using the first-in-first-out (FIFO) method. Finished goods inventories are stated at weighted average unit cost. All 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.

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 capitalizes all cost associated with new construction and building improvements.

The Bureau occupies and uses buildings and land owned by the Department of the Treasury. 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 Department of the Treasury (See Note 5).

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

Other Assets

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

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. 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 the Office of Personnel Management (OPM).

(continued)

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

Notes to the Financial Statements
September 30, 2011 and 2010

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 U.S. Government. The Bureau does not reimburse OPM for these payments. The Bureau's financial statements do not include the cost of employee postretirement benefits paid by OPM, or the actuarial liability for such benefits.

Workers' Compensation Costs

The Federal Employee 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 DOL and are ultimately paid by the Bureau.

The FECA liability consists of two components. The first component, the accrued FECA liability, is based on actual claims paid by DOL but not reimbursed by the Bureau. The Bureau reimburses DOL for the amount of actual claims normally within one to two years after payment is made by DOL. As a result, the Bureau recognizes a current and non-current liability for actual claims paid by DOL, to be reimbursed by the Bureau.

The second component, the actuarial FECA liability, is the estimated liability for future benefit payments. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for future 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 Office of Management and Budget's (OMB) economic assumptions for 10-year Treasury notes and bonds, which resulted in discount rates as of September 30, 2011 and 2010, of 3.54% and 3.65% in year one and 4.03% and 4.30% thereafter. The Department of the Treasury allocated the overall liability to Treasury components based on past claims paid information provided by DOL. The use of these rates approximates the use of average historical rates on marketable Treasury securities with maturities consistent with the projected benefit payments.

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 non-vested leave are expensed as the leave is taken.

Revenue Recognition

Revenue from sales to the Federal Reserve Board is recognized when finished goods satisfactorily pass all Bureau quality control standards and are delivered to the on-site Federal Reserve Depository vaults. Finished goods are released for shipment in accordance with customer requirements. Revenue from the sale of uncut currency to the public is recognized at the time the product is shipped. The Bureau does not record an allowance for returns because of a historically negligible return rate.

(continued)

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

Notes to the Financial Statements
September 30, 2011 and 2010

Research and Development Costs and Public Education (Advertising) Costs

Research and development costs and public education costs are expensed as incurred. Public education costs, which are reported in cost of goods sold, amounted to \$3.1 million and \$15.9 million in the years ended September 30, 2011 and 2010, respectively.

Tax Status

The Bureau is a federal entity, and therefore is not subject to federal, state, or local income taxes. Accordingly, no provision for income taxes is made in the accompanying financial statements.

Contingencies

Liabilities from loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation cost can be reasonably estimated. Loss contingencies that do not meet these criteria, but are reasonably possible and estimable are not accrued, but are disclosed in Note 12.

Fair Value Measurements

ASC 820-10, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Bureau's financial instruments are comprised of cash, accounts receivable, accounts payable, accrued liabilities, and advances as of September 30, 2011 and 2010, respectively. The carrying amounts of these financial instruments approximate fair value because of the short-term nature of these instruments. The Bureau holds no financial instruments that are required by ASC 825-10 to be valued at, reported, or disclosed at fair value as of September 30, 2011 or 2010.

3. Cash

The year-end cash balances by fund are as follows as of September 30, 2011 and 2010:

	(In Thousands)	
	2011	2010
Bureau of Engraving and Printing		
Revolving Fund	\$ 126,264	\$ 146,885
Mutilated Currency Revolving Fund	3,914	6,777
Total	\$ 130,178	\$ 153,662

The balance in the mutilated currency revolving fund, consisting of processed claims for mutilated currency submitted by the public for redemption, is offset by a liability to the public which is included in advances on the balance sheets as of September 30, 2011 and 2010, respectively (See Note 7).

(continued)

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

Notes to the Financial Statements
September 30, 2011 and 2010

4. Inventories, net

Inventories consist of the following as of September 30, 2011 and 2010:

	(In Thousands)	
	<u>2011</u>	<u>2010</u>
Raw material and supplies	\$ 46,429	\$ 54,344
Work-in-process	40,203	45,489
Finished goods - currency	48,270	26,154
Finished goods - uncut currency	13,924	14,242
Total	<u>\$ 148,826</u>	<u>\$ 140,229</u>

The allowance for inventory obsolescence was \$952 thousand and \$820 thousand, at September 30, 2011 and 2010, respectively.

In 2010, the Bureau adjusted (wrote down) the value of its currency paper and work-in-process inventories relating to the redesigned \$100 notes due to a problem with intermittent creasing that is occurring during intaglio printing that is resulting in abnormally high spoilage. The services of an appraiser were not used. This adjustment resulted in the recognition of a loss of \$840 thousand in 2010. This adjustment is included in the cost of goods sold on the Statement of Operations.

5. Property and Equipment, net

Property and equipment consist of the following as of September 30, 2011 and 2010:

	(In Thousands)	
	<u>2011</u>	<u>2010</u>
Machinery and equipment	\$ 477,455	\$ 471,129
Building and land improvements	234,314	234,284
IT equipment and software	56,821	46,456
Office machines	2,791	2,752
Furniture and fixtures	1,272	1,222
Donated assets - art work	125	125
Motor vehicles	212	212
	<u>772,990</u>	<u>756,180</u>
Less accumulated depreciation	<u>512,831</u>	<u>481,858</u>
	260,159	274,322
Construction-in-progress	<u>121,348</u>	<u>72,036</u>
Net property and equipment	<u>\$ 381,507</u>	<u>\$ 346,358</u>

Depreciation expense for the years ended September 30, 2011 and 2010 was \$32.6 million and \$27.8 million, respectively.

The Bureau occupies and uses buildings and land owned by the Department of the Treasury. The land and building shell for the Fort Worth, Texas facility were donated by the City of Fort Worth to the Department of the Treasury in 1987, which holds the title thereto. 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 build out the facility.

(continued)

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

Notes to the Financial Statements
September 30, 2011 and 2010

6. Other Assets, net

Other assets consist principally of machine repair parts and tools. The allowance for obsolescence for these parts and tools for the years ended September 30, 2011 and 2010 was \$5.9 million and \$5.4 million, respectively.

7. Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2011 and 2010:

	(In Thousands)	
	<u>2011</u>	<u>2010</u>
Intragovernmental	\$ 10,084	\$ 9,731
With the public	68,008	55,147
Total	<u>\$ 78,092</u>	<u>\$ 64,878</u>

Accrued current liabilities consist of the following as of September 30, 2011 and 2010:

	(In Thousands)	
	<u>2011</u>	<u>2010</u>
Payroll	\$ 17,591	\$ 15,619
Annual leave	11,591	11,676
Workers' compensation	5,270	5,146
Other	1,497	1,072
Total	<u>\$ 35,949</u>	<u>\$ 33,513</u>

Advances consist of the following as of September 30, 2011 and 2010:

	(In Thousands)	
	<u>2011</u>	<u>2010</u>
Other Federal Agencies	\$ 4,513	\$ 4,537
Mutilated Currency	3,914	6,777
Public sales	33	6
Total	<u>\$ 8,460</u>	<u>\$ 11,321</u>

8. Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2011 and 2010, but not yet reimbursed to DOL by the Bureau, are approximately \$12.3 million and \$12.1 million, of which approximately \$5.3 million and \$5.1 million represent a current liability, as of September 30, 2011 and 2010, respectively. The Bureau will reimburse DOL for these claims in the next two years. The Bureau's estimated non-current, actuarially derived future workers' compensation liability was approximately \$55.4 million and \$51.8 million as of September 30, 2011 and 2010, respectively. The Bureau's estimated, undiscounted, non-current, actuarially derived future workers' compensation liability was approximately \$87.5 million and \$84.1 million as of September 30, 2011 and 2010, respectively.

(continued)

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

Notes to the Financial Statements
September 30, 2011 and 2010

9. Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were \$17.9 million and \$17.0 million for 2011 and 2010, respectively. The CSRS employer contribution rate for fiscal years 2011 and 2010 was 7.0%. The FERS agency contribution rate was 11.7% and 11.2% for fiscal years 2011 and 2010, respectively. The cost of providing the CSRS and FERS benefits is more than the amounts contributed by the Bureau and the employees to OPM. The additional cost of providing benefits, including the cost financed by OPM, which is not included in the Bureau's Statements of Operations, totaled \$26.5 million and \$26.7 million in 2011 and 2010, respectively.

OPM paid costs totaling \$11.2 million and \$11.1 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2011 and 2010, respectively. These costs are not included in the Bureau's Statements of Operations. The Bureau paid costs totaling \$14.1 million and \$13.0 million for the FEHBP and FEGLI programs in 2011 and 2010, respectively.

10. Related Party Transactions and Concentration of Revenue

The Bureau's principal customers are other federal and quasi-federal governmental organizations. During 2011 and 2010, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2011 and 2010, are reflected in the following table:

	Revenue		Accounts Receivable	
	(In Thousands)		(In Thousands)	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Federal Reserve Board:				
Currency Production	\$ 523,009	\$ 614,860	\$ 36,993	\$ 27,220
Mutilated Currency	3,472	3,547	873	869
Other Federal Agencies	3,291	3,752	126	106
	<u>529,772</u>	<u>622,159</u>	<u>37,992</u>	<u>28,195</u>
Public sales	18,320	8,555	56	6
Other	2	708	388	421
	<u>18,322</u>	<u>9,263</u>	<u>444</u>	<u>427</u>
Total	<u>\$ 548,094</u>	<u>\$ 631,422</u>	<u>\$ 38,436</u>	<u>\$ 28,622</u>

Revenues from other federal agencies are derived principally from the sale of security printing products to U.S. Government agencies and related fees charged.

Substantially all products are sold on a fixed price basis. When the revenue from such pricing is not sufficient to cover all costs and provide for necessary working capital the Bureau will negotiate with the Federal Reserve Board for an additional surcharge. The required surcharge totaled approximately \$97.8 million and \$211.9 million in 2011 and 2010, respectively. This amount is included in Revenue on the Statement of Operations.

11. Principal Suppliers

The Bureau is dependent upon sole suppliers for distinctive currency paper and several advanced counterfeit deterrent materials.

(continued)

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

Notes to the Financial Statements
September 30, 2011 and 2010

12. Commitments and Contingencies

The Bureau is a party in various administrative proceedings, legal actions, and claims brought against the Federal Government by employees, contractors, and other parties. As of September 30, 2011 and 2010, there are no contingencies for litigation involving the Bureau, where the risk of loss is probable. Contingencies, where the risk of loss is reasonably possible, are approximately \$4.0 million and \$2.9 million as of September 30, 2011 and 2010, respectively. Since the risk of loss for these litigations is not probable, the Bureau did not record any liability. Management believes that the ultimate resolution of these litigations will not have a material impact on the reported financial position, results of operations, and cash flows.

In 2007, a judge ruled that the current U.S. currency design violates Section 504 of the Rehabilitation Act. The Court awarded no monetary damages. However, the Bureau is required to provide meaningful access to United States currency for blind and other visually impaired persons as part of the next currency redesign. The cost of currency changes necessary to provide meaningful access will be incorporated into future currency redesign costs. No costs have been accrued in the accompanying financial statements as of September 30, 2011 and 2010.

The Bureau has contracted to purchase three large finishing presses, incorporating automated inspection and packaging capability, costing approximately \$53.0 million. As of September 30, 2011, the Bureau has made cumulative payments of \$30.8 million and the remaining commitment outstanding is \$22.2 million. Delivery of the presses will be determined upon successful completion of final factory inspection tests. Progress payments related to the above contract is included in construction-in-progress within Property and Equipment on the balance sheets as of September 30, 2011 and 2010, respectively.

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

13. Operating Lease

In 2002, the Bureau entered into a cancelable operating lease for warehouse space that expires in 2012. The operating lease for warehouse space was renewed in 2011 for an additional 10 years and will expire in 2022.

Rental expense for the years ended September 30, 2011 and 2010 was \$1.9 million and \$1.8 million, respectively.

Future minimum payments under the lease as of September 30, 2011, are (in thousands):

For the years ending September 30:	
2012	\$ 2,451
2013	3,039
2014	3,051
2015	3,064
2016	3,077
Thereafter	<u>17,157</u>
Total	<u>\$ 31,839</u>

14. Subsequent Events

The Bureau has evaluated subsequent events through December 14, 2011, the date which the financial statements were available to be issued. There were no material events that required additional accruals or disclosures.



DEPARTMENT OF THE TREASURY

BUREAU OF ENGRAVING AND PRINTING

WASHINGTON, D.C. 20228

Management's Report on Internal Control Over Financial Reporting

We as management of the Bureau of Engraving and Printing (Bureau) are responsible for establishing and maintaining adequate internal control over financial reporting and for our assertion on the effectiveness of internal control over financial reporting. The Bureau's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Bureau's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of the assets of the Bureau;
- provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Bureau are being made in accordance with authorizations of management of the Bureau and those charged with governance; and
- provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Bureau's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of the Bureau's internal control over financial reporting as of September 30, 2011. In making this assessment, the Bureau used the criteria established in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment and those criteria, we conclude that the Bureau maintained effective internal control over financial reporting as of September 30, 2011.

KPMG LLP, an independent public accounting firm, has issued their reports, included herein, on (1) our financial statements; (2) our compliance with certain provisions of laws, regulations, and contracts and other matters; and (3) our assertion on the effectiveness of internal control over financial reporting.

Larry R. Felix
Director

Leonard R. Olijar
Chief Financial Officer

December 14, 2011



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have examined management's assertion, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that the Bureau of Engraving and Printing (Bureau) maintained effective internal control over financial reporting as of September 30, 2011, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bureau's management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.



In our opinion, management's assertion that the Bureau of Engraving and Printing maintained effective internal control over financial reporting as of September 30, 2011 is fairly stated, in all material respects, based on the criteria established in *Internal Control – Integrated Framework* issued by COSO.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness in internal control over financial reporting, yet important enough to merit attention by those charged with governance. We consider the deficiency in the Bureau's internal control described in Exhibit I of this report to be a significant deficiency. The Bureau's response to the finding identified in our examination is included in Exhibit I. We did not examine the Bureau's response and, accordingly, we express no opinion on the response.

We also have audited, in accordance with auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, the balance sheets of the Bureau as of September 30, 2011 and 2010, and the related statements of operations and cumulative results of operations, and cash flows, of the Bureau and our report dated December 14, 2011 expressed an unqualified opinion.

We noted certain additional matters that we have reported to management of the Bureau in a separate letter dated December 14, 2011.

KPMG LLP

December 14, 2011

Fiscal Year 2011 Significant Deficiency***Internal Control Over Year End Liability Accruals Needs Improvement***

During our test work over the Bureau of Engraving and Printing's (the Bureau) year end liability accruals, we noted the following two instances where the Bureau's supervisory review controls did not detect overstatements in its liability accruals.

During fiscal year 2011, the Federal Reserve Bank (Federal Reserve) discontinued having the Bureau provide public education services on its behalf. Pursuant to this agreement, the Bureau was to provide the Federal Reserve with a final accounting associated with providing such services as of the fiscal year end. The Bureau completed its internal analysis which resulted in its recording an amount due to the Federal Reserve of approximately \$10.7 million as of September 30, 2011. During our audit, we noted that the Bureau inadvertently excluded approximately \$5.5 million in program expenses from its analysis, resulting in an overstatement of accounts payable and an understatement of revenues of approximately \$5.5 million in its draft financial statements as of and for the year ended September 30, 2011.

At the end of each fiscal year the Bureau's Office of Financial Management inquires of other Bureau divisions regarding un-invoiced goods or services received for which the Bureau should accrue a liability. The Bureau incurs a liability once the terms of the contract between the Bureau and its supplier have been met. During our audit, we noted that the specific terms of two contracts had not been met as of September 30, 2011, resulting in an overstatement of accounts payable and property, plant and equipment by \$1.4 million as of September 30, 2011.

OMB Circular A-123 states, "Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner."

In both conditions noted, the initial analysis to determine the payable amount was incorrectly performed, and the review of the analysis was not sufficient to identify the error. The total error was subsequently corrected by the Bureau.

We recommend the Bureau (1) develop and implement policies and procedures to improve the reliability of reviews over significant and unusual accounting transactions and reconciliations by individuals most knowledgeable of the subject matter, (2) ensure policies and procedures are followed to verify all significant and unusual accounting transactions and reconciliations were performed properly, (3) require supporting documentation be provided with, and be examined as part of, the Bureau's review of year end specific item accounts payable estimates, and (4) ensure all year end specific item accounts payable estimates are adequately supported and properly accrued.

Management Response:

Management concurs with the recommendation; and will take the necessary steps to implement policies and procedures requiring additional reviews of significant and unusual accounting transactions and reconciliations by individuals most knowledgeable of the subject matter.

Additionally, management's current process for obtaining and documenting support for year-end accounts payable estimates will be evaluated and appropriate steps will be taken to ensure the reasonableness of management estimates and assumptions.



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Compliance and Other Matters

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 balance sheets of the Bureau of Engraving and Printing (Bureau) as of September 30, 2011 and 2010, and the related statements of operations and cumulative results of operations and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated December 14, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Bureau is responsible for complying with laws, regulations, and contracts 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 the Bureau's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the Bureau. 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 of compliance described in the preceding paragraph, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

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

KPMG LLP

December 14, 2011

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.