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.
This past year reaffirmed my belief in the ingenuity, industriousness, and commitment of the Bureau’s employees to meet the challenges of printing currency in the 21st century. In the first ever “digital unveiling” of U.S. currency, the redesigned $5 note was introduced to the public on September 20, 2007. This was the first time that redesigned U.S. currency had been introduced completely online. The redesigned note will begin circulation in 2008. Additionally, the Bureau continues to work on the development of new counterfeit deterrent features to include in the redesign of the $100 note, which is expected to be unveiled to the public in late 2008.

During 2007, the Bureau delivered 9.1 billion Federal Reserve notes to the Federal Reserve System and is scheduled to produce 8.3 billion notes in 2008. This year’s currency order was again fulfilled on schedule and below expected costs.

The Bureau is in the process of implementing many significant changes to support the requirements of 21st century currency manufacturing. The Bureau has begun a multi-year effort to retool its currency manufacturing process with a $150 million investment in state-of-the-art printing, electronic inspection and finishing equipment for its Washington, DC and Fort Worth, Texas facilities. This major investment initiative will enable the Bureau to remain one of the world’s preeminent currency printers, improve efficiency and cost effectiveness, and support innovations in currency design while continuing to deliver world-class quality currency notes.

As part of the initiative to make the Bureau’s operations more efficient and responsive to its customers, the Bureau underwent an organizational realignment in 2007. The successful restructuring allowed us to eliminate, combine, or reengineer activities and business processes in order to be more efficient and customer oriented. The Bureau is now better positioned to take advantage of improvements in production technology that will enable us to continue to meet customer needs with the highest quality products and services.

In recognition of the Bureau’s focus on excellence, the Bureau was the recipient of two awards for Excellence in Currency at the 2007 Currency Conference held in Bangkok, Thailand. The Bureau received awards for the Best Public Education Program and for the second Best Currency website. These awards recognized the Bureau’s effort and commitment to increase public awareness and use of the counterfeit deterrent features in redesigned currency.

The Bureau demonstrated its strong commitment to maintaining a world-class environmental management program by achieving ISO 14001 certification of its Environmental Management Systems (EMS) for both the Washington, DC and Fort Worth, Texas facilities. The ISO 14001 certification institutionalizes the Bureau’s environmental stewardship program.

The performance and financial data presented in this report is complete and accurate as outlined in the 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’s dedicated and results-driven employees are its most important resource, and I would like to express my personal appreciation to them for the outstanding work that they performed throughout the year. This workforce will be challenged in the next few years as we roll-out the redesigned $100 note, recapitalize our facilities, and continue to streamline manufacturing processes. Our tradition of excellence and commitment to service will ensure that we maintain the Bureau’s reputation as the world’s premier government securities printer.

Larry Felix, Director
I am pleased to present the Bureau of Engraving and Printing’s Chief Financial Officer Performance and Accountability Report for 2007. This report reflects the Bureau’s commitment to a tradition of strong financial management and timely financial reporting. The Bureau received, for the 23rd consecutive year, an unqualified opinion on its financial statements from an independent certified public accounting firm. Also, the Bureau received an unqualified opinion on its internal control over financial reporting for the third consecutive year.

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

In 2007, the Bureau again met the currency requirements of the Federal Reserve. This resulted in revenue of $578 million and an excess of revenues over expenses of $46 million. The excess of revenues over expenses provides funding for the Bureau’s multi-year recapitalization initiative. Also in 2007, the Bureau underwent an organizational realignment. As a result of the realignment, the Bureau was able to reduce labor costs by $4 million.

Manufacturing program performance was generally favorable in 2007. Productivity increased by more than 7% compared to the previous year. Actual manufacturing costs were $2.5 million under target. Spoilage rates on all currency denominations except for the $100 note were below standard. The quality of finished currency notes delivered to the Federal Reserve was unaffected and all currency shipped to the Federal Reserve in 2007 met its exacting quality standards.

The Bureau continued the multi-year recapitalization of its Washington, DC and Fort Worth, Texas facilities. This $150 million investment initiative will replace current production lines with new state-of-the-art intaglio printing presses, automated electronic inspections systems, and additional support systems. When completed, this investment will transform the Bureau’s printing and processing systems from the current 32-subject (32 notes per sheet of currency paper) production environment to 50-subject (50 notes per sheet) manufacturing, provide the ability to change the note size and significantly increase productivity. This project will also support future redesign of currency, providing the Bureau with the ability to add additional counterfeit deterrent features.

As the Bureau of Engraving and Printing plans for the challenges of printing currency in the 21st century, the focus will continue to be on product quality, exceptional customer service and efficient environmental stewardship. The Bureau is committed to producing a high quality product “the first time every time”. The Bureau has positioned itself to meet these goals from both an operational and financial management perspective. The established tradition of excellence will be upheld as the Bureau takes advantage of opportunities to maintain a talented workforce, practice a disciplined capital investment strategy, enhance product quality, promote counterfeit deterrence, and streamline manufacturing processes.

Leonard R. Olijar
Chief Financial Officer
Highlights of 2007

The Bureau experienced many exciting events in 2007. A visit from the Secretary of the Treasury, receiving awards at the 2007 Currency Conference, and the digital unveiling of the newly redesigned $5 note are just a few of the memorable occurrences in 2007.

Expect more interesting changes to occur as the Bureau continues to embrace technology and innovation to manufacture high quality securities.

Photos clockwise from top left:
- Secretary of the Treasury, Henry M. Paulson, Jr addresses the employees during his first visit to the Bureau.
- Director Larry Felix proudly displays an award received by the Bureau at the 2007 Currency Conference.
- United States Treasurer, Anna Escobedo Cabral speaks to Bureau employees during a visit.
**HIGHLIGHTS OF THE YEAR**

In 2007, the Bureau of Engraving and Printing continued to produce and deliver the highest quality currency notes to the Federal Reserve and moved forward on its multi-year program of currency redesign. A redesigned $5 note was introduced to the public in September 2007 and will be put into circulation in early 2008. Work continues on the redesign and incorporation of advanced counterfeit deterrent features for the $100 note.

Additional financial and operational highlights for 2007 include:

- The newly redesigned, more secure $5 note was digitally unveiled in September 2007. This marked the first time in history that U.S. paper currency was unveiled entirely online. Officials from the Department of the Treasury, the Bureau of Engraving and Printing, the United States Secret Service and the Federal Reserve Board participated in this digital event. The note will enter circulation in 2008.

- The Bureau received two awards for Excellence in Currency at the 2007 Currency Conference held in Bangkok, Thailand. The first award received was for "Best Public Education Program" which recognized BEP’s "New Color of Money" $10 note worldwide education program. The second award received was for runner up in the "Best Currency Website" category.

- The Bureau hosted Secretary of the Treasury, Henry M. Paulson, Jr., for a "Push the Button" event. This started the production of the Series 2006 $20 note bearing the signatures of Secretary Paulson and the United States Treasurer, Anna Escobedo Cabral.

- The Bureau obtained ISO 14001 certification of its Environmental Management Systems (EMS) in 2007. This certification attests that the Bureau has the information, resources, strategy, and feedback needed to ensure continual improvement while reducing environmental impact.

- In 2007, the Bureau received an unqualified opinion on its financial statements for the 23rd consecutive year and for the third consecutive year, the Bureau received an unqualified opinion on its internal control over financial reporting.

- Productivity increased by over 7% and labor costs were reduced by $4 million. The labor cost savings were realized primarily in the Bureau’s general and administrative functions as a result of a realignment at the start of the year which streamlined operations, eliminated redundant functions and combined similar activities.

- The Bureau celebrated the grand opening of its new Occupational Health Center. The new center provides Bureau employees with walk-in and emergency health care treatment by a team of professional health care specialists.

- The Bureau implemented a web-based, self-service travel system, which became fully operational in 2007. The system, called GovTrip, provides end-to-end travel management services, including airline booking, hotel reservations and car rentals.

- The Bureau expanded its public tour hours at both facilities in order to provide additional opportunities for tourists to visit its unique operation. During the extended tour hours this past summer, the Bureau hosted over 150,000 visitors.

- The Bureau was recognized by the Department of Energy for its successful implementation of energy management initiatives. These initiatives reduced the Bureau’s energy consumption by 20% and saved over $800,000 in utility costs.

### Financial Highlights

<table>
<thead>
<tr>
<th>(All Dollars in Millions)</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Revenue</td>
<td>$477</td>
<td>$578</td>
</tr>
<tr>
<td>Capital Investment</td>
<td>$33.5</td>
<td>$37.7</td>
</tr>
<tr>
<td>General and Administrative Costs</td>
<td>$53.5</td>
<td>$56.2</td>
</tr>
<tr>
<td>Research and Development</td>
<td>$10.8</td>
<td>$14.0</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$553.5</td>
<td>$602.2</td>
</tr>
<tr>
<td>Excess of Revenue over Expenses</td>
<td>($8.6)</td>
<td>46.3</td>
</tr>
<tr>
<td>Federal Reserve Notes Delivered (Billions)</td>
<td>8.2</td>
<td>9.1</td>
</tr>
</tbody>
</table>

2007 CFO Report
The Bureau of Engraving and Printing has made many technological advances over the years. The pictures above depict the various innovations that have been made in printing presses used at the Bureau. Early 19th century presses printed smaller sheets and fewer sheets per hour, required more drying time and were more labor intensive. Current presses now print more than 10,000 sheets per hour and need less drying time.
The mission of the Bureau of Engraving and Printing is to design and manufacture high quality security documents that deter counterfeiting and meet customer requirements for quality, quantity and performance.

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

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

The Bureau occupies three government-owned 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 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. The Visitor Centers also sell uncut sheets of currency, engravings and other collectibles. In addition to the on-site sales centers, these items are available through mail order and through the Bureau’s Internet site: www.moneyfactory.gov.

Manufacturing

In the last four years the Bureau has redesigned and issued new $10, $20, and $50 notes to the Federal Reserve Banks. The new designs are part of the U.S. government’s ongoing efforts to maintain the integrity of U.S. currency. The latest note to be redesigned was the $5 note. The $5 note redesign effort was initiated in response to a specific counterfeiting threat – people

Staffing (FTE) by Function

![Staffing (FTE) by Function](image-url)
were removing the ink from the $5 note and using the $5 paper to print $100 notes. The newly redesigned $5 note was unveiled in 2007 and will begin circulation in spring 2008. Work continues on the redesign of the $100 note and the development of new counterfeit deterrent features that may be incorporated.

During 2007, the Bureau delivered 9.1 billion Federal Reserve Notes to the Federal Reserve System. The Washington and Fort Worth facilities delivered 3.5 billion and 5.6 billion Federal Reserve Notes, respectively. For 2008, the Federal Reserve System has ordered 8.3 billion Federal Reserve Notes.

In keeping with its tradition of product innovation and production efficiency, the Bureau has installed and made operational two new state-of-the-art intaglio printing presses. The presses have an indirect inking system, the ability to print larger sheet sizes and an automated electronic inspection system. Successful implementation of this advanced technology will improve productivity, reduce the Bureau's environmental impact and provide the ability to produce increasingly more complex currency note designs.

The Bureau’s quality management system for the production of U.S. currency has been registered as ISO 9001 compliant for the past six years. During 2007 the Bureau pursued a companion effort and obtained ISO 14001 certification for its environmental management systems (EMS) at both the Washington and Fort Worth facilities. The ISO certifications are indicative of the Bureau’s commitment to continuous process improvement and world class management practices.

**Currency Production by Facility**

<table>
<thead>
<tr>
<th>(Billions of Notes)</th>
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</thead>
<tbody>
<tr>
<td>2003</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Washington, DC</td>
</tr>
<tr>
<td>Fort Worth, TX</td>
</tr>
</tbody>
</table>

The Bureau’s information technology (IT) program and resources are a top priority. All of the Bureau’s systems have been evaluated, certified and accredited to meet requirements established by Federal policy. The Bureau has acquired and implemented technologies to encrypt laptop computers and removable hard drives to prevent information from being compromised in case of a theft. Patch management and active vulnerability scanning and feedback programs have resulted in a more resilient operational capability and a reduction in vulnerabilities.

**Leadership**

The Bureau was recognized by the Department of Energy for its reduction in energy usage.
ensuring the adequacy of management controls throughout the life cycle of hardware and software, including the implementation of National Institute of Standards and Technology Special Publications 800-53 and 800-53A (management, operational, and technical controls for IT systems).

Also during 2007, the CIO participated in a number of reviews of financial, Federal Information Security Management Act (FISMA), and support IT systems as the Bureau continues to apply the Federal Information System Controls Audit Manual (FISCAM) audit standards in support of the annual audited financial statements. The CIO Directorate continues to be an active participant in the Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government- and Treasury-wide exercises and through biannual tests of the COOP plans for the Bureau’s mainframe computer, enterprise management information system, and public sales support systems.

As part of the Bureau’s emphasis on governance, configuration management (CM) policies and processes continue to mature, and the implementation of CM software is progressing to the network, having been implemented for the mainframe computer. This software provides detailed tracking of software, hardware, and system configuration changes, as well as the reasons for and impact of these changes.

Organization

The Bureau’s executive structure consists of the Bureau Director, a Deputy Director, six Associate Directors and a Chief Counsel. The executive committee structure includes an Executive Committee, the Capital Investment Committee and various planning committees and subcommittees. The planning committees and subcommittees are composed of a cross-section of Bureau senior and mid-level managers that represent diverse organizational units. By cutting across organizational lines, these groups serve to promote effective communication, increased collaboration and participative, proactive management.
The United States government continues to stay ahead of counterfeiting by redesigning currency with enhanced designs and security features. The new $5 bill will begin circulating in early 2008. The redesign of U.S. currency began with the introduction of a new $20 bill in 2003, followed by a $50 bill in 2004 and a $10 bill in 2006. A redesigned $100 bill is scheduled to follow the new $5 bill.

**The New $5 Bill.  
Safer. Smarter. More Secure.**

The new $5 design retains two of the most important security features that were first introduced in the 1990s and are easy for consumers and merchants alike to check: watermark and security thread.

For more information about new currency designs visit [www.moneyfactory.gov/newmoney](http://www.moneyfactory.gov/newmoney)
**THE NEW COLOR OF MONEY**

The New Color of Money is safer, smarter, and more secure. The notes are safer in order to make them harder to duplicate and easier to verify. The notes are smarter in order to stay ahead of tech-savvy counterfeiters. And, the notes are more secure in order to protect the integrity of the U. S. currency.

This year, the world viewed the most recent note to join the New Color of Money family. On September 20, 2007, the newly redesigned $5 note was digitally unveiled. This historical event marked the first time that U.S. paper currency was unveiled online. The new note joins the $10, $20, and $50 notes that have been redesigned in the past several years. The new $5 note is scheduled to enter circulation in early 2008.

The Bureau continues to work on the development of new counterfeit deterrent features and the redesign of the $100 note. The new $100 note is scheduled to be unveiled in 2008 and enter circulation in 2009.

The redesigned $5 note incorporates subtle color along with two of the most important security features that were introduced in the 1990s: the watermark and the security thread. The features are embedded in the paper and easy to locate, assisting the public in quickly recognizing an authentic $5 note.

The most noticeable change is the coloring of the note. The new notes feature subtle background colors on both sides. The $5 note features light purple in the center which blends into gray near the edges and it has small yellow “05”s printed on the front and back of the note. An enlarged “5” in the lower right corner on the back is printed in bold purple ink to aid visually impaired individuals in recognizing the note. While the use of colors on the note will not make it more difficult to duplicate, it will make it easier for cash handlers and the general public to quickly identify the denomination of the note.

The Bureau continued to incorporate certain basic counterfeit deterrent features into the redesign of currency notes. However, a few changes were made to the features used in the redesign of the $5 note. These changes are:

**Watermark:** The $5 note now contains two watermarks. The first watermark is a large number “5” placed to the right of the portrait of Lincoln. The numeral “5” replaces the previous portraits of Lincoln used as watermarks in the older versions of the $5 notes. The location of the “5” is highlighted by a blank window added to the background design. The second watermark is a column of three slightly smaller “5s” located to the left of the portrait. As stated before, these watermarks are embedded in the paper.

**Security Thread:** The security thread, used in the $5 note, has been moved to the right of the portrait. The thread now includes the letters “USA” and the number “5” running vertically on the note in an alternating pattern. When the note is held under an ultraviolet light, the thread glows in blue and can be clearly seen from both sides of the note.

Each of the previously redesigned notes uses a different symbol of American freedom, also known as the symbols of freedom. The $5 note uses the Great Seal of the United States, featuring an eagle and shield, as its symbol of freedom. The symbol is printed in purple on the front of the note to the right of President Lincoln’s portrait.

Although, many new features have been incorporated into the redesigned $5 note, the note will still be familiar to the general public. The note remains the same size and uses the same portrait and vignette on the front and back.

The improved security features in the redesigned currency are effective only if the public knows and recognizes the features. With nearly $770 billion in circulation worldwide, educating the public about the new features is crucial to counterfeit deterrence; therefore, public education is a major focus of the counterfeit deterrence effort and an integral part of the redesign process. To ensure that the public is informed, a broad public education program will be undertaken, which includes an interactive website describing the new features of the $5 note. The success of the education program will ensure that people all over the world know that a new note will soon be in circulation and will assist them in recognizing and using the new security features.
BUREAU MISSION

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

BUREAU MISSION

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.

EXECUTIVE ORGANIZATIONAL STRUCTURE

LARRY R. FELIX
DIRECTOR

LEONARD R. OLIJAR
ASSOCIATE DIRECTOR
(CHIEF FINANCIAL OFFICER)

JON CAMERON
ASSOCIATE DIRECTOR
(EASTERN CURRENCY FACILITY)

CHARLENE WILLIAMS
ASSOCIATE DIRECTOR
(WESTERN CURRENCY FACILITY)

PETER O. JOHNSON
ASSOCIATE DIRECTOR
(CHIEF INFORMATION OFFICER)

SCOTT WILSON
ASSOCIATE DIRECTOR
(MANAGEMENT)

JUDITH DIAZ MYERS
ASSOCIATE DIRECTOR
(TECHNOLOGY)

MICHAEL J. DAVIDSON
CHIEF COUNSEL

BUREAU MISSION

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.

EXECUTIVE ORGANIZATIONAL STRUCTURE

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. currency.

The mission of the Technology Directorate is to support the production of United States currency 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 Management Directorate is to provide the highest quality Security, Human Resources, and Labor Relations, in support of the overall Bureau mission.

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 ECF 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 the Washington, DC facility.

The mission of the WCF 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 the Fort Worth, Texas facility.

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.
SAFETY, HEALTH AND ENVIRONMENTAL MANAGEMENT

In 2007, the Bureau met a major long term objective by achieving ISO 14001 registry for all facilities and operations. This accomplishment underscores our commitment to outcome-oriented management and continuous improvement. ISO 14001 registry means that a third party organization reviewed our environmental management system (EMS) and found it to be effective. Most organizations limit their EMS to environmental aspects, but the Bureau’s EMS includes safety and health aspects due to the inherent overlap with environmental issues. This consolidated approach has reaped benefits for all employees and the environment.

A new environment, health, and safety (EHS) strategic plan was established in 2007 that will integrate continuous improvement methodology throughout Bureau operations. The most fundamental objectives of injury and pollution minimization will continue to be the focal point of activities. Through a consistent management systems approach we will achieve the best results. A significant step in integrating these principles was the 2007 establishment of mandatory EHS performance standards for all employees.

Since our most critical management systems have been in place for a number of years, this report focuses on the trends of our key indicators, which demonstrate the effectiveness and benefits of our management systems.

Protecting Worker Health and Safety
The key outcome for health and safety is injury and illness prevention. A key measure is the number of occupational injuries and illnesses defined by the Occupational Safety and Health Administration (OSHA). The graph (right) documents the long term trend in preventing injuries and illnesses across the Bureau. This reflects the Bureau’s success of incorporating health and safety into our EMS and is due to the work of many individuals and organizations across the Bureau.

Specifically, the Joint Occupational Safety, Health, and Environment Committee (JOSHEC), which has equal representation from labor and management, transforms line worker knowledge and experience into sustainable management improvements. In addition to JOSHEC, EMS technical work groups (TWGs) also include pertinent stakeholders and produce lasting changes. Examples of sustainable improvements and other health and safety accomplishments in 2007 include the following:

- Completely modernizing the Health Unit.
- The Health Unit and Fitness Center were reassigned to the Office of Environment, Health, and Safety and plans are underway to enhance injury prevention by linking employee health care with wellness and preventative care.
- The LockOut/Tagout (LO/TO) TWG upgraded the existing program to reflect recent equipment acquisition and made the existing procedure more user friendly through a new software solution. The TWG developed a training plan and trained all authorized employees, as well as writing new EMS procedures for LO/TO.
- The Facilities TWG conducted workplace inspections throughout the Bureau to identify and abate workplace hazards.
- The Currency TWG redesigned the Simultan Offset Press roller storage system, which greatly improved ease of transport and handling of rollers.
- The Engraving TWG identified and abated ergonomic hazards associated with the plate rinse tank in the Electrolytic Plating Section.
- As in previous years, the Bureau exceeded the injury and illness goals set for all Department of Treasury bureaus under
The use of low Volatile Organic Compound (VOC) water based cleaners in the I-10 presses allowed us to request a modification of the Title V permit to discontinue the use of the VOC control system for these presses.

The new intaglio printing presses are designed to consume 30% - 50% less ink which will result in a significant reduction in air emissions.

The WCF began publishing a quarterly newsletter of EHS News & Reviews.

The Fort Worth facility completed the development of an Integrated Contingency Plan (ICP) and conducted field training exercises for medical emergencies and responding to chemical spills.

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

Protecting the Environment
The key outcomes for our environmental programs are preventing pollution in air, water, and land. The primary method for measuring these three media is typically weight or volume per year. Based on these measures, the Washington, DC Facility’s annual percent reduction in pollution is plotted in the graph (right). As with injury reduction, the long term reduction in pollution in all media can be attributed to a bureau-wide effort, but the replacement of dated equipment has had the most widespread impact. It is also worth noting the critical linkage between reduced pollution and reduced employee health risk due to exposure to hazardous material. It is universally true that all hazardous pollutants from manufacturing originated as hazardous material inputs into the manufacturing process, and vice versa, hazardous manufacturing materials ultimately become regulated waste.

The JOSHEC and TWGs have also worked diligently on environmental issues to identify the Bureau’s significant aspects, analyzed their impacts, and developed and implemented operational controls. Specific accomplishments include the following:

- The Wipe Solution Recycling Group is proceeding with the business case for the implementation of this technology. The wipe solution recycling system will reduce the demand for wipe solution, reduce chemicals needed for pretreatment, reduce the amount of wastewater, and standardize work practices in currency production.

- The use of low Volatile Organic Compound (VOC) water based cleaners in the I-10 presses allowed us to request a modification of the Title V permit to discontinue the use of the VOC control system for these presses.
- The new intaglio printing presses are designed to consume 30% - 50% less ink which will result in a significant reduction in air emissions.
- The WCF began publishing a quarterly newsletter of EHS News & Reviews.
- The Fort Worth facility completed the development of an Integrated Contingency Plan (ICP) and conducted field training exercises for medical emergencies and responding to chemical spills.
The Bureau’s Strategic Plan for 2007–2012 is aligned with the Department of the Treasury Strategic Plan. The Department and the Bureau are committed to creating the conditions that allow its programs and activities to perform efficiently and effectively, while continuing to drive results through performance and cost-based decision-making, aligning resources to deliver outcomes, investing in, securing and leveraging information technology, closing skill gaps, recruiting and retaining a high performing workforce and developing effective leadership.

The Bureau’s overall vision will continue to be “a world-class securities manufacturer” providing customers and the general public superior products through excellence in manufacturing and technological innovation.

The Department’s Strategic objective for the Bureau is:

- **Trust and Confidence in U. S. Currency**: Trust and confidence are vital to the continued global acceptance of U.S. currency. U.S. currency is being redesigned and manufactured to protect the global user from counterfeiting schemes.

Achievement of this objective will produce an outcome whereby commerce is enabled through safe, secure U.S. notes. The Bureau will reliably provide safe, secure, cost-efficient U.S. notes and security documents that are readily accepted by all currency users and customers, which facilitates seamless and stable commerce.

In order to achieve the strategic objective and its resulting outcome, various strategies will be instituted as follows;

- **Respond to customer requirements through adaptive production capability**
  As demand varies for currency, the Bureau will adjust its production in a flexible manner to efficiently meet the needs of the United States public.

- **Engage in research and development to enhance counterfeit-deterrence features**
  Research and development of more complex counterfeit deterrent features assures the continued safety and security of notes. This commitment keeps the Bureau ahead of increasingly sophisticated counterfeitters.

- **Promote global suppression of counterfeiting**
  Through outreach and education, the Bureau will work with global partners to promote awareness of changes made to U.S. currency, enabling money handlers to detect counterfeit notes. The Bureau collaborates internationally to develop design features which thwart counterfeiting.

- **Extend the life of currency notes.**
  The Bureau will continue to research and test various materials to prolong the life of U.S. notes. Benefits of these changes must be weighed against all factors, including cost and impact on counterfeit-deterrent features.

As the U.S. Government’s security printer, the Bureau of Engraving and Printing seeks to maintain the highest levels of security and excellence in its products as its customers and stakeholders have come to expect. In order to maintain that level of security, the Bureau continues to incorporate more advance counterfeit deterrent features into the currency and provide a secure physical environment at its two facilities.

The Bureau provides various services to the public. The Bureau offers public tours at both of its facilities and processes claims for redemption of damaged paper currency. Both services are offered free of charge. The tour of the Bureau’s Washington DC facility is one of the most popular attractions in the Nation’s Capital.

As the Bureau continues to face challenges in manufacturing currency and other printed securities, it must ensure that its production operations and its support processes function effectively and efficiently in order to maintain its status as a “world-class securities manufacturer”.

**Strategic Plan**
Photos clockwise from top left:

- Donovan Elliot of the Currency Printing Division (Intaglio) and Cornelius Bailey of the Office of Engineering evaluate the images taken by the on-line inspection system of the Super Orlof Intaglio (SOI) press.
- Mark Pipkin, Chief, Office of Security Printing, inspects an intaglio printed test sheet from the SOI press.
- Eugene Turner of the Currency Printing Division (Intaglio) loads the currency paper onto the SOI press.
- Donovan Elliot, a plate printer, inspects a currency test sheet.
The Federal Managers’ Financial Integrity Act (FMFIA), which was passed in 1982, requires agencies to perform regular evaluations of internal controls and financial management systems to protect against fraud, waste, and abuse. The subsequent passage of the Chief Financial Officers Act, the Federal Financial Management Improvement Act, and the revisions to OMB Circular A-123 further increased the government’s internal control requirements.

The Bureau of Engraving and Printing is known for its strong internal controls and aggressive monitoring program. Key elements of this program include: comprehensive financial management controls, personnel security controls, production and quality controls, computer security and information resource management programs, and strong physical security and product accountability functions to safeguard products and assets. Without these key elements it would be difficult to achieve several major strategic goals – security, accountability and resource management. Throughout the year the Bureau has been committed to ensuring that these goals are met or exceeded.

As an enhancement to product accountability, the Bureau maintains an Accountability Help Desk in both facilities. The help desks are staffed with personnel knowledgeable in all aspects of the BEP’s accountability system. These employees provide training and day-to-day assistance to system users to prevent, minimize, or resolve product accountability issues. They are also responsible for reviewing and updating existing procedures and reports to ensure that the proper controls are in place to track and account for securities.

Ongoing efforts to improve internal controls include compliance reviews and an active internal control awareness program. The Bureau’s Compliance Review Teams (CRTs) in both facilities promote compliance with Bureau operating policies and procedures by performing unannounced reviews in production, storage, and off-line components. During 2007, the CRTs performed 205 unannounced reviews. The results of the reviews were reported to office chiefs, supervisors, and managers responsible for enforcing policies, 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, as well as, the environmental management system have both been ISO registered. The internal review staffs support the maintenance and continuous improvement of the Bureau’s quality and environmental management systems by conducting internal quality audits throughout the Bureau.

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

The accompanying financial statements and annual audit are important elements in the stewardship of the Bureau’s revolving fund. For the 23rd consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. Additionally, for the third consecutive year, the Bureau received an unqualified
opinion from the auditors on management’s assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework) and the requirements of Appendix A of Office of Management and Budget Circular A-123, “Management’s Responsibility for Internal Control.” The unqualified audit opinion on the financial statements, the unqualified opinion on the internal control over financial reporting, and the FMFIA review process, ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making. In addition to the annual audit of the Bureau’s financial condition, OMB’s Program Assessment Rating Tool was used to evaluate the Bureau’s currency manufacturing, and protection and accountability programs to ensure they were functioning as intended and performance information was reliable.

In FY 2007, 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. In IT security, 100% of the Bureau’s Major Applications and General Support Systems have been accredited in order to meet the requirement for certification and accreditation at least every three years. In response to lost computer and lost information incidents, which have affected both the federal and the private sectors, the Bureau has implemented technologies to encrypt laptop computers and removable hard drives.

The CIO Directorate continues to refine policy and procedures for ensuring the adequacy of management controls throughout the life cycle of hardware and software, including contract and employee support for implementation of the National Institute of Standards and Technology SP800-53 and SP800-53A (management, operational, and technical controls for IT systems) as well as planning to implement the standard Federal Desktop Core Configuration.

Also during this fiscal year, the CIO participated in a number of reviews of financial, FISMA, and support IT systems as the Bureau continues to apply the Government Accountability Office’s Federal Information System Controls Audit Manual audit standards in support of the annual audited financial statements. The CIO Directorate continues to be an active participant to Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises and through biannual tests of the COOP plans for the Bureau’s mainframe computer, enterprise management information system, and public sales support systems.

The Western Currency Facility received ISO 14001 certification of its Environmental Management System. Pictured top row, left to right: Thomas L. Klug, Security Division; Vernessa Jackson Green, Employee Labor Relations Staff; Isaiah Liggins, Jr., Supervisory EEO Specialist; Ronald M. Voelker, Office of Currency Manufacturing; Davida H. Guy, Human Resources Management Division; Jeffrey A. Sokoly, WCF Compliance Division; Carol L. Riggs, External Affairs Division; Bob Hobbs, Facilities Management Division; Martha J. Howe, Special Assistant to the Deputy Associate Director; Michael A. Battie, Attorney-Advisor and Colleen C. McKinney, Environmental, Safety and Health Branch. Pictured bottom row, left to right: Kenneth J. Johnson, Joint Labor Committee; Charlene E. Williams, Associate Director, Western Currency Facility; Larry J. Plummer, JLC; and Hank B. Slikker, JLC.
Summary of Office of Inspector General and Government Accountability Office Audits

The Bureau began 2007 with five open audit recommendations. Four of these recommendations were issued by the Office of Inspector General (OIG), and one was issued by the Government Accountability Office. These recommendations pertained to program and contract issues. During 2007, the Bureau received eight additional recommendations in five OIG audit reports. One recommendation was the result of an OIG initiated audit and pertained to a contract issue of the Bureau's currency paper solicitation. Three recommendations were the results of an OIG initiated audit of the Bureau's fiscal years 2006 and 2005 financial statements. Four recommendations were the results of an OIG initiated audit of the Bureau's Disaster Recovery Procedures and Disaster Recovery Capability.

Assurance Statement Fiscal Year 2007

The Bureau of Engraving and Printing (Bureau) made a conscientious effort during fiscal year 2007 to meet the internal control requirements promulgated by the Federal Managers’ Financial Integrity Act (FMFIA) of 1982, the Federal Financial Management Improvement Act (FFMIA) of 1996, Office of Management and Budget (OMB) Circular A-123, and the Reports Consolidation Act of 2000. The Bureau is operating in accordance with the procedures and standards prescribed by the Comptroller General of the United States and OMB guidelines.

As required by the FMFIA, the Bureau evaluated both its internal controls and financial management systems for fiscal year 2007. The results of these evaluations provide reasonable assurance that the internal controls (Section 2) and the financial management systems (Section 4) are in overall compliance with standards prescribed by the Comptroller General of the United States and guidance issued by the Office of Management and Budget. In addition, the Bureau had no instances of material internal control weaknesses and no material nonconformances outstanding as of September 30, 2007.

The Bureau evaluated its internal control over financial reporting in accordance with OMB Circular A-123, “Management’s Responsibility for Internal Control.” Based on the results of this evaluation, the Bureau can provide reasonable assurance that internal control over financial reporting as of September 30, 2007, is operating effectively and that no material weaknesses were found in the design or operation of the internal control over financial reporting. Furthermore, the Bureau has internal controls 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.
The Washington, DC Facility celebrated the grand opening of the newly renovated Occupational Health Center.

Photos clockwise from top left:
• Director Larry Felix and Pattie Ware, from the Office of Environment, Health and Safety, prepare for the ribbon-cutting ceremony for the opening of the Occupational Health Center.
• Tommy Glaspie of the Office of Facilities Support has his blood screened.
• Andre Faulk of the Bureau Resolution Center has his blood pressure checked.
• Cathy Rozier, of the Office of Financial Management, along with Frank Young and Calvin Willett both from the Office of Engraving, complete health forms.
Custody of Assets

The Bureau of Engraving and Printing has in its possession many high-value items; these items are used for various purposes, such as 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 of Engraving and Printing has on display, at each of its facilities, historical collections. The main historical collection is housed at its headquarters in Washington, DC. These collections include valuable artifacts related to currency production, the former postage stamp operation and other federal securities that have been 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.

The Bureau of Engraving and Printing does not hold title to any land or facilities; however, it does maintain custodial control over the buildings it occupies in Washington, DC and Fort Worth, Texas. In 1999, as part of its custodial responsibilities, a multi-year project was initiated 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. Roof replacement for the Fort Worth facility is scheduled for 2008.

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 placed an organizational focus on the safeguarding and accountability of all assets. This focus is reflected in the Bureau’s organizational structure. Reporting to the Associate Director (Chief Financial Officer), who has oversight responsibility with respect to internal controls, is the Office of Compliance. This office evaluates and monitors internal control systems and maintains a comprehensive product accountability system. The Office of Security, which reports to the Associate Director for 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 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.

Chi T. Huynh-Tran, a chemist in the Office of Product Development performs an experiment on test materials.

One of the more important tasks of the Bureau’s police officers is to provide 24-hour protection of the Bureau’s assets.
The Bureau of Engraving and Printing is one of the more popular tourist attractions in Washington, DC. Each year, thousands of visitors come to the Bureau to learn interesting facts about U.S currency and to see how the currency is printed. In 2007, the Bureau hosted nearly 250,000 visitors on its tour.
**Program Performance Measures**

The Bureau measures the effectiveness and efficiency of its overall organizational performance by using program performance measures. Standards are developed annually by the senior executive staff based on the 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 established for currency production.

Bureau-level performance measures and associated results for 2007 are as follows:

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

<table>
<thead>
<tr>
<th>Currency (Cost per Thousand Notes)</th>
<th>Standard</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Reserve Notes</td>
<td>$29.02</td>
<td>$28.66</td>
</tr>
</tbody>
</table>

The actual production cost per thousand currency notes, which includes direct labor and materials and applied manufacturing overhead, was approximately 1.3% below standard in 2007. This was due primarily to the increased usage of reconstituted (recycled) ink and high ink mileage (favorable ink utilization) across all currency denominations.

<table>
<thead>
<tr>
<th>Product Deliveries Federal Reserve Notes (Billions)</th>
<th>Order</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>9.1</td>
<td>9.1</td>
</tr>
</tbody>
</table>

In 2007, the Bureau delivered 9.1 billion Federal Reserve Notes to the Federal Reserve System. Deliveries and billings are based on orders received from the customer. The Federal Reserve submits their requirements for currency deliveries to the Bureau on an annual basis. For FY 2008, the Federal Reserve has ordered 8.3 billion notes.

<table>
<thead>
<tr>
<th>Productivity Change</th>
<th>2007 Standard</th>
<th>2007 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity</td>
<td>5%</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

Productivity is calculated based on units of output per labor hour. In 2007, overall productivity increased by 7.6%. This was due to both an increase in the amount of currency ordered by the Federal Reserve System and a reduction in labor costs.

Staff planning, including apprenticeship and training programs, have 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. The Bureau underwent a realignment of its organizational structure in 2007. The realignment was implemented to streamline the organization by grouping similar functions to benefit from synergies, improve efficiency, reduce costs, improve response time and facilitate currency redesign efforts.

<table>
<thead>
<tr>
<th>Currency Spoilage</th>
<th>2007 Standard</th>
<th>2007 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Reserve Notes</td>
<td>4.2%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

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 several years. However, in 2007 overall currency spoilage was slightly above standard as a result.

| 1. Federal Reserve Notes (Cost Per Thousand Notes) | $29.02 | $28.66 |
| 2. Federal Reserve Notes Delivered (Billions) | 9.1 | 9.1 |
| 3. Productivity Change 2006 to 2007 | 5% | 7.6% |
| 4. Currency Spoilage | 4.2% | 4.4% |
of challenges encountered with aging production equipment in Washington, DC. To address this and provide for additional manufacturing flexibility, the Bureau is recapitalizing the Washington, DC facility over the next five years.

**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 the Treasury, the standard for the late payment rate is that no more than 2% of the invoices subject to prompt payment shall be paid late (at least 98% paid within 30 days.)

The Bureau's prompt payment performance for the past three years is presented below. As the percentages indicate, the Bureau has continued to exceed the Department standard for late payments.

<table>
<thead>
<tr>
<th>Comparable Performance Measures for Three Years</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>Federal Reserve Notes (Cost Per Thousand Notes)</strong></td>
<td>$29.01</td>
<td>$27.42</td>
<td>$28.66</td>
</tr>
<tr>
<td>2. <strong>Federal Reserve Notes Delivered (Billions)</strong></td>
<td>8.5</td>
<td>8.2</td>
<td>9.1</td>
</tr>
<tr>
<td>3. <strong>Productivity Change Year to Year</strong></td>
<td>-1.8%</td>
<td>-5.6%</td>
<td>7.6%</td>
</tr>
<tr>
<td>4. <strong>Currency Spoilage</strong></td>
<td>4.3%</td>
<td>4.3%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

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

During 2007, the Bureau of Engraving and Printing 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 2007 currency program, the Bureau anticipated an increase in capital spending. The Bureau included a charge in currency billing rates for the acquisition of capital assets to be used in the multi-year recapitalization initiative, resulting in revenue in excess of expenses.

Revenue in 2007 increased due to an increase in both the billing rate and the number of Federal Reserve Notes ordered and delivered to the Federal Reserve. Total Federal Reserve Notes delivered in 2007 were 9.1 billion notes, which was an increase from the previous year’s delivery of 8.2 billion notes. The Bureau continues to remain well capitalized with respect to working capital requirements.

Cash, Accounts Receivable and Cash Flow
Cash and accounts receivable increased by $11 million and $6 million respectively in 2007. The increase in cash and accounts receivable can be attributed to the increase of the 2007 currency order. The increase in the cash balance is needed to fund the Bureau’s capital investment program.

Inventories
Inventories increased from $83.5 million in 2006 to $107 million in 2007. The $23.5 million increase was a result of additional currency-related inventories purchased in September 2007 as the Bureau increased its contingency stock of currency paper and ink.

Property and Equipment
Net property and equipment increased $6 million in 2007 to $256 million. The increase was related to the purchase of currency manufacturing equipment obtained as part of the recapitalization project.

Other Assets
Other Assets remained relatively unchanged in 2007.

Accounts Payable
Accounts payable increased from $12 million in 2006 to $16 million in 2007. The principal cause for the increase was the timing of cash disbursements in making vendor payments.

Accrued Current Liabilities
Accrued current liabilities remained relatively unchanged in 2007.

Advances
Advances remained relatively unchanged in 2007.

Workers’ Compensation Liabilities
The actuarial workers’ compensation liability experienced a decrease of $1.5 million in 2007. The decrease in the actuarial liability was the result of the Bureau’s continued focus on creating a safe working environment and reducing employee injuries.

Revenue from Sales
Overall revenue from sales increased from $477 million in 2006 to $578 million in 2007. This $101 million increase is attributable to increases in both the billing rate and the currency order.

Cost of Goods Sold
Cost of Goods Sold increased from $421 million in 2006 to $461 million in 2007. The $40 million increase relates to the

Research and Development Costs
(Millions of Dollars)
higher 2007 sales volume. The gross margin as a percentage of revenue increased from 12 percent in 2006 to 20 percent in 2007. This is due to the capital charge included in the billing rate for the Bureau’s recapitalization program.

Operating Costs
Operating costs increased $6 million in 2007 to $64 million. The increase is primarily the result of increased research and development costs related to the developmental efforts on the $5 and $100 notes.

### 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>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>
<tr>
<td>2006</td>
<td>$54.56</td>
<td>$0.055</td>
</tr>
<tr>
<td>2007</td>
<td>$60.99</td>
<td>$0.061</td>
</tr>
</tbody>
</table>

### Limitations of the Financial Statements

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

Financial Statements  

Years ended September 30, 2007 and 2006  
(With Independent Auditors’ Reports Thereon)
Independent Auditors’ Report

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

We have audited the accompanying balance sheets of the Bureau of Engraving and Printing (Bureau) as of September 30, 2007 and 2006, and the related statements of operations and cumulative results of operations and cash flows (hereinafter referred to as “financial statements”) for the years then ended. These financial statements are the responsibility of the Bureau’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau of Engraving and Printing as of September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

We have also examined management’s assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2007, and have issued our report thereon dated October 29, 2007. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in assessing the results of our fiscal year 2007 audit.

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2007, on our tests of the Bureau’s compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in assessing the results of our fiscal year 2007 audit.

October 29, 2007
**ASSETS**
Current assets
- Cash (Note 3) $175,980 $164,729
- Accounts receivable (Note 10) 39,134 33,032
- Inventories, net (Note 4) 107,102 83,516
- Prepaid expenses 5,452 4,321
Total current assets 327,668 285,598

Property and equipment, net (Note 5) 256,056 250,364
Other assets, net (Note 6) 18,459 17,525
Total assets $602,183 $553,487

**LIABILITIES AND EQUITY**
Liabilities
Current liabilities (Notes 7 and 8)
- Accounts payable $15,507 $11,818
- Accrued liabilities 29,289 29,765
- Advances 1,623 899
Total current liabilities 46,419 42,482

Workers' compensation liability (Note 8) 57,435 59,007
Total liabilities 103,854 101,489

Commitments and contingencies (Note 12)

Equity
- Invested capital 32,435 32,435
- Cumulative results of operations 465,894 419,563
Total equity 498,329 451,998
Total liabilities and equity $602,183 $553,487

See accompanying notes to the financial statements.
### THE DEPARTMENT OF THE TREASURY
### BUREAU OF ENGRAVING AND PRINTING
### Statements of Operations and
### Cumulative Results of Operations
### For the Years Ended September 30, 2007 and 2006

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from sales (Note 10)</td>
<td>$578,111</td>
<td>$477,297</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>461,565</td>
<td>421,637</td>
</tr>
<tr>
<td>Gross margin</td>
<td>116,546</td>
<td>55,660</td>
</tr>
<tr>
<td>Operating costs:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>56,219</td>
<td>53,489</td>
</tr>
<tr>
<td>Research and development</td>
<td>13,996</td>
<td>10,750</td>
</tr>
<tr>
<td></td>
<td>70,215</td>
<td>64,239</td>
</tr>
<tr>
<td>Excess of revenues over expenses (expenses over revenues)</td>
<td>46,331</td>
<td>(8,579)</td>
</tr>
<tr>
<td>Cumulative results of operations at beginning of year</td>
<td>419,563</td>
<td>428,142</td>
</tr>
<tr>
<td>Cumulative results of operations at end of year</td>
<td>$465,894</td>
<td>$419,563</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
## Cash Flows from Operating Activities

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess of revenues over expenses (expenses over revenues)</td>
<td>$46,331</td>
<td>$(8,579)</td>
</tr>
<tr>
<td>Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>31,990</td>
<td>32,484</td>
</tr>
<tr>
<td>Loss from disposal of property and equipment</td>
<td>—</td>
<td>104</td>
</tr>
<tr>
<td>Changes in assets and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase) decrease in accounts receivable</td>
<td>(6,102)</td>
<td>9,006</td>
</tr>
<tr>
<td>Increase in inventories</td>
<td>(23,586)</td>
<td>(8,270)</td>
</tr>
<tr>
<td>Increase in prepaid expenses</td>
<td>(1,131)</td>
<td>(646)</td>
</tr>
<tr>
<td>Increase in other assets</td>
<td>(934)</td>
<td>(203)</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable</td>
<td>3,689</td>
<td>(1,746)</td>
</tr>
<tr>
<td>(Decrease) increase in accrued liabilities</td>
<td>(476)</td>
<td>1,950</td>
</tr>
<tr>
<td>Increase (decrease) in advances</td>
<td>724</td>
<td>(2,982)</td>
</tr>
<tr>
<td>Decrease in workers’ compensation liability</td>
<td>(1,572)</td>
<td>(6,090)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>48,933</td>
<td>15,028</td>
</tr>
</tbody>
</table>

## Cash Flows from Investing Activities

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of property and equipment</td>
<td>(37,682)</td>
<td>(33,549)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(37,682)</td>
<td>(33,549)</td>
</tr>
<tr>
<td>Net increase (decrease) in cash</td>
<td>11,251</td>
<td>(18,521)</td>
</tr>
<tr>
<td>Cash at beginning of year</td>
<td>164,729</td>
<td>183,250</td>
</tr>
<tr>
<td>Cash at end of year</td>
<td>$175,980</td>
<td>$164,729</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
1. Reporting Entity

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

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

Cash represents the aggregate amount of the Bureau’s funds held on deposit with the U.S. Treasury and are available to pay liabilities. The Bureau historically does not maintain significant cash balances in commercial bank accounts, and owns no cash equivalents.

Estimates

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

Inventories

Inventories are stated at standard cost, except for finished goods inventories, which are stated 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.

Property and Equipment

Property and equipment are recorded at cost. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The capitalization threshold is $50,000. The Bureau capitalizes all cost associated with new construction and building improvements.

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

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

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td>3 - 15 years</td>
</tr>
<tr>
<td>Building improvements</td>
<td>3 - 40 years</td>
</tr>
<tr>
<td>Information technology (IT) equipment and software</td>
<td>3 - 5 years</td>
</tr>
</tbody>
</table>
Notes to the Financial Statements  
September 30, 2007 and 2006

Office machines  
Furniture and fixtures  
Motor vehicles

5 - 10 years
5 - 10 years
3 - 9 years

Other Assets

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

Employee Retirement Plans

Bureau employees participate in the contributory Civil Service Retirement System (CSRS) or Federal Employees' Retirement System (FERS), to which the Bureau and employees make contributions according to plan requirements. Consistent with reporting under multi-employer pension plans, the Bureau does not report CSRS and FERS assets, accumulated plan benefits or future liabilities, if any, applicable to its employees. This data is reported for plan participants by the Office of Personnel Management (OPM).

Postretirement Benefits Other than Pensions

Postretirement benefits for former Bureau employees, specifically health care costs and life insurance, are administered and paid by OPM through appropriations received from the U.S. Government. The Bureau does not reimburse OPM for these payments. The Bureau's financial statements do not include the cost of employee postretirement benefits paid by OPM, or the actuarial liability for such benefits.

Workers’ Compensation Costs

The Federal Employee Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for the Bureau's employees under FECA are administered by DOL and are ultimately paid by the Bureau.

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

The second component, the actuarial FECA liability, is the estimated liability for future benefit payments. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for future FECA benefits. The actuarial liability for future worker's compensation benefits includes the expected liability for death,
disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using OMB’s economic assumptions for 10-year Treasury notes and bonds, which resulted in a discount rate of 4.93% in year one and 5.08% thereafter. Based on information provided by DOL, the Department of the Treasury allocated the overall liability to Treasury components based on past claims paid.

Annual, Sick and Other Leave

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

Sick leave and other types of non-vested leave are expensed as the leave is taken.

Revenue Recognition

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

Research and Development Costs and Advertising Costs

Research and development costs and advertising costs are expensed as incurred. Advertising costs, which are reported in cost of goods sold, amounted to $3.4 million and $5.9 million in the years ended September 30, 2007 and 2006, respectively.

Tax Status

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

Commitments and Contingencies

Liabilities from loss contingencies, including environmental remediation costs not within the scope of FASB Statement No. 143, Accounting for Asset Retirement Obligations, arising from claims, assessments, litigation, fines and penalties, and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation cost can be reasonably estimated. Loss contingencies that do not meet these criteria, but are reasonably possible and estimable are not accrued, but are disclosed in Note 12.
3. Cash

The year-end cash balances by fund are as follows as of September 30, 2007 and 2006:

<table>
<thead>
<tr>
<th>Fund</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureau of Engraving and Printing</td>
<td>$175,154</td>
<td>$163,992</td>
</tr>
<tr>
<td>Revolving Fund</td>
<td>$175,154</td>
<td>$163,992</td>
</tr>
<tr>
<td>Mutilated Currency Revolving Fund</td>
<td>826</td>
<td>737</td>
</tr>
<tr>
<td>Total</td>
<td>$175,980</td>
<td>$164,729</td>
</tr>
</tbody>
</table>

The balance in the mutilated currency revolving fund, consisting of mutilated currency submitted by the public for redemption, is offset by a liability to the public.

4. Inventories, net

Inventories consist of the following as of September 30, 2007 and 2006:

<table>
<thead>
<tr>
<th>Component</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material and supplies</td>
<td>$48,864</td>
<td>$33,019</td>
</tr>
<tr>
<td>Work-in-process</td>
<td>35,977</td>
<td>32,688</td>
</tr>
<tr>
<td>Finished goods - currency</td>
<td>4,504</td>
<td>2,403</td>
</tr>
<tr>
<td>Finished goods - uncut currency</td>
<td>17,757</td>
<td>15,406</td>
</tr>
<tr>
<td>Total</td>
<td>$107,102</td>
<td>$83,516</td>
</tr>
</tbody>
</table>

The allowance for inventory obsolescence was $560 thousand and $615 thousand, at September 30, 2007 and 2006, respectively.
5. Property and Equipment, net

Property and equipment consist of the following as of September 30, 2007 and 2006:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td>$393,846</td>
<td>$416,782</td>
</tr>
<tr>
<td>Building and land</td>
<td>229,734</td>
<td>215,851</td>
</tr>
<tr>
<td>improvements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT equipment and software</td>
<td>20,467</td>
<td>17,224</td>
</tr>
<tr>
<td>Office machines</td>
<td>1,103</td>
<td>1,103</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>1,140</td>
<td>1,385</td>
</tr>
<tr>
<td>Donated assets - art work</td>
<td>125</td>
<td>125</td>
</tr>
<tr>
<td>Motor vehicle</td>
<td>212</td>
<td>212</td>
</tr>
<tr>
<td></td>
<td>646,627</td>
<td>652,682</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>443,670</td>
<td>411,486</td>
</tr>
<tr>
<td>Construction-in-progress</td>
<td>53,099</td>
<td>9,168</td>
</tr>
<tr>
<td>Net property and equipment</td>
<td>$256,056</td>
<td>$250,364</td>
</tr>
</tbody>
</table>

Depreciation expense for the years ended September 30, 2007 and 2006 was $32.0 million and $32.5 million, respectively.

The Bureau occupies and uses buildings and land owned by the Department of the Treasury. The land and building shell for the Fort Worth, Texas facility were donated by the City of Fort Worth to the Department of the Treasury in 1987, which holds the title thereto. At the time of donation, the land had an appraised value of $1.5 million and the building shell cost was $5.6 million. In accordance with the provisions of Public Law 81-656, Bureau financial statements include only the costs to build out the facility.

6. Other Assets, net

Other assets consist principally of machine repair parts and tools. The allowance for obsolescence for these parts and tools for the years ended September 30, 2007 and 2006 was $4.9 million and $5.1 million, respectively.
7. Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2007 and 2006:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental</td>
<td>$5,344</td>
<td>$5,269</td>
</tr>
<tr>
<td>With the public</td>
<td>41,075</td>
<td>37,213</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>46,419</strong></td>
<td><strong>42,482</strong></td>
</tr>
</tbody>
</table>

Accrued current liabilities consist of the following as of September 30, 2007 and 2006:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>$13,758</td>
<td>$13,924</td>
</tr>
<tr>
<td>Annual leave</td>
<td>9,994</td>
<td>10,315</td>
</tr>
<tr>
<td>Workers' compensation</td>
<td>4,220</td>
<td>4,766</td>
</tr>
<tr>
<td>Other</td>
<td>1,317</td>
<td>760</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>29,289</strong></td>
<td><strong>29,765</strong></td>
</tr>
</tbody>
</table>

8. Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2007 and 2006, but not yet reimbursed to DOL by the Bureau, are approximately $10.7 million and $10.2 million, of which approximately $4.2 million and $4.7 million represents a current liability, as of September 30, 2007 and 2006, respectively. The Bureau will reimburse DOL for these claims in the next two years. The Bureau's estimated non-current, actuarially-derived future workers’ compensation liability was approximately $50.9 million and $53.5 million as of September 30, 2007 and 2006, respectively.

9. Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were $15.9 million for 2007 and 2006. The CSRS employer contribution rate for fiscal years 2007 and 2006 was 7.0%. The FERS agency contribution rate for fiscal years 2007 and 2006 was 11.2%. The cost of providing the CSRS and FERS benefits is more than the amounts contributed by the Bureau and the employees to OPM. The additional cost of providing benefits, including the cost financed by OPM, which is not included in the Bureau's Statements of Operations, totaled $23.1 million and $23.7 million in 2007 and 2006, respectively.
OPM paid costs totaling $11.4 million and $10.9 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2007 and 2006, respectively. These costs are not included in the Bureau's Statements of Operations.

10. Related Party Transactions and Concentration of Revenue

The Bureau’s principal customers are other Federal and quasi-Federal governmental organizations. During 2007 and 2006, the Bureau’s sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2007 and 2006, are reflected in the following table:

<table>
<thead>
<tr>
<th></th>
<th>Revenue for the year ended September 30</th>
<th>Accounts Receivable as of September 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Reserve System:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency Production</td>
<td>$553,764</td>
<td>$444,297</td>
</tr>
<tr>
<td>Mutilated Currency</td>
<td>3,948</td>
<td>3,760</td>
</tr>
<tr>
<td>United States Postal Service</td>
<td>—</td>
<td>2,648</td>
</tr>
<tr>
<td>Other Federal Agencies</td>
<td>5,362</td>
<td>3,268</td>
</tr>
<tr>
<td></td>
<td>563,074</td>
<td>453,973</td>
</tr>
<tr>
<td>Public sales</td>
<td>15,037</td>
<td>23,324</td>
</tr>
<tr>
<td>Total</td>
<td>$578,111</td>
<td>$477,297</td>
</tr>
</tbody>
</table>

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 only delivery and storage services continuing through 2006.

Other Federal sales revenues are derived principally from the sale of security printing products to U.S. Government agencies and fees charged to the Federal Reserve for the redemption of mutilated currency.

11. Principal Suppliers

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

12. Commitments and Contingencies

The Bureau is a party in various administrative proceedings, legal actions, and claims brought against the Federal Government by employees, contractors, and other parties. Contingencies for litigations involving the Bureau, where the risk of loss was probable, were approximately $402 thousands as of September 30, 2007 and have been accrued in the accompanying financial statements. Contingencies, where the risk of loss was reasonably possible, were approximately
$3.4 million and $2.9 million as of September 30, 2007 and 2006, respectively. Since the risk of loss for these litigations was not probable, the Bureau did not record any liability. Management believes that the ultimate resolution of these litigations will not have a material impact on reported results of operations, financial position, and cash flows.

The American Council of the Blind and others have filed suit against the Department of the Treasury under Section 504 of the Rehabilitation Act seeking the redesign of U.S. currency. In 2007, a judge ruled that the current U.S. currency design violates this Act and this ruling has been appealed. No monetary damages were awarded by the judge. However, should the appellate court find for the plaintiffs in this case, the Bureau may be required to make changes to U.S. currency that would result in capital investment costs of up to $320 million, as well as increased annual expenditures of up to $174 million. Any such costs would be charged to the Federal Reserve as part of the billing rate for the production of U.S. currency. No costs have been accrued in the accompanying financial statements as of September 30, 2007 and 2006 as no amounts were awarded to the plaintiffs and none of the additional capital investment and annual operating expenditures referred to above have been incurred.

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 amounts due to the Judgment Fund as of September 30, 2007 and 2006.

The Bureau has contracted to purchase over-printing presses, incorporating automated inspection and packaging capability, costing approximately $47.8 million, of which $6.9 million was paid in 2007. Delivery is expected in 2008. In 2007, the Bureau also contracted to purchase intaglio printing presses, costing approximately $55.8 million, of which $12.2 million was paid in 2007. Delivery will be determined upon successful completion of the final factory inspection test.

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

13. Operating Lease

In 2002, the Bureau entered into a cancelable operating lease for warehouse space that expires in 2012. The lease contains a renewal option for 10 years.

Rental expense for the years ended September 30, 2007 and 2006 was $1.3 million and $1.9 million, respectively.
Future minimum payments under the lease as of September 30, 2007, are (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$1,815</td>
</tr>
<tr>
<td>2009</td>
<td>1,826</td>
</tr>
<tr>
<td>2010</td>
<td>1,838</td>
</tr>
<tr>
<td>2011</td>
<td>1,850</td>
</tr>
<tr>
<td>2012</td>
<td>935</td>
</tr>
<tr>
<td>Total</td>
<td>$8,264</td>
</tr>
</tbody>
</table>
Management’s Report on Internal Control Over Financial Reporting

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

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

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of the assets of the Bureau;

- provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Bureau are being made in accordance with authorizations of management of the Bureau; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Bureau’s assets that could have a material effect on the financial statements.

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

We assessed the effectiveness of the Bureau’s internal control over financial reporting as of September 30, 2007. In making this assessment, the Bureau used the criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment and those criteria, we conclude that the Bureau maintained effective internal control over financial reporting as of September 30, 2007.

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

Larry R. Felix  
Director

Leonard R. Olijar  
Chief Financial Officer

October 29, 2007  
Washington, DC
Independent Auditors’ Report on Internal Control Over Financial Reporting

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

We have examined management’s assertion, included in the accompanying “Management’s Report on Internal Control Over Financial Reporting,” that the Bureau of Engraving and Printing (Bureau) maintained effective internal control over financial reporting as of September 30, 2007, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The Bureau’s management is responsible for maintaining effective internal control over financial reporting and for its assertion on the effectiveness of internal control over financial reporting. 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 internal control over financial reporting, testing, and evaluating the design and operating effectiveness of 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 errors or fraud may occur and not be detected. Also, projections of any evaluation of 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, management’s assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2007 is fairly stated, in all material respects, based on the criteria established in Internal Control – Integrated Framework issued by COSO.

In accordance with Government Auditing Standards, we also noted certain additional matters that we have reported to management of the Bureau in a separate letter dated October 29, 2007.

October 29, 2007
Independent Auditors’ Report on Compliance and Other Matters

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

We have audited the balance sheets of the Bureau of Engraving and Printing (Bureau) as of  
September 30, 2007 and 2006, and the related statements of operations and cumulative results of  
operations and cash flows (hereinafter referred to as “financial statements”) for the years then  
ended and have issued our report thereon dated October 29, 2007.

We conducted our audits in accordance with auditing standards generally accepted in the United  
States of America; the standards applicable to financial audits contained in Government Auditing  
Standards, issued by the Comptroller General of the United States; and Office of Management  
and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements.  
Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to  
obtain reasonable assurance about whether the financial statements are free of material  
misstatement.

The management of the Bureau is responsible for complying with laws, regulations, and contracts  
applicable to the Bureau. As part of obtaining reasonable assurance about whether the Bureau’s  
financial statements are free of material misstatement, we performed tests of the Bureau’s  
compliance with certain provisions of laws, regulations, and contracts, noncompliance with which  
could have a direct and material effect on the determination of the financial statement amounts,  
and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We  
limited our tests of compliance to the provisions described in the preceding sentence, and we did  
not test compliance with all laws, regulations, and contracts applicable to the Bureau. However,  
providing an opinion on compliance with those provisions was not an objective of our audit, and  
accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph, disclosed no  
instances of noncompliance or other matters that are required to be reported herein under  
Government Auditing Standards or OMB Bulletin No. 07-04.

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

October 29, 2007