MISSION STATEMENT

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

VISION STATEMENT

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

ON THE COVER

A new designed $10 note plate. The new $10 note, which will enter circulation in 2006, is highlighted by engraved images of the Statue of Liberty's torch. The Bureau's Engravers are responsible for the origination of all hand engraved vignettes, portraits, and dies required in the production of electroformed plates used to print currency notes.
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MESSAGE FROM THE DIRECTOR

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

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

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

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

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

Thomas A. Ferguson
Director
I am pleased to present the Bureau of Engraving and Printing’s Chief Financial Officer (CFO) Performance and Accountability Report for 2005. This report reflects a tradition of strong financial management and timely financial reporting at the Bureau. For the 21st consecutive year, the Bureau received an unqualified opinion on its financial statements from an independent certified public accounting firm.

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

The financial statements and annual audit are important elements in the stewardship of the Bureau’s revolving fund. The annual audit helps to ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making.

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

Performance with respect to all key program performance measures was favorable during 2005. Direct manufacturing costs for both the currency and postage stamp programs were below established standards for cost and spoilage. All customer delivery dates were met for both the currency and postage stamp programs. This year was the final year of postage stamp production at the Bureau. Despite reduced currency and postage stamp volumes, the Bureau was able to reduce its average currency billing rate to the Federal Reserve as a result of reduced spoilage rates and improved operating efficiency.

The Bureau of Engraving and Printing has again succeeded in meeting its customers’ needs for innovative, quality products from both an operational and financial management perspective. This tradition of excellence will continue as the Bureau innovates and takes advantage of opportunities to streamline manufacturing processes and strengthen financial management practices.

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

Gregory D. Carper
Chief Financial Officer
The Director, Chief Financial Officer, and Associate Director (Management) Retirement Ceremonies, marking over 100 years of combined government service.
HIGHLIGHTS OF THE YEAR

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

Additional financial and operational highlights for 2005 include:

- Issued new series notes bearing the signatures of the new Treasurer of the United States, Anna Escobedo Cabral, and the Secretary of the Treasury, John W. Snow;
- Completed both the currency and postage stamp programs below standard cost with lower than anticipated spoilage;
- Reduced the average price of currency in 2005 due to reduced spoilage, increased ink mileage and improved productivity;
- Received an unqualified opinion on Bureau financial statements from an independent certified public accounting firm for the 21st consecutive year;

- Received an unqualified opinion on management assertion on the effectiveness of internal controls over financial reporting based on similar challenging requirements set by the Sarbanes-Oxley Act (the Bureau was one of the first government entities to receive such an opinion);
- Completed comprehensive reviews of security and accountability procedures at both facilities;
- Implemented a web-based time and attendance system;
- Initiated an executive development program to provide for succession planning;
- Successfully completed the phase-out of postage stamp production at the Bureau without a reduction-in-force and no adverse cost impact on the Bureau’s currency manufacturing program; and
- Continued the recapitalization of the Washington, DC facility by placing an order for two new intaglio currency printing presses with an option for up to six more.

(All Dollars in Millions)

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<tr>
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<th>2004</th>
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<tr>
<td>Postage Stamps Delivered (Billions)</td>
<td>6.1</td>
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Clockwise from top left: Bureau Director and Deputy Director, Tom Ferguson (l) and Larry Felix (r); Director Ferguson taking questions from young reporters for Scholastic News; the unveiling of the redesigned $10 note, Director, Bureau of Engraving and Printing, Tom Ferguson; Treasurer of the United States, Anna Escobedo Cabral; Secretary of the Treasury, John W. Snow; Vice Chairman, Board of Governors of the Federal Reserve System, Roger W. Ferguson; and Director, United States Secret Service, W. Ralph Basham.
The mission of the Bureau of Engraving and Printing is to design and manufacture high quality security documents that deter counterfeiting and meet customer requirements for quality, quantity and performance.

The Bureau of Engraving and Printing began printing currency in 1862. The Bureau operates on the basis of authority conferred upon the Secretary of the Treasury by 31 U.S.C. 321(a) (4) to engrave and print currency and other security documents. Operations are financed by means of a revolving fund established in 1950 in accordance with Public Law 81-656. This fund is reimbursed through product sales for direct and indirect costs of operations including administrative expenses. In 1977, Public Law 95-81 authorized the Bureau to include an amount sufficient to fund capital investment and to meet working capital requirements in the prices charged for products. This eliminated the need for appropriations from Congress.

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

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

Staffing (FTE) by Function
the Western Currency Facility began operations in 1991. The Western Currency Facility was constructed to provide increased production capacity, reduce transportation costs and enhance the Nation’s emergency preparedness.

In addition to housing production facilities, free tours of currency operations are offered to the general public in both Washington, DC and Fort Worth, TX. The tours include Visitor Centers with currency manufacturing displays, interactive kiosks and other information about the history of our Nation’s currency. Sales centers that sell uncut sheets of currency, premium numismatic currency sets, and other collectibles and engravings are also open to the public at both facilities. In addition to the on-site sales center, sales are available through mail order and through the Bureau’s Internet site: www.moneyfactory.gov.

**Manufacturing**

On September 28, 2005, in an ongoing effort to stay ahead of counterfeiters, the U.S. Government unveiled a redesigned $10 note. The new $10 note will be released into circulation in the spring of 2006. The new $10 note, which is the third denomination to be redesigned in the series, includes subtle shades of orange, yellow and red along with enhanced security features which include images of freedom depicting the Statue of Liberty’s torch and the words “We the People” from the Constitution. The new design is part of the U.S. Government’s ongoing efforts to maintain the integrity of U.S. currency. Work is continuing on the redesign of the $100 note and the development of new counterfeit deterrent features that may be used. There are no plans to redesign the $1 and $2 notes.

During 2005, the Bureau delivered 8.5 billion Federal Reserve Notes to the Federal Reserve System. The Washington and Fort Worth facilities both produced the redesigned notes in 2005 and they delivered 4 billion and 4.5 billion Federal Reserve Notes, respectively. For 2006, the Federal Reserve System has ordered 8.2 billion Federal Reserve Notes.

The Bureau’s quality management system for the production of U.S. currency has been registered as ISO 9001 compliant for five years. During 2005, the Bureau committed to obtaining ISO 14001 certification for environmental management systems (EMS) at both the Washington and Fort Worth facilities. Maintaining and updating ISO certifications exemplifies the Bureau’s commitment to product quality to current and potential customers.

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

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

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

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

Organization

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

The development of a new inspection system will help pressman like Robert Lopez (l) and Dennis Lang (r) improve the quality of currency.
The new $10 note design retains three of the most important security features that were first introduced in the 1990s and are easy to check: watermark, color-shifting ink and security thread.

1  **Watermark:** Hold the bill up to the light and look for the watermark, or faint image, similar to the large portrait. The watermark is part of the paper itself and can be seen from both sides of the note. A blank oval has been incorporated into the back of the new $10 note to highlight the watermark’s location.

2  **Security Thread:** Hold the bill up to the light and look for the security thread, or plastic strip, that is embedded in the paper and runs vertically to the right of the portrait. Close inspection will reveal, the words “USA TEN” and a small flag are visible along the thread from both sides of the note. This thread glows orange when held under ultraviolet light. In the redesigned $10 note, the thread has shifted slightly to the right of its location on older series $10 notes.

3  **Color-Shifting Ink:** Look at the number “10” in the lower right corner on the front of the note. When you tilt the note up and down, the color-shifting ink changes color from copper to green.

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

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

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

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

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

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

**The watermark** – Hold the $10 note up to a light to see a faint image of the first Treasury Secretary, Alexander Hamilton, to the right of his large portrait. It can be seen from both sides of the note. On the redesigned $10 note, a blank oval has been incorporated into the back of the note to highlight the watermark’s location.

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

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

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

To continue to stay ahead of counterfeiters, as advances in technology make digital counterfeiting of currency less difficult, the Bureau expects to redesign U.S. currency every seven to ten years.
The mission of the Bureau of Engraving and Printing is to design and manufacture high quality security documents that meet customer requirements for quality, quantity and performance, including counterfeit deterrence.

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

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

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

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

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

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

The Bureau continues to pursue its goal of environment, health, and safety (EHS) excellence. The Office of Environment and Safety (OES) manages programs that protect workers from injuries and minimize the Bureau’s impact on the environment. The Bureau’s goals are to maintain occupational injury and illness rates in a downward trend and to minimize the impact that its air emissions, wastewater discharge and solid waste have on the environment.

In order to demonstrate our commitment to EHS excellence, the Bureau continues to pursue ISO 14001 registry and designation and an Occupational Safety and Health Administration (OSHA) Voluntary Protection Program (VPP) site.

**Improving Worker Health and Safety**

The Bureau continues to focus on reducing injuries, illnesses, and lost workdays. The Joint Occupational Safety, Health, and Environment Committee (JOSHEC) successfully transformed input and ideas from the labor force into risk reducing solutions by designing and fabricating material handling equipment, purchasing customized joggers, and improving the way flammable liquids are dispensed. The Bureau’s injury prevention efforts in 2005 once again resulted in a safer, more healthful workplace, as indicated by the following year-end results:

- Lost workdays decreased 4%.

- The number of lost workday injuries declined 7% to a rate of 2.0 injuries per 100 employees. Most significantly, the Bureau’s rate is below historical average rates for the printing industry.

- In addition, the Bureau rates exceeded the injury and illness goals set for all Department of the Treasury Bureaus under President Bush’s Safety, Health, and Return to Employment (SHARE) initiative.

**Protecting the Environment**

In 2005, both the Washington, DC and Fort Worth, TX facilities implemented an Environmental Management System (EMS) which is the centerpiece of ISO 14001. The Bureau’s EMS has already paid dividends in minimizing environmental impacts, as well as employee injury risks as follows:

- The use of lead-containing solder in the currency printing plate manufacturing process was eliminated.

- The wastewater recycling technical team made significant progress in developing a method to recycle millions of gallons of wastewater annually at the Washington facility.

**Lost Work Days**

(Days Lost Due to Injury)

$10 United States Note, Series 1901, back

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**Lost Work Days**

(Days Lost Due to Injury)
The Fort Worth facility reduced water consumption by 1.7 million gallons annually by better monitoring water use, maintenance and water re-use.

Wiper solution and rinse water use in the currency printing presses was decreased by instituting process controls of these materials based on analysis of use patterns over time.

An EMS technical group is researching alternatives to the use of chrome in the manufacture of currency printing plates.

Employee Recognition Awards
Employee involvement in the EHS process was evident in 2005 as the Bureau’s Greenback and BSAFE Awards were won by a total of seven employees. Nominations are made to the JOSHEC for a quarterly and annual winner in each category. The Annual Award winners were as follows:

BSAFE Award: Brian Glotfelty, Office of Facilities Support. Brian designed and fabricated two material handling devices that will significantly contribute to the reduction of occupational injuries at the Bureau.

Greenback Award: James Thompson, George Woodworth, and Robert McFall, Office of Engraving. These employees spearheaded an effort to eliminate the use of potentially hazardous substances and eliminated the use of lead-containing solder from the currency printing plate making process.

Annual Greenback and BSAFE Award winners: James Thompson (l), Bob McFall, Brian Glotfelty, and George Woodworth.
The vision guiding the Bureau’s Strategic Plan is to be “a world-class securities printer providing our customers and the public superior products through excellence in manufacturing and technological innovation.” A copy of the Bureau’s current Strategic Plan can be viewed online by clicking “About the Bureau” on the Bureau’s web site: www.moneyfactory.gov.

The Bureau has identified five goals in its Strategic Plan that focus on investment in people, products and processes.

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

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

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

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

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

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

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

The Bureau also offers free public tours of its facilities. The public tour at the Western Currency Facility in Fort Worth, TX began in 2004. The tour of the Bureau’s Washington, DC facility and the Visitor’s Center are among the most popular attractions in the Nation’s Capital.

While manufacturing currency and other printed securities is the core business of the Bureau, the production operations are highly dependent on the effectiveness of support processes such as security, procurement, information systems, financial management, product accountability, human resources management, engineering, research, product development, and maintenance. Only when these processes work in concert can the Bureau be responsive to the needs of its customers.
Unveiling of the $1 note bearing the signature of the Anna Escobedo Cabral (top left), 42nd Treasurer of the United States.
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 and the Federal Financial Management Improvement Act further increased the government’s 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. Security, accountability, and resource management are major strategic goals.

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

Ongoing efforts to improve internal controls include compliance reviews and an active internal control awareness program. The Bureau’s Compliance Review Teams (CRTs) in both facilities promote compliance with Bureau operating policies and procedures by performing unannounced reviews in production and storage areas that have custody of security items. During 2005, the CRTs performed 343 unannounced reviews. The results of the reviews were reported to office chiefs, supervisors and managers responsible for enforcing policies and procedures, and implementing corrective actions. The Internal Control Awareness Program is used to promote the visibility and understanding of 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 has been registered as ISO 9001 compliant for five years. The internal review staffs support the maintenance and continuous improvement of the Bureau’s quality management system by conducting internal quality audits throughout the Bureau.

During FY 2005, the Bureau reconstituted its Internal Control Policy Committee. The committee provides overall guidance and coordination to the internal control program and fosters an 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 that reports to the Director.
The accompanying financial statements and annual audit are important elements in the stewardship of the Bureau’s revolving fund. For the 21st consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. The Bureau also received an unqualified opinion from the auditors on management’s assessment that the Bureau maintained effective internal control over financial reporting as of September 30, 2005, based on criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework) and the applicable requirements of Appendix A of Office of Management and Budget Circular A-123, “Management’s Responsibility for Internal Control.” The unqualified audit opinion; the unqualified opinion on the internal control over financial reporting; and the FMFIA review process help to ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making.

During the FY 2005 audit, our auditors noted that a depository account maintained by the Bureau had not been approved by the Department of Treasury’s Financial Management Service (FMS). The use of an unauthorized depository account resulted in a reportable condition under the FMFIA reporting guidelines. This account was opened in 1995 and, subsequent to 1997, was used to secure daily cash receipts from sales to the public from the Bureau’s Visitor Center gift shop and, more recently, was also used to receive wire transfers for orders received through the Internet. Beginning in FY 2005, the number and dollar amount of the transactions in this account increased due to additional activity from a new customer. The Bureau transferred funds from this account to our approved revolving fund account monthly. At September 30, 2005, the balance remaining in the account and public sales activity during the year was appropriately recorded on the financial statements. In addition, a review of past activity in this account revealed no unauthorized withdrawals or indications of fraud.

This situation may have resulted in non-compliance with certain laws and regulations. The Bureau was unable to locate documentation from FMS for authorization to designate the holder of the account as a depository and financial agent of the federal government, at times did not transfer funds from the account timely, and maintained balances in the account exceeding the insured threshold of $100,000 without obtaining the required collateral security. There was also one person with signatory authority on the account who left the Bureau in 1997. The
Bureau has determined the issues related to this depository account to be a reportable condition based on standards generally accepted in the United States as established by the American Institute of Certified Public Accountants.

The Bureau has taken steps to remediate the above situation, by notifying appropriate personnel, including the FMS, the Treasury Office of Inspector General, and the Bureau’s Chief Counsel. In addition, management has discontinued the process of depositing public sales receipts in the account, and is closing the account. Sales receipts are deposited daily into an approved account, and proceeds from sales to the new customer that led to the more significant activity in this account are now wired directly to an authorized account. Additional action will be taken as necessary to address this condition.

Despite the Bureau’s strong organizational emphasis on controls, the Bureau detected a suspected theft at the Western Currency Facility in Fort Worth, Texas in October 2004. At that time, the Bureau notified the United States Secret Service and the Department of the Treasury Office of Inspector General, which began an investigation into this matter. During the course of this investigation, it was determined that a trusted employee was potentially responsible for this theft. The employee subsequently confessed to the theft, plead guilty and was sentenced to more than 3 years in prison.

When the potential theft was detected, the Bureau immediately performed an internal review of the controls over the printing, processing, verification, and destruction of currency notes. The results of the review disclosed that certain controls needed strengthening and 23 recommendations were made to correct these deficiencies at the Washington, DC and Western Currency facilities. In addition, the Bureau implemented procedures to strengthen controls over currency production and verification to minimize any exposure to potential future misdeeds. Also, the Bureau commissioned an independent consultant to perform a comprehensive review of controls and all aspects of the security printing and destruction operations. This review was completed on August 18, 2005. The Bureau is in the process of implementing the consultant’s recommendations. The Bureau’s Internal Control Policy Committee is monitoring the implementation of these recommendations and associated corrective actions.

In 2005, the Bureau’s Chief Information Officer (CIO) 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. The Bureau continued to refine its Enterprise Architecture not only to address Federal Enterprise Architecture reference models as they are initially released and updated, but also to address the specific needs of the Bureau relative to the documentation and modeling of manufacturing and administrative processes, legacy asset portfolios, and the development of performance metrics associated with assets included in legacy portfolios. Analysis of these processes has led to the identification and documentation of the Bureau’s “to-be” architecture. This architecture is also in use for the review of current and proposed IT assets.

In IT security, all of the Bureau’s major applications and general support systems have been certified and accredited as meeting stringent federal requirements for ensuring the security of information systems. Systems and applications that were not certified and accredited during the year underwent independent program review using methodology developed by the National Institute of Standards Technology.
The CIO Directorate continues to refine policy and procedures for ensuring the adequacy of management controls throughout the life cycle of hardware and software. During fiscal year 2005, the CIO participated in the review of financial, FISMA, and support IT systems as part of the Bureau’s first Sarbanes-Oxley Act type audit, which supports the annual audited financial statements. The CIO Directorate continues to be an active participant in Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) response through exercise Forward Challenge in May 2005. The Bureau continues to refine Continuity of Operation Plans for its FISMA systems. Regular and thorough biannual tests are held of the COOP plans for the Bureau’s mainframe computer, enterprise management information system, and public sales support systems.

As part of the Bureau’s emphasis on governance, configuration management (CM) policy and processes continue to be developed and a formal program, which includes implementation of CM software, has been established. This software will provide detailed tracking of software, hardware, and system configuration changes, as well as the reasons for and impact of these changes. Phase one of the configuration management software is complete and changes to core Bureau functions such as manufacturing and finance are under automated CM control. Phase two is in progress and will include installation of the CM tool in the Oracle environment, as well as the implementation of a process flow tool to monitor projects as they move through the systems development life cycle and capture necessary approvals to support the more rigorous governance and CM requirements similar to those set by the Sarbanes-Oxley Act. In addition, a patch management process was implemented in 2005. Implementation of the CM tool across all CIO Directorate supported platforms is expected by the end of fiscal year 2006.

The Bureau’s Capital Planning and Investment Control Process has been implemented, and included the creation of IT and non-IT Investment Review Committees. The IT Architecture and Security Subcommittee, which membership represents IT Security, Enterprise Architecture, and Technical Security, reviews business cases and statements of work, which pertain to IT or to IT-embedded capital assets.
**Assurance Statement Fiscal Year 2005**

As required by the Federal Managers’ Financial Integrity Act (FMFIA) of 1982, the Bureau of Engraving and Printing (Bureau) evaluated both its internal controls and financial management systems for fiscal year 2005. 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 weakness and no material nonconformances outstanding as of September 30, 2005. However, the Bureau had a reportable condition as of September 30, 2005 as described in the Federal Mangers’ Financial Integrity Act Plans and Accomplishments Section.

Also, based on Office of Management and Budget (OMB) guidance, OMB Bulletin 01-02 (Audit Requirements for Federal Financial Statements), the Bureau can state that it is in substantial compliance with the applicable provisions of the Federal Financial Management Improvement Act of 1996. Further, the Bureau has active programs in place to provide reasonable assurance that programs achieve their intended results; resources are used consistent with the Bureau’s overall mission; programs and resources are free from waste, fraud, and mismanagement; laws and regulations are followed; controls are sufficient to minimize any improper or erroneous payments; performance information is reliable; systems security is in substantial compliance with all relevant requirements; continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and financial management systems are in compliance with federal financial systems standards.

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**Summary of Office of Inspector General and Government Accountability Office Audits**

The Bureau began 2005 with seven open audit recommendations issued by the Office of Inspector General (OIG). These recommendations pertained to program issues. During 2005, the Bureau received 11 additional recommendations in eight OIG audit reports. Six recommendations resulted from audits requested by Bureau contracting officers and pertained to contract issues. Five recommendations were the result of OIG initiated audits of the Bureau’s security over its network and computer systems, and computer security incident response capability. Two of the recommendations from the contract-type audit reports were implemented or addressed in 2005 resulting in monetary benefits of about $695 thousand. In addition, ten recommendations from program-type audit reports were implemented or addressed in 2005. The remaining recommendations will be addressed as appropriate. In addition, the Bureau received two recommendations in one Government Accountability Office audit report concerning currency paper procurement issues. One recommendation was implemented in 2005. The remaining recommendation will be addressed as appropriate.
Installation and training on the Bureau’s newest technology – computer to intaglio plate (CTIP) making equipment.
In addition to the main-line production of currency and postage stamps, the Bureau has many high-value items that are used for various purposes, such as research, product testing and historical reference. Consequently, the Bureau 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 postage stamp operations, as well as other securities produced by the Bureau. While these collections are not included in the inventory balances as reported in the financial statements, appropriate custodial records and controls are maintained. Physical inventories are performed regularly to ensure accountability for these collections.

Although the Bureau does not hold title to any land or facilities, it maintains custodial control over the buildings occupied in Washington, DC and Fort Worth, Texas. In 1999, the Bureau began a multi-year project to substantially renovate the buildings in Washington, DC. This renovation includes roof replacement and power system upgrades, as well as significant maintenance to the buildings’ exteriors and ventilation systems. In 2003, an expansion of the production area was completed in Fort Worth, Texas and a public tour opened in 2004.

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

Although the Bureau has a strong organizational emphasis on controls, the Bureau detected and reported a suspected theft of currency in 2005. These notes, while scheduled for destruction, had high intrinsic value in that they could be passed as legitimate currency. As a result, the Bureau implemented procedures to strengthen controls over currency production and verification to minimize any exposure to potential future misdeeds and ensure that currency and currency-like products are properly safeguarded throughout the manufacturing process. In addition, the Bureau had a reportable condition as a result of its use of an unauthorized depository account.

Young visitors learn about the evolution of mediums used as money through the course of history from the “What is Money?” exhibit on the Western Currency Facility tour.

Dennis Grubby, plate printer, demonstrates the turn-of-the-century spider press in the Fort Worth Visitor Center.
The Bureau measures the efficiency and effectiveness of its overall organizational performance by using program performance measures. Standards are developed annually and approved by senior executive staff based on past 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 estimated for each product line.

The Bureau does not receive Federal appropriations; operations at the Bureau are financed by a revolving fund that is reimbursed through product sales.

Customer billings are the Bureau’s only means of recovering the costs of operations and generating funds for capital investment. Billing rates are based on established cost standards, which are predicated on historical costs, and factors such as changes in labor, material and overhead costs. To ensure that sufficient cash is provided for operations the Bureau must perform to these standard costs.

<table>
<thead>
<tr>
<th></th>
<th>2005 Standard</th>
<th>2005 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Federal Reserve Notes (Cost Per Thousand Notes)</td>
<td>$29.17</td>
<td>$29.01</td>
</tr>
<tr>
<td>2. 100 Stamp Coil (PSA) (Cost Per Thousand Stamps)</td>
<td>$2.09</td>
<td>$1.93</td>
</tr>
<tr>
<td>3. Federal Reserve Notes Delivered (Billions)</td>
<td>8.6</td>
<td>8.5</td>
</tr>
<tr>
<td>4. Postage Stamps Delivered (Billions)</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>5. Overall Productivity Change 2004 to 2005</td>
<td>-8.6%</td>
<td>-3.9%</td>
</tr>
<tr>
<td>a. Currency Productivity Change 2004 to 2005</td>
<td>-5.8%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>b. Postage Productivity Change 2004 to 2005</td>
<td>-38.1%</td>
<td>-28.1%</td>
</tr>
<tr>
<td>6. Currency Spoilage</td>
<td>4.9%</td>
<td>4.3%</td>
</tr>
<tr>
<td>7. 100 Stamp Coil Spoilage</td>
<td>8.0%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>
The actual production cost per thousand currency notes, which includes direct labor and materials and applied manufacturing overhead, was about 1% below standard in 2005. This was due to lower than anticipated spoilage, improved ink mileage at the Western Currency Facility and better than planned productivity for the entire program.

The actual production cost per thousand stamps for the 100 Stamp Coil with pressure-sensitive adhesive (PSA) was approximately 8% below standard in 2005. Reduced spoilage, improved productivity, and lower labor and material costs all contributed to this superior performance. Postage stamp production at the Bureau ended this past summer; however, distribution of stamps to the U.S. Postal Service will continue in 2006.

In 2005, the Bureau delivered 8.5 billion Federal Reserve Notes to the Federal Reserve System and 5 billion postage stamps to the U.S. Postal Service. In 2004, the Bureau delivered 0.1 billion notes from the 2005 order. Deliveries and billings are based on orders received from customers. Customer agencies submit their requirements to the Bureau on an annual basis and indicate expected product volume. In some years, actual production does not equal the order because production and delivery of the subsequent year’s order may start before the new year.

Productivity is calculated based on units of output per labor hour. In 2005, overall productivity decreased by 3.9%. A decrease was anticipated due to the reduction in currency and postage stamp orders.

Staffing levels (apprenticeship and training programs) continued to focus on projected, long-term demand, demand trends and preparations necessary for the production of the next denomination of redesigned currency, not fluctuations in year-to-year orders. During 2005 there was a significant reduction in staffing at the Bureau as about 100 employees took advantage of retirement incentives offered in conjunction with the phase-out of the postage stamp program.
Spoilage is an inherent result of any production process. The level of spoilage is an indicator of the overall effectiveness of the production process and quality of material inputs. As the Bureau’s commitment to quality and its ISO certification requirements have become institutionalized, the overall level of currency spoilage has fallen for the past four years. Overall currency spoilage in 2005 was below standard as result of continued emphasis on quality.

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.
Teach the Children to Save Day, an educational event for children held at the Bureau on April 26, 2005.
During 2005, the Bureau focused its resources and efforts on producing the most secure currency ever issued by the Federal Reserve. The Nation’s new currency is enhanced by additional, advanced counterfeit deterrent features that are indicative of a world-class symbol of security and integrity. When pricing the 2005 currency program, the Bureau anticipated incurring a loss. The Bureau included a surcharge in currency billing rates for the acquisition of capital assets for the start-up of the Western Currency Facility in the 1990s, resulting in revenue in excess of expenses. For 2005, the Bureau did not include the full amount of depreciation in its currency billing rates. Only the estimated amount of depreciation necessary to fund planned capital investments was included in the billing rates. However, the full cost of depreciation is included on the income statement, resulting in an excess of expenses over revenue.

During the year, the Bureau reduced billing rates to the Federal Reserve as a result of operating efficiencies, cost savings as a result of staffing reductions and lower than anticipated capital expenditures. The net effect of the billing rate change was a $20 million reduction in income from currency sales to the Federal Reserve. Nonetheless, the Bureau remains well capitalized with respect to working capital and funds for anticipated capital acquisitions in 2006.

Cash, Accounts Receivable and Cash Flow
Cash increased $14 million in 2005, while accounts receivable decreased by $2.5 million in 2005. The increase in cash was a result of the Bureau’s cost reduction efforts and lower than expected capital expenditures.
**Inventories**

Inventories decreased from $103 million in 2004 to $75 million in 2005. This was primarily due to a decrease in work in process and raw materials due to the lower production levels of currency. In addition, there were no stamp inventories at year end as 2005 was the final year of stamp production at the Bureau.

**Accrued Current Liabilities**

Accrued current liabilities decreased from $31 million in 2004 to $28 million in 2005 primarily due to a small reduction in payroll accruals.

**Property and Equipment**

Net property and equipment decreased from $261 million in 2004 to $249 million in 2005. This net decrease was due to depreciation in excess of the addition of new property and equipment, as well as idle stamp production equipment and spare parts that were fully depreciated in 2005.

**Advances**

Advances increased from $500 thousand in 2004 to $3 million in 2005 primarily due to an advance of $2.5 million from the Department of Homeland Security.

**Other Assets**

Other assets remained relatively unchanged in 2005.

**Accounts Payable**

Accounts payable decreased from $19 million in 2004 to $14 million in 2005. The primary cause of the decrease was the timing of cash disbursements for vendor payments and the decreased activity related to the end of postage stamp production.

### Average Billing Rate for Currency

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate Per Thousand Notes</th>
<th>Single Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>$39.41</td>
<td>$0.039</td>
</tr>
<tr>
<td>1997</td>
<td>$37.40</td>
<td>$0.037</td>
</tr>
<tr>
<td>1998</td>
<td>$40.20</td>
<td>$0.040</td>
</tr>
<tr>
<td>1999</td>
<td>$44.36</td>
<td>$0.044</td>
</tr>
<tr>
<td>2000</td>
<td>$45.34</td>
<td>$0.045</td>
</tr>
<tr>
<td>2001</td>
<td>$46.64</td>
<td>$0.047</td>
</tr>
<tr>
<td>2002</td>
<td>$54.39</td>
<td>$0.054</td>
</tr>
<tr>
<td>2003</td>
<td>$57.16</td>
<td>$0.057</td>
</tr>
<tr>
<td>2004</td>
<td>$55.56</td>
<td>$0.056</td>
</tr>
<tr>
<td>2005</td>
<td>$56.08</td>
<td>$0.056</td>
</tr>
</tbody>
</table>
Workers’ Compensation Liabilities
The actuarial workers’ compensation liability decreased from $62 million in 2004 to $59 million in 2005. The decrease in the actuarial liability was primarily a result of the Bureau’s efforts to reduce workers’ compensation cost over the past five years.

Revenue from Sales
Overall sales revenue decreased by $13 million in 2005 to $512 million. This was due to the decreased currency and postage stamp deliveries in 2005.

Cost of Goods Sold
Cost of goods sold decreased from $493 million in 2004 to $473 million in 2005 due to lower sales volume. As a percentage of sales revenue, cost of goods sold decreased from 94 percent to 92 percent. Consequently, gross margin as a percentage of revenue increased.

Operating Costs
Operating costs remained relatively unchanged in 2005.

Andy Hom Loon Shu, Office of Engraving, using the new computer to intaglio plate (CTIP) technology.
Limitations of the Financial Statements

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

We, as management of the Bureau of Engraving and Printing, are responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Internal control is designed to provide reasonable assurance to the Bureau’s management regarding the reliability of financial reporting and the preparation of published financial statements. Because of inherent limitations in any internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

The Bureau assessed its internal control over financial reporting as of September 30, 2005, 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 applicable requirements of Appendix A of Office of Management and Budget Circular A-123, “Management’s Responsibility for Internal Control.” Management’s assessment included an evaluation of the design of the Bureau’s internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this assessment, management has concluded that as of September 30, 2005, the Bureau’s internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements based on the specified criteria. No material weaknesses were found in the design or operation of the internal control over financial reporting.

Ernst & Young LLP, the independent public accounting firm that audited the Bureau’s financial statements included in this report, has issued an attestation report on management’s assessment of internal control over financial reporting, a copy of which is included herein.

\[signature\]

Thomas A. Ferguson
Director

Gregory D. Carper
Chief Financial Officer

October 25, 2005
Washington, DC
REPORT OF INDEPENDENT ACCOUNTANTS

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, 2005, based on criteria established in “Internal Control—Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission and the applicable requirements of Appendix A of Office of Management and Budget Circular A-123, Management’s Responsibility for Internal Control. The Bureau’s management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management’s assertion based on our examination.

Our examination was conducted 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, and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Bureau management’s assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2005 is fairly stated, in all material respects, based on criteria established in “Internal Control—Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission and the applicable requirements of Appendix A of Office of Management and Budget Circular A-123, Management’s Responsibility for Internal Control.

Our examination identified the need to improve certain internal controls over financial reporting, as discussed in the accompanying “Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements in Accordance with Government Auditing Standards,” dated October 25, 2005.

Ernst & Young LLP

October 25, 2005
Washington, DC
REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying balance sheets of the Bureau of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, as of September 30, 2005 and 2004, and the related statements of operations and cumulative results of operations, and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Bureau’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau of Engraving and Printing at September 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2005 on our consideration of the Bureau’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Ernst & Young LLP

October 25, 2005
Washington, DC
## Balance Sheets

<table>
<thead>
<tr>
<th>Assets</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash (Note 3)</td>
<td>$183,250</td>
<td>$168,928</td>
</tr>
<tr>
<td>Accounts receivable (Note 4)</td>
<td>42,038</td>
<td>44,607</td>
</tr>
<tr>
<td>Inventories (Note 5)</td>
<td>75,246</td>
<td>103,391</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>3,675</td>
<td>3,148</td>
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<tr>
<td>Total current assets</td>
<td>304,209</td>
<td>320,074</td>
</tr>
<tr>
<td>Net property and equipment (Notes 2 and 6)</td>
<td>249,403</td>
<td>261,042</td>
</tr>
<tr>
<td>Other assets, principally machinery repair parts and tools (Note 2)</td>
<td>17,322</td>
<td>16,593</td>
</tr>
<tr>
<td>Total assets</td>
<td>$570,934</td>
<td>$597,709</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and equity</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$13,564</td>
<td>$19,267</td>
</tr>
<tr>
<td>Accrued liabilities (Note 7)</td>
<td>27,815</td>
<td>30,980</td>
</tr>
<tr>
<td>Advances</td>
<td>3,881</td>
<td>461</td>
</tr>
<tr>
<td>Total current liabilities (Note 7)</td>
<td>45,260</td>
<td>50,708</td>
</tr>
<tr>
<td>Workers' compensation liability (non-actuarial) (Note 8)</td>
<td>5,690</td>
<td>5,593</td>
</tr>
<tr>
<td>Workers' compensation actuarial liability (Note 2)</td>
<td>59,407</td>
<td>62,304</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>110,357</td>
<td>118,605</td>
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<table>
<thead>
<tr>
<th>Equity</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested capital</td>
<td>32,435</td>
<td>32,435</td>
</tr>
<tr>
<td>Cumulative results of operations</td>
<td>428,142</td>
<td>446,669</td>
</tr>
<tr>
<td>Total equity</td>
<td>460,577</td>
<td>479,104</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>$570,934</td>
<td>$597,709</td>
</tr>
</tbody>
</table>

*See accompanying notes.*
THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

STATEMENTS OF OPERATIONS AND
CUMULATIVE RESULTS OF OPERATIONS

<table>
<thead>
<tr>
<th>Year Ended September 30</th>
<th>2005 (In Thousands)</th>
<th>2004 (In Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from sales (Note 9)</td>
<td>$512,064</td>
<td>$524,752</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>472,478</td>
<td>493,255</td>
</tr>
<tr>
<td>Gross margin on operations</td>
<td>39,586</td>
<td>31,497</td>
</tr>
</tbody>
</table>

Operating costs:
- General and administrative | 50,465 | 51,739 |
- Research and development | 7,648 | 8,564 |
- Total operating costs | 58,113 | 60,303 |

Excess of expenses over revenues resulting from operations | (18,527) | (28,806) |

Cumulative results of operations at beginning of year | 446,669 | 475,475 |
Cumulative results of operations at end of year | $428,142 | $446,669 |

See accompanying notes.
THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

STATEMENTS OF CASH FLOWS

Year Ended September 30

<table>
<thead>
<tr>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>(In Thousands)</td>
<td>(In Thousands)</td>
</tr>
</tbody>
</table>

Operating activities

Excess of expenses over revenues

($18,527)  ($28,806)

Adjustments to reconcile excess of expenses over revenues
to net cash provided (used) by operating activities:

- Depreciation and amortization  34,618  40,997
- Loss on disposal of property and equipment  993  78

Changes in assets and liabilities:

- Accounts receivable  2,569  717
- Inventories  28,145  (8,720)
- Prepaid expenses  (527)  1,390
- Other assets  (729)  (1,877)
- Accounts payable  (5,703)  5,405
- Accrued liabilities  (3,165)  2,068
- Advances  3,420  (1,238)
- Workers' compensation costs  (2,800)  1,115

Net cash provided by operating activities  38,294  11,129

Investing activities

Additions to property and equipment  (23,972)  (17,814)

Net cash (used in) investing activities  (23,972)  (17,814)

Net increase (decrease) in cash  14,322  (6,685)
Cash at beginning of year  168,928  175,613
Cash at end of year  $183,250  $168,928

See accompanying notes.
1. Reporting Entity

Basis of Presentation

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

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

Equipment and Spare Parts

In July 2005, the Bureau permanently completed production of postage stamps for the U.S. Postal Service. All remaining postage stamp related production equipment and spare parts have been fully depreciated and will be disposed of in accordance with applicable government regulations.

In 2004, the disposal of idle equipment and repair parts no longer needed to produce U.S. postage stamps was completed. The equipment and related spare parts were turned over to the General Services Administration (GSA) for disposal in accordance with applicable government regulations.

Estimation Process

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

Inventories

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

Other Assets

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

Property and Equipment

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

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

Depreciation

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

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

Employee Retirement Plans

Bureau employees participate in the contributory Civil Service Retirement System (CSRS) or Federal Employees’ Retirement System (FERS), to which the Bureau and employees make contributions according to plan requirements. Employer contributions to the retirement plans for 2005 and 2004 were $15.7 million and $14.8 million, respectively. The CSRS employer contribution rate for fiscal years 2005 and 2004 was 7.0%. The FERS agency contribution rates for fiscal year 2005 and 2004 were 11.2% and 10.7%, respectively. The cost of providing the CSRS and FERS benefits is more than the amounts contributed by the Bureau and the employees to the Office of Personnel Management (OPM). The full cost of providing pension benefits, including the cost financed by OPM, which is not included in the Bureau’s Statement of Operations, totaled $23.6 million and $23.9 million in 2005 and 2004, respectively.

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

Postretirement Benefits Other than Pensions

Postretirement benefits for former Bureau employees, specifically health care costs and life insurance, are administered and paid by OPM through appropriations received from the United States Government. The Bureau does not reimburse OPM for these payments. OPM paid such retirement benefit costs totaling $10.5 million and $9.8 million, as calculated by OPM, for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2005 and 2004, respectively. These costs are not included in the Bureau’s Statements of Operations.

Consistent with reporting under a multi-employer plan arrangement, no accrued liability is required to be recorded by the Bureau for recognition of postretirement benefits other than pensions.
2. Summary of Significant Accounting Policies (continued)

Cost of Employee Pensions and Postretirement Benefits Paid by OPM

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

Workers' Compensation Costs

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for the Bureau's employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the Bureau. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability for future worker's compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds, which resulted in a discount rate of 4.528% in year one and 5.020% there after. Based on information provided by the DOL, the Department of the Treasury (Treasury) allocated the overall liability to Treasury components based on past claims paid. The Bureau's estimated liability for workers' compensation costs was $59.4 million and $62.3 million as of September 30, 2005 and 2004, respectively.

Annual, Sick and Other Leave

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

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

Revenue Recognition

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

Advertising Cost

The Bureau incurred $7.4 million and $20.4 million in advertising costs for the years ended September 30, 2005 and 2004, respectively, related to the Next Generation Currency Notes public education program. These costs are expensed as incurred.

3. Cash

The year-end cash balances are as follows:

<table>
<thead>
<tr>
<th></th>
<th>September 30</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td></td>
<td>(In Thousands)</td>
<td></td>
</tr>
<tr>
<td>Bureau of Engraving and Printing Revolving Fund</td>
<td>$181,286</td>
<td>$168,442</td>
</tr>
<tr>
<td>Mutilated Currency Revolving Fund</td>
<td>740</td>
<td>461</td>
</tr>
<tr>
<td>Other</td>
<td>1,224</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>$183,250</td>
<td>$168,928</td>
</tr>
</tbody>
</table>


4. Accounts Receivable

Accounts receivable consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>September 30</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td></td>
<td>(In Thousands)</td>
<td></td>
</tr>
<tr>
<td>Billed</td>
<td>$40,790</td>
<td>$42,024</td>
</tr>
<tr>
<td>Unbilled</td>
<td>1,248</td>
<td>2,583</td>
</tr>
<tr>
<td>Total</td>
<td>$42,038</td>
<td>$44,607</td>
</tr>
</tbody>
</table>

The Bureau had intragovernmental accounts receivable of $0.1 million and $2.2 million as of September 30, 2005 and 2004, respectively. Historical accounts receivable loss experience does not warrant the establishment of an allowance for uncollectible accounts.
5. Inventories

Inventories consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>September 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>(In Thousands)</td>
<td></td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>$32,814</td>
</tr>
<tr>
<td>Work-in-process</td>
<td>28,818</td>
</tr>
<tr>
<td>Finished goods - postage stamps and special products</td>
<td>1</td>
</tr>
<tr>
<td>Finished goods - uncut currency</td>
<td>13,613</td>
</tr>
<tr>
<td>Total</td>
<td>$75,246</td>
</tr>
</tbody>
</table>

6. Net Property and Equipment

Property and equipment consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>September 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>(In Thousands)</td>
<td></td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>$393,518</td>
</tr>
<tr>
<td>Building and land improvements</td>
<td>206,575</td>
</tr>
<tr>
<td>IT equipment and software</td>
<td>14,592</td>
</tr>
<tr>
<td>Office machines</td>
<td>1,201</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>1,385</td>
</tr>
<tr>
<td>Donated assets - art work</td>
<td>125</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>212</td>
</tr>
<tr>
<td></td>
<td>617,608</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>385,623</td>
</tr>
<tr>
<td>Construction-in-progress</td>
<td>231,985</td>
</tr>
<tr>
<td>Net property and equipment</td>
<td>$249,403</td>
</tr>
</tbody>
</table>

Fully depreciated assets in use as of September 30, 2005 and 2004 were $201 million and $167 million, respectively.

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

All current liabilities are funded and consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>September 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>(In Thousands)</td>
</tr>
<tr>
<td>Intragovernmental</td>
<td>$7,222</td>
</tr>
<tr>
<td>Other</td>
<td>38,038</td>
</tr>
<tr>
<td>Total</td>
<td>$45,260</td>
</tr>
</tbody>
</table>

Accrued current liabilities consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>September 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>(In Thousands)</td>
</tr>
<tr>
<td>Payroll</td>
<td>$12,709</td>
</tr>
<tr>
<td>Annual leave</td>
<td>10,183</td>
</tr>
<tr>
<td>Workers’ compensation</td>
<td>4,420</td>
</tr>
<tr>
<td>Other</td>
<td>503</td>
</tr>
<tr>
<td>Total</td>
<td>$27,815</td>
</tr>
</tbody>
</table>

8. Workers’ Compensation Liability (Non-Actuarial)

The Bureau has recorded a liability for claims incurred and paid to claimants by the Department of Labor (DOL) as of September 30, 2005 and 2004, but not yet reimbursed to DOL by the Bureau. Such amounts, associated with workers’ compensation, which will be paid in subsequent years, are approximately $5.7 million and $5.6 million, respectively (See Note 2).

9. Revenue from Sales

Revenues are derived from the following principal customers:

<table>
<thead>
<tr>
<th></th>
<th>September 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>(In Thousands)</td>
</tr>
<tr>
<td>Federal Reserve System</td>
<td>$476,762</td>
</tr>
<tr>
<td></td>
<td>93.1%</td>
</tr>
<tr>
<td>United States Postal Service</td>
<td>17,336</td>
</tr>
<tr>
<td></td>
<td>3.4%</td>
</tr>
<tr>
<td>Other</td>
<td>17,966</td>
</tr>
<tr>
<td></td>
<td>3.5%</td>
</tr>
<tr>
<td>Total</td>
<td>$512,064</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
</tr>
</tbody>
</table>
9. Revenue from Sales (continued)

Other revenue consists principally of the sale of security products to government agencies, the sale of uncut currency to the public, and fees charged to the Federal Reserve for the redemption of mutilated currency.

Revenue from sales decreased approximately 2.4% in 2005 as the result of a reduction in currency billing rates and a decrease in the number of Federal Reserve Notes delivered.

In 2001, the Bureau and the U.S. Postal Service entered into an agreement that gradually phased out production of postage stamps at the Bureau over a five-year period ending in 2005, with delivery services continuing through 2006.

10. Principal Suppliers

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

11. Commitments and Contingencies

The Bureau is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Bureau are paid by the Department of the Treasury Judgment Fund. The Bureau is required to reimburse the Judgment Fund for paid claims related to employee discrimination and contract disputes. There were no unreimbursed payouts from the Judgment Fund in fiscal years 2004 and 2005. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the financial statements.

In 2004, the Bureau contracted to purchase currency production equipment, costing $23.7 million, to be delivered in 2006.

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

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

12. Staffing

In 2005 and 2004, in order to reduce staffing and better match facility staffing and production requirements, the Bureau offered voluntary employee separation incentives. As a result, approximately 100 employees accepted the incentives and the Bureau incurred expenses of $2.6 million in 2005. In 2004, approximately 200 employees accepted the incentives and the Bureau incurred expenses of $5.1 million.
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the Bureau of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, as of and for the year ended September 30, 2005, and have issued our report thereon dated October 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, Audit Requirements for Federal Financial Statements, as applicable. We also have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the effectiveness of the Bureau’s internal control over financial reporting as of September 30, 2005, based on criteria established in “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission, and the applicable requirements of Appendix A of OMB Circular A-123, Management’s Responsibility for Internal Control, and our report dated October 25, 2005 expressed an unqualified opinion.

Internal Control Over Financial Reporting

In planning and performing our audits, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition based on standards generally accepted in the United States as established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Bureau’s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below.

Depository Account for Public Sales

During our FY 2005 audit, we became aware that a depository account maintained by the Bureau had not been approved by the Department of Treasury’s (Treasury) Financial Management Service (FMS). We were informed that this account was opened in 1995 and, subsequent to 1997, was used to secure daily cash receipts from sales to the public from the Bureau’s gift shop and, more recently, has been used for orders through the Internet. The Bureau deposited the cash receipts into the account each day. Beginning in FY 2005, the number and dollar amount of the transactions increased due to additional activity from a new customer. As a result of this increased activity, the Office of Financial Management (OFM) worked with personnel from the Office of External Relations (OER) to improve controls and accounting related to public sales in the fourth quarter of FY 2005. The Bureau’s policy was to accumulate the daily deposits, then transfer funds from the account to their approved revolving fund account monthly. At September 30, 2005, the Bureau appropriately recorded the balance remaining in the account on their financial statements. However, this practice was not implemented until the final quarter of FY 2005. While public sales activity was appropriately recorded on the financial statements at year-end, we noted the following items related to the cash account that indicated management controls need additional strengthening:

- The cash account was maintained by OER with limited involvement by OFM until the fourth quarter of FY 2005. While OER personnel performed certain informal reconciliation procedures to match deposit slips from receipts to the account statements, no formal reconciliations were prepared until August 2005. Prior to the fourth quarter of FY 2005, OFM personnel were recording sales activity as deposits were made to the revolving fund, not as of the day of the original sale.

- Funds were not deposited to an account approved by FMS timely.

- A check for approximately $800,000 was drawn from the outside depository account but not deposited with FMS for over a week. Instead, the check was maintained in a safe within OFM. As of September 30, 2005, this amount appears as a deposit in transit on the balance sheet.

- One of the authorized signatories on the account had not been employed by the Bureau for approximately 8 years. This former employee was removed as an authorized signer in October 2005.
In addition to the internal control issues discussed above, we noted instances where the Bureau may not have complied with certain laws and regulations. For instance, the Bureau was unable to locate documentation from FMS for authorization to designate the holder of the account as a depositary and financial agent of the federal government, did not deposit funds timely, and maintained balances in the account exceeding the FDIC-insured threshold of $100,000 without obtaining the required collateral security.

We reviewed our finding with Bureau management, and management concurred. We also noted that the Bureau has taken steps to remediate the situation by notifying appropriate personnel, including FMS, the OIG, and the Bureau’s Chief Counsel. In addition, management has informed us that they have stopped the process of depositing public sales receipts in the account, and they are in the process of closing this account. Instead, receipts will be deposited daily in an approved account. We were informed that proceeds from sales to the new customer that led to the more significant activity in this account are now wired directly to an appropriate account.

We recommend that management complete the process of closing the account and transferring funds to FMS, and strengthen the controls surrounding the cash account process to ensure that financial records are accurate and to reduce the risk of errors and irregularities. To the extent that formerly relatively minor sales to the public of collectible items continue to grow, we also encourage management to revisit and strengthen its control process in the area, including daily recognition of activity in the Bureau records.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions. However, we do not believe the reportable condition described above is a material weakness.

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

Compliance and Other Matters

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

In addition to the reportable condition described above, we noted certain other matters involving internal control over financial reporting and its operation that we have reported to management of the Bureau in a separate letter dated October 25, 2005.

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

Ernst & Young LLP

October 25, 2005
Washington, DC

2005 CFO Report
REPORT OF INDEPENDENT AUDITORS ON OTHER FINANCIAL INFORMATION

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

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

Ernst & Young LLP

October 25, 2005
Washington, DC
THE DEPARTMENT OF THE TREASURY  
BUREAU OF ENGRAVING AND PRINTING  

STATEMENTS OF OPERATIONS (BY PRODUCT LINE) (UNAUDITED)  

<table>
<thead>
<tr>
<th>Year Ended September 30</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(In Thousands)</td>
<td></td>
</tr>
<tr>
<td>Currency program revenues</td>
<td>$494,728</td>
<td>$505,251</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>458,839</td>
<td>472,430</td>
</tr>
<tr>
<td>Gross margin on operations</td>
<td>35,889</td>
<td>32,821</td>
</tr>
</tbody>
</table>

Operating costs:  

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>General and administrative</td>
<td>48,850</td>
<td>49,592</td>
</tr>
<tr>
<td>Research and development</td>
<td>7,648</td>
<td>8,564</td>
</tr>
<tr>
<td>Currency-excess of expenses over revenues</td>
<td>(20,609)</td>
<td>(25,335)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postage program revenue</td>
<td>17,336</td>
<td>19,501</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>13,639</td>
<td>20,825</td>
</tr>
<tr>
<td>Gross margin on operations</td>
<td>3,697</td>
<td>(1,324)</td>
</tr>
</tbody>
</table>

Operating costs:  

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>General and administrative</td>
<td>1,615</td>
<td>2,147</td>
</tr>
<tr>
<td>Postage-excess of expenses over revenues</td>
<td>2,082</td>
<td>(3,471)</td>
</tr>
</tbody>
</table>

Net results of operations | ($18,527) | ($28,806) |

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

PRODUCT LINE STATEMENT OF OPERATIONS  

Deliveries of Federal Reserve Notes in 2005 decreased by 300 million notes over 2004, while postage stamp deliveries decreased by 1 billion stamps. The decrease in currency deliveries and a reduction in currency billing rates resulted in a revenue decrease of approximately 2.1 percent in 2005, while postage stamp program revenue decreased approximately 11 percent. Superior performance in the manufacturing areas coupled with Bureau-wide cost containment efforts resulted in positive gross margin on operations in both programs. When setting 2005 currency prices, the Bureau planned for a net operating loss because the anticipated level of capital investment was less than the annual depreciation expense. Public Law 95-81 granted the Bureau legal authority to include capital surcharges in the billing rates. Because higher cost assets are funded prior to their installation, the customer is not billed for depreciation expense after installation which would result in them paying for the same capital asset twice.
SUPPLEMENTAL INFORMATION

Currency Capacity Utilization

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington Currency Program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Printing</td>
<td>71%</td>
<td>73%</td>
<td>72%</td>
</tr>
<tr>
<td>b. Processing</td>
<td>66%</td>
<td>67%</td>
<td>68%</td>
</tr>
<tr>
<td>Fort Worth Currency Program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Printing</td>
<td>77%</td>
<td>84%</td>
<td>78%</td>
</tr>
<tr>
<td>b. Processing</td>
<td>68%</td>
<td>76%</td>
<td>71%</td>
</tr>
</tbody>
</table>

Average capacity utilization in the currency program decreased slightly in 2005 from 2004 because the currency order decreased from 8.7 billion notes in 2004 to 8.6 billion notes in 2005. Capacity utilization in 2006 is expected to decrease because of a planned decrease in the 2006 currency order to 8.2 billion notes.

Postage Capacity Utilization

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Printing</td>
<td>17%</td>
<td>33%</td>
<td>18%</td>
</tr>
<tr>
<td>b. Processing</td>
<td>17%</td>
<td>56%</td>
<td>31%</td>
</tr>
</tbody>
</table>

In 2005, printing and processing capacity utilization decreased significantly as a result of continuing postage production decreases and the effects of the disposal of idle production equipment in 2004. This is consistent with a five-year agreement between the U.S. Postal Service and the Bureau that resulted in the permanent completion of postage stamp production at the Bureau in 2005.

PROMPT PAYMENT

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

The Bureau’s prompt payment performance for the past three years is presented below. As the percentages indicate, the Bureau has continued to exceed the Departmental standard for late payments. In 2005, there was a significant decrease in the number of late payments largely due to more experienced personnel and increased efforts to ensure timely payment of invoices.

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number of Invoices Paid Late</td>
<td>148</td>
<td>94</td>
<td>35</td>
</tr>
<tr>
<td>2. Interest Penalties Paid</td>
<td>$7,741</td>
<td>$6,619</td>
<td>$790</td>
</tr>
<tr>
<td>3. Percentage of Invoices Paid Late</td>
<td>1.9%</td>
<td>1.3%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>