Table of Contents

Message from the Director 2
Message from the CFO 3
Highlights of the Year 4
Profile of the Bureau 6
Keeping the Greenback “Green” 10
Safety, Health and Environmental Management 13
Strategic Plan 16
FMFIA Plans and Accomplishments 18
Custody of Assets 23
Program Performance Measures 25
Management Discussion and Analysis 29
Independent Auditors’ Report 34
Financial Statements 35
Notes to Financial Statements 38
Management’s Report on Internal Control Over Financial Reporting 48
Independent Auditors’ Report on Internal Control Over Financial Reporting 49
Independent Auditors’ Report on Compliance and Other Matters 50
The past year has been one of challenges and accomplishments for the Bureau of Engraving and Printing. The year was marked by the successful introduction of the redesigned $5 Federal Reserve note, start-up of new printing presses in both the Washington, DC and Fort Worth, Texas facilities, and delivery of the 2008 currency order on time and under budget. I would like to express my appreciation to all the employees of the Bureau of Engraving and Printing for their hard work and contribution toward making 2008 another very successful year.

With the assistance of these dedicated employees, the Bureau made significant progress in its multi-year effort to retool and retrofit its production processes. The first phase of this effort was successfully completed this year as production began on two new intaglio press lines (two presses each), one line in Washington, DC and one line in Fort Worth, Texas. This initiative will provide the Bureau with the ability to enhance counterfeit deterrence and increase productivity.

In order to stay ahead of increasingly sophisticated counterfeiting threats, the Bureau continuously redesigns U.S. currency. Because of emerging threats, the Bureau redesigned the $10, $20, and $50 notes over the last several years incorporating enhanced security features. In 2008, the redesigned $5 note began circulating. Development of a redesigned $100 note is in process and is expected to be approved for production in the 2009/2010 time frame.

The Bureau, in coordination with the Department of the Treasury, is actively working to improve the Nation’s currency to better serve the needs of Americans and others around the world, including the blind and visually impaired. To this end, a study began in 2008 to assess improved methods for denominating currency for the blind and visually impaired. This study will be released for public comment in 2009.

The environmental, health, and safety (EHS) strategic plan, established in 2007, institutionalized the Bureau’s commitment to protecting the environment and its employees. The fundamental objectives of reducing our environmental impact and preventing injuries are the focal points of this endeavor. Mandatory EHS performance standards for all Bureau employees are a key element of this plan.

The Bureau is resolutely committed to a strong, world-class environmental management program and has attained certification by the International Organization for Standardization (ISO) 14001 for both the Washington, DC and Fort Worth, Texas facilities. The ISO 14001 certification reinforces the Bureau’s commitment to sound environmental stewardship.

As part of this environmental commitment, constant attention is devoted to keeping the greenback “green”. Because the paper used to print currency is made of agricultural products (cotton and linen), it actually has a negative carbon footprint. Improving our production process can also reduce our environmental impact. The Bureau’s wiping solution recycling system, a major capital investment initiated in 2008, is a good example. When complete, this system will reduce the use of water in manufacturing by approximately 15 million gallons a year.

As the Bureau retools and optimizes its manufacturing processes, we must also invest in the employees who implement these processes. Our efforts in 2008 to assess skill gaps throughout the organization will have a significant impact on our use of the advanced technology integrated with our new manufacturing equipment, and business process standardization and optimization efforts. As part of this effort, the Bureau has launched the Treasury Learning Management System (TLMS), a system that provides employees with access to a wide variety of online training courses and a comprehensive, web-based reference library.

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

The many accomplishments of this year would not have been possible without the focused dedication of the Bureau’s employees. As we continue to redesign and print the Nation’s currency to enhance counterfeit deterrence and facilitate commerce, I am confident the Bureau’s employees will carry on the tradition of excellence that is the hallmark of the Bureau of Engraving and Printing.

Sincerely,

[Signature]
I am pleased to present the Bureau of Engraving and Printing’s Chief Financial Officer Performance and Accountability Report for 2008. This report reflects a tradition of strong financial management; timely, accurate financial reporting; and continual improvement at the Bureau. The ongoing organizational emphasis on timeliness and reliability of financial reporting has resulted in an unqualified audit opinion on the Bureau’s financial statements for the 24th consecutive year. Further, the Bureau is one of only a very few government agencies that receive an opinion on management’s assertion of effective internal control over financial reporting based on the criteria established in “Internal Control–Integrated Framework” issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

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 2008, the Bureau delivered 7.7 billion currency notes to the Federal Reserve, resulting in revenue of $517 million and an excess of revenue over expenses of $1 million. While revenue and net results both declined significantly from the previous year because of the smaller currency order, both were within planned parameters. During the year, the Bureau continued to focus on improving productivity, reducing costs, and streamlining operations. Overall program performance was favorable, and direct manufacturing costs for currency were below established standards.

In 2008, the Bureau continued a $200 million multi-year recapitalization of its Washington, DC and Fort Worth, Texas facilities. Successful implementation of new technology will improve productivity and provide needed capabilities to produce increasingly more complex currency note designs. The Bureau also completed five-year staffing and capital investment plans in 2008 to ensure that we are positioned to meet the current and future needs of our customers.

Several other initiatives moved forward in 2008, including the Internet Payment Platform (IPP). The IPP is an e-commerce system that enables online processing of purchase orders, invoices, and payment information over the Internet. The Bureau also planned an investment in a new manufacturing application to integrate, consolidate and enable analysis of data for the systems embedded in existing and new manufacturing equipment. This initiative will provide an integrated platform to simplify and standardize the collection of data across the Bureau’s disparate systems, sensors and applications used in manufacturing.

Investments in equipment and technology must be accompanied by similar investments in our employees. Proficiency in the use of all new equipment requires employees that are highly skilled and adaptable. As the Bureau prepares for the future, we will continue to focus on our commitment to product quality, superior customer service, and efficient stewardship of resources so that we can continue to effectively meet the needs of the American public. The Bureau has positioned itself to meet these needs both from an operational and financial management perspective. The Bureau has the financial resources necessary to invest in its employees to maintain a talented workforce, and a well-disciplined capital investment strategy to enhance product quality, promote counterfeit deterrence, and ensure the cost effectiveness of the manufacturing processes.

Leonard R. Olafin
Highlights of the Year

In 2008, the Bureau of Engraving and Printing continued to produce and deliver the highest quality currency notes to the Federal Reserve System and moved forward on its multi-year program of currency redesign.

The Bureau also continued a multi-year, $200 million recapitalization of its currency production processes to improve its manufacturing efficiency and its capability to produce increasingly complex currency designs. The first phase of this effort was successfully completed in 2008, as production began on two new intaglio press lines (two presses each); one line in Washington, DC, and one line in Fort Worth, Texas. An additional press line is scheduled to be installed in each facility in 2009. These presses are the cornerstone of the Bureau’s plan for retooling currency production, which also includes new currency processing equipment.
Additional financial and operational highlights for 2008 include:

- The redesigned $5 note began circulating on March 13, 2008. The new note includes enhanced counterfeit deterrent features and a larger numeral on the back to assist the visually impaired in denominated currency.

- The Bureau completed comprehensive skill assessments of its employees that will enable focused spending on identified training needs and prepare the workforce for the increasingly sophisticated technology integrated into 21st century manufacturing processes.

- The Bureau ended 2008 at its lowest staffing level since 1898. This can be partially attributed to the operational realignment over the past two years, which streamlined operations, eliminated redundant functions, and combined similar activities. Staffing has also been reduced due to the introduction of new technology and more efficient production processes.

- The Bureau received the “John Henshaw Award for Corporate Leadership in Safety” from the SafetyXChange, an international network of safety professionals. This award is presented to those organizations that demonstrate superior leadership in workplace health and safety. This special recognition is reflective of the Bureau’s safety program, which integrates comprehensive health and safety measures into the Bureau’s mission.

- In 2008, the Bureau received an unqualified opinion on its financial statements for the 24th consecutive year; and for the fourth consecutive year, the Bureau received an unqualified opinion on its internal control over financial reporting.

- The Bureau’s Western Currency Facility in Fort Worth, Texas received the Golden Achievement Award from the Fort Worth Independent School District in recognition of its participation in the “Adopt-a-School” program and for its efforts to mentor high school students.

- Initiatives to incorporate sophisticated information technology into all operations continued as the Bureau implemented the Internet Payment Platform, which allows for paperless e-commerce.

- An investment in a new manufacturing application to integrate, consolidate, and enable analysis of data from the systems embedded in existing and new manufacturing equipment was initiated. This will provide an integrated platform to simplify and standardize the collection of data across the Bureau’s disparate systems, sensors, and applications used in manufacturing.

- The Bureau implemented the Treasury Learning Management System. This is a web-based system that provides all employees easy and quick access to professional development courses, online training, reference books, and other resources.

### (All Dollars in Millions) 2007 2008

<table>
<thead>
<tr>
<th>Category</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Revenue</td>
<td>$578</td>
<td>$517</td>
</tr>
<tr>
<td>Capital Investment</td>
<td>$37.7</td>
<td>$54.5</td>
</tr>
<tr>
<td>General and Admin. Costs</td>
<td>$56.2</td>
<td>$60.3</td>
</tr>
<tr>
<td>Research and Development</td>
<td>$14.0</td>
<td>$12.4</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$602.2</td>
<td>$608.8</td>
</tr>
<tr>
<td>Excess of Revenue over Expenses</td>
<td>$46.3</td>
<td>$0.6</td>
</tr>
<tr>
<td>Federal Reserve Notes Delivered (Billions)</td>
<td>9.1</td>
<td>7.7</td>
</tr>
</tbody>
</table>
Profile of the Bureau of Engraving and Printing

The Bureau of Engraving and Printing’s mission is to design and manufacture high quality security documents that deter counterfeiting and meet customer requirements for quality, quantity, and performance.

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

The Bureau produces U.S. currency and other security documents issued and used 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. The Bureau also 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 re-

The new conveyor system attached to the note packaging machine will package currency more efficiently, while reducing injuries caused by repetitive lifting.

As the Bureau retools, the older presses are being replaced. Once considered state-of-the-art, the twenty-year old presses in Washington, DC are being replaced with more productive, flexible, and environmentally-friendly printing presses.
views cash destruction and unfit currency operations at Federal Reserve Banks and is responsible for the accountability and destruction of internally generated security waste products. As a free 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, Texas. 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 the Bureau’s Internet site: www.moneyfactory.gov.

Manufacturing

In the last five years, the Bureau has redesigned and delivered new $5, $10, $20, and $50 notes to the Federal Reserve. The new designs are part of the U.S. Government’s ongoing efforts to maintain the integrity of U.S. currency. The newly redesigned $5 note was unveiled in 2007 and was put into circulation in the spring of 2008. Work continues on the redesign of the $100 note and the development of new counterfeit deterrent features that may be incorporated into future note designs.

During 2008, the Bureau delivered 7.7 billion Federal Reserve notes to the Federal Reserve System. The Washington and Fort Worth facilities delivered 3.0 billion and 4.7 billion Federal Reserve notes, respectively. For 2009, the Federal Reserve System has ordered 6.9 billion Federal Reserve notes.

Staffing (FTE) by Function

![Staffing (FTE) by Function](chart.png)
In keeping with its tradition of product innovation and production efficiency, the Bureau has installed and put into operation two new intaglio printing presses in each facility. 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.

Currency Production by Facility (Billions of Notes)

As part of the Bureau’s retooling effort, two new intaglio printing presses were installed in Washington, DC. The size of the presses required that a special scaffold be built to assist in installation.
The Bureau maintained its certifications for both the ISO 14001 Environmental Management Systems and the ISO 9001 Quality Management Systems during 2008. ISO certifications are indicative of the Bureau’s commitment to continuous process improvement, world-class management practices, and environmental responsibility.

Information Technology

In 2008, the Bureau continued to emphasize increased security and accountability standardization of Bureau hardware, software and information technology (IT) related processes, and enhanced governance of the IT program and resources.

In IT security, the Bureau’s major applications and general support systems remain accredited in order to meet the requirement for certification and accreditation. In response to incidents of lost government computers and lost information, which have affected both the federal and the private sectors, the Bureau has implemented technologies to encrypt all laptop computers and removable hard drives.

Also during 2008, the Bureau participated and continues to participate in a number of reviews of financial, Federal Information Security Management Act (FISMA), and IT support systems as the Bureau applies OMB Circular A-123 and the Government Accountability Office’s Federal Information System Controls Audit Manual (FISCAM) audit standards in support of the annual audited financial statements. The Bureau’s CIO continues to be an active participant in Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises and through biannual tests of the COOP plans for the Bureau’s mainframe computer, enterprise management information system, and public sales support systems.

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 who represent diverse organizational units. By cutting across organizational lines, these groups serve to promote effective communication, increased collaboration, and participative, proactive management.

The older intaglio presses are moved out to make room for the new.
Keeping the Greenback “Green”

Most have heard or used the term “Greenback” to refer to the United States paper currency. The term originated in the 1800’s to refer to the newly printed, green-colored U.S. currency, and is still a valid description today because the backs of the current Federal Reserve notes are printed with green ink. A greenback now is understood to mean any denomination of U.S. currency, which is printed at the Bureau of Engraving and Printing’s facilities in Washington, DC and Fort Worth, Texas.

Although well over 100 years old, today there is more to the greenback than just green ink. In the parlance of today’s environmentally conscious society, the greenback truly is “green”. All United States currency is printed on a substrate (currency paper) that is a combination of 75 percent cotton and 25 percent linen. When cotton and flax (linen is made from the flax plant) are planted and harvested, a certain amount of energy is consumed and carbon dioxide (a greenhouse gas) is created. This is commonly referred to as a carbon footprint. In this case, the carbon footprint is how much carbon dioxide is produced while growing the materials that make up the paper on which currency is printed.

Similarly, obtaining the materials to make the inks used to print the currency also has a carbon footprint. While the cotton and flax plants are growing, they consume, through photosynthesis, much more carbon dioxide than is required to produce the currency’s raw materials. In fact, on a per one-dollar note basis, the plants will consume (carbon sequestration) 46 times the amount of carbon produced obtaining all of the major materials for the one-dollar note. And, that is why the greenback is really “green”.

The Bureau demonstrates its commitment to being an environmentally responsible corporate citizen in several other ways. The ongoing retooling of the currency production processes

U.S. currency is printed on paper that is 75 percent cotton and 25 percent linen. The above photo shows a field of cotton with an inset photo of ripe cotton.
is replacing old printing equipment with the best printing technology available. The new presses will consume less ink and employ state-of-the-art air scrubbers, which will significantly reduce air emissions.

The use of low volatile organic compound (VOC) inks and low VOC cleaners in the presses will further reduce possible pollution. Whenever possible, the Bureau recycles and reuses materials from the production process. When completed and placed in service, the new wastewater recycling system will recycle approximately 95% of the water used in the printing process. These efforts, along with maintenance of the ISO 14001 certification (environmental management system), proactively demonstrate that keeping the greenback and the environment “green” is a strategic objective at the Bureau.

The above photo shows a field of flax. U.S. currency paper is 25% linen, which is made from flax.
Executive Organizational Structure

LARRY R. FELIX
DIRECTOR

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.

PAMELA J. GARDINER
DEPUTY DIRECTOR

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

JON CAMERON
ASSOCIATE DIRECTOR (EASTERN CURRENCY FACILITY)

The mission of the 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.

CHARLENE WILLIAMS
ASSOCIATE DIRECTOR (WESTERN CURRENCY 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.

LEONARD R. OLIJAR
ASSOCIATE DIRECTOR (CHIEF FINANCIAL OFFICER)

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.

SCOTT WILSON
ASSOCIATE DIRECTOR (MANAGEMENT)

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.

PETER O. JOHNSON
ASSOCIATE DIRECTOR (CHIEF INFORMATION OFFICER)

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

JUDITH DIAZ MYERS
ASSOCIATE DIRECTOR (TECHNOLOGY)

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 facility support and maintenance.

KEVIN J. RICE
CHIEF COUNSEL

The mission of the Office of the Chief Counsel is to provide the highest quality legal services in support of the overall Bureau mission.
The Bureau continued making strides in pursuing environment, health, and safety (EHS) excellence. The Office of Environment, Health, and Safety (OEHS) manages programs that minimize the Bureau’s impact on the environment and protect workers from injuries, illnesses, and disabilities. The Bureau’s goals are to maintain a downward trend in occupational injury and illness rates, as well as minimizing the environmental impact that operations have on air emissions, wastewater discharge, and solid waste.

The Bureau is an ISO 14001 registered organization that includes all aspects of environment, health, and safety in an environmental management system (EMS). The Bureau is committed to maintaining an EMS that focuses on the outcomes that are aimed at reducing EHS risks and impacts, through continuous improvement. As EMS grows, these continuous improvement principles are being integrated into more and more aspects of normal operations.

**Improving Worker Health and Safety**

A primary focus of the Bureau’s Office of Environment, Health, and Safety is to continually reduce injuries, illnesses, and lost workdays. The Bureau’s history of success is evident in benchmark data. While there was an increase in the 2008 Occupational Safety and Health Administration (OSHA) reportable lost time case rate, the rate in 2008 was the second lowest in the last decade.

The Bureau tracks improvements under the Safety, Health, and Return to Employment (SHARE) initiative that was launched in 2004 with the purpose of reducing occupational injuries, illnesses, and fatalities within the Federal government. The initiative established four goals in the critical areas of safety, health, and injury case management, with performance measured on improvements beginning in 2004.

**Bureau of Engraving and Printing Case Rates**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Cases</th>
<th>Total Case Rate per 100 Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>118</td>
<td>4.87</td>
</tr>
<tr>
<td>2005</td>
<td>113</td>
<td>4.65</td>
</tr>
<tr>
<td>2006</td>
<td>75</td>
<td>3.54</td>
</tr>
<tr>
<td>2007</td>
<td>74</td>
<td>3.39</td>
</tr>
<tr>
<td>2008</td>
<td>50</td>
<td>3.17</td>
</tr>
</tbody>
</table>

The Department of the Treasury annually sets reduction goals related to the SHARE initiative. The Bureau has consistently achieved reductions in injury cases that exceed Departmental expectations. The preceding chart indicates the Bureau’s progress in meeting these expectations. Despite the slight increase in the OSHA-reportable lost time case rate that is reported above, our total injury case rate decreased 6% from 2007 to 2008.
Safety, Health, and Environmental Management

The Department of the Treasury goals are as follows:

- Reduction of total case rates for injuries and illnesses by at least 3% per year;
- Reduction of case rates for lost time injuries and illnesses by at least 3% per year;
- Increase in the timely filing of injury and illness notices by at least 5% per year;
- Reduction of the rates of lost production days due to injuries and illnesses by at least 1% per year.

Because the Federal government made great strides toward meeting all four goals by the end of the first three years of the initiative, in 2006, the SHARE initiative was extended through 2009. This reaffirmed the commitment to improving workplace safety and health conditions for Federal workers, while also reducing the financial costs to America’s taxpayers.

Lost Work Days
(Days Lost Due to Injury)

![Lost Work Days Chart]

Safety award winners at the Bureau’s Annual Recognition Ceremony. Pictured (from left to right): Jon Cameron, Associate Director, Eastern Currency Facility, Award winner Nathaniel Perdue, Office of Operations Support, Bureau Director Larry Felix, Award winner Kevin Bongiorno, Office of Engraving, and Neal Mohlmann, Office of Environment, Health and Safety.
The Bureau anticipates being confronted with various types of injuries that are difficult to control, and if the downward trend is to continue, the Bureau will need to focus on increasing individual and line supervisor accountability for unsafe work practices. The Bureau has set work practice expectations, communicated these expectations to employees, and established a multidisciplinary group to review untoward events and recommend corrective actions. The intent behind this group is to underscore the importance of local work unit accountability for employee health and safety.

Finally, the Bureau has received “The John Henshaw Award for Corporate Leadership in Safety.” The award is named for John Henshaw, the former Assistant Secretary for OSHA. It is awarded for superior leadership in workplace health and safety by integrating health and safety into its essential business mission, using safety to define and measure business success, and exhibiting vision, commitment, transparency and employee engagement to achieve sustainable health and safety performance.

Protecting the Environment

Both of the Bureau’s facilities have maintained their respective ISO 14001 certifications and have moved forward with EHS plans to continually improve the Bureau’s EHS performance. The overall intent behind these plans is to institutionalize EMS and continuous improvement.

The following plans and programs have been improved or moved forward:

- The Bureau plans to install a wiping solution recycling system. The wiping solution recycling system will reduce the Bureau’s annual water use by 15 million gallons.

- The Bureau has diverted over 2.5 million pounds of solid waste from landfills through recycling, re-use, and remanufacture.

- The Bureau has established EMS performance measures as part of the 2009 Goal Sharing Plan, further illustrating top management support for the environment and the health and safety of employees.

Waste Stream Reductions
(Percent Reduction–Washington, DC Facility)
Strategic Plan

The Bureau’s Strategic Plan, which was updated in 2008, is aligned with the Department of the Treasury’s Strategic Plan. The Bureau’s Strategic Plan will serve as a roadmap to guide the Bureau toward its goal of creating a new environment that will ensure cost-effective and flexible business operations for years to come. While committed to meeting the many new challenges of implementing innovative technology, the Bureau remains resolute in producing quality currency, controlling costs, being sound environmental stewards, and working safely as we move towards our vision – to continue as the preeminent banknote producer worldwide. We want to make sure we get it right – in all respects – the first time, every time. The Bureau will rely on the ingenuity, industriousness, and commitment of every employee to meet the challenges of printing currency in the 21st century.

The Bureau’s Strategic Goal is to produce currency of consistently high quality that deters counterfeiting, contributes to public confidence, and facilitates commerce. In order to achieve this Strategic Goal the Bureau has established three strategic objectives. These strategic objectives are: Quality Manufacturing; Innovative and Effective Design; and Security and Accountability.

**Quality Manufacturing** encompasses quality, cost effectiveness, and efficiency, which serve to maintain the Bureau’s stature as a world-class securities manufacturer. Consistently producing high quality currency improves customer satisfaction and maintains public confidence in U.S. currency.

The technological sophistication of the manufacturing equipment being acquired as part of the retooling effort will require a commensurate investment in information technology. Over the next five years, nearly all of the Bureau’s production related business decisions will be driven by near real-time manufacturing performance metrics.

Proficiency in the use of the new equipment will require employees who are highly skilled and adaptable. To ensure the availability of this type of workforce, the Bureau has initiated a competency/skill assessment program to evaluate the skills and the proficiencies of our workforce and provide training when necessary.

**Innovative and Effective Design** of currency instills confidence in the integrity of U.S. currency. We will continue to collaborate with the Federal Reserve, the U.S. Secret Service, other partners, and stakeholders to identify, evaluate, and improve features in new currency designs, while ensuring acceptance in the market place. Counterfeiting of U.S. currency is an international issue due to the worldwide use and acceptance of the U.S. dollar. This use provides a substantial economic benefit to the United States. The Strategic Plan calls for conducting robust research and development to ensure a continued technological advantage is maintained over evolving counterfeiting threats.
Strategic Plan

Since U.S. currency is so widely used outside the United States, it is imperative that business and financial communities, foreign exchange companies, law enforcement groups, banking officials, other cash handlers, and ultimately the general public around the world know about the new bill designs and counterfeit deterrent features. Accordingly, the Bureau has incorporated a strategy for public education, communication, and outreach to all currency users to inform them of new currency designs and features.

Security and Accountability is the third objective in the Strategic Plan. This is an important objective because the Bureau is the U.S. Government’s security printer and is mandated to maintain the highest levels of security and accountability over our product, property, funds, and other assets. The Bureau must continually guard against fraud, loss, unauthorized use, and misappropriation.

Over the next five years, the Bureau will be implementing a risk-based management approach specifically designed to identify and rank risks and vulnerabilities. This ranking process will ensure commensurate attention and resource allocation to the most vulnerable areas. The risk-based accountability and testing programs are designed to assess, test, and monitor the adequacy of management oversight, as well as the adequacy of the Bureau’s physical security infrastructure.

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

The Bureau has positioned itself to meet its strategic goal and the related objectives from both an operational and financial management perspective. The Bureau will uphold its tradition of excellence by taking advantage of opportunities to maintain a talented workforce, practice a disciplined capital investment strategy, enhance product quality, promote counterfeit deterrence, and streamline manufacturing processes.
The Federal Managers’ Financial Integrity Act (FMFIA), which was passed in 1982, requires agencies to perform regular evaluations of internal controls and financial management systems to protect against fraud, waste, and abuse. The subsequent passage of the Chief Financial Officers Act, the Federal Financial Management Improvement Act, and the Sarbanes-Oxley Act of 2002 further increased internal control requirements.

The Bureau has a history of strong internal controls and an aggressive monitoring program. Key elements of this program include comprehensive financial management controls, personnel security controls, production and quality controls, computer security and information resources management programs, and strong physical security and product accountability functions to safeguard products and assets. The Bureau’s Strategic Plan reflects this emphasis. Security, accountability, and resource management are major strategic objectives.

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

Ongoing efforts to improve internal controls include compliance reviews and an active internal control awareness program. The Bureau’s Compliance Review Teams (CRTs) in both facilities promote compliance with Bureau operating policies and procedures by performing unannounced reviews in production, storage, and off-line components that have custody of security items. During 2008, the CRTs performed 434 unannounced reviews. The results of the reviews were reported to office chiefs, supervisors, and managers responsible for enforcing policies and procedures, and implementing corrective actions. The Internal Control Awareness Program is also 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 compli-
FMFIA Plans and Accomplishments

The Bureau’s quality management system for the production of U.S. currency is ISO 9001 registered, while the environmental management system is ISO 14001 registered. ISO registrations are internationally recognized designations of an organization’s commitment to rigorous quality standards (ISO 9001) and effective environmental stewardship (ISO 14001). 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 (ICPC) 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 ICPC is comprised of senior level executives and is chaired by the Bureau’s Chief Financial Officer.

The financial statements and annual audit are important elements in the stewardship of the Bureau’s revolving fund. For the 24th consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. Additionally, for the fourth 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, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Frame-
work) 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 program, and its protection and accountability programs. The high scores that the programs received indicate that they are functioning as intended and performance information is reliable.

In 2008, the Bureau continued to emphasize increased security and accountability standardization of Bureau hardware, software, and information technology (IT) related processes and enhanced governance of the IT program and resources. In IT security, 100% of the Bureau’s major applications and general support systems have been certified and accredited for operation. In responding to concerns about lost computers and data throughout the Federal Government and the private sector, the Bureau has implemented technologies to encrypt all laptop 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 all hardware and software. BEP is committed to full implementation of the National Institute of Standards and Technology (NIST) requirements for management, operational, and technical controls for IT systems, as well as 100% implementation of the Federal Desktop Core Configuration for Microsoft software and NIST approved configurations for other operating systems and databases.

During 2008, the Bureau participated in a number of audits and reviews of financial and support IT systems, and Federal Information Security Management Act (FISMA) implementation. BEP continues to design and implement controls to comply with the Sarbanes-Oxley Act Section 404 and the Government Accountability Office’s Federal Information System Controls Audit Manual audit standards, in order to support the annual audited financial statements. The CIO Directorate is an active participant to Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises. The Directorate also tests COOP plans for the Bureau’s mainframe computer, enterprise management information system, and public sales support systems twice a year.

BEP Director Larry Felix talking with Bureau employees at a Town Hall meeting.
The Bureau of Engraving and Printing made a conscientious effort during 2008 to meet the internal control requirements of the Federal Managers’ Financial Integrity Act (FMFIA) of 1982, the Federal Financial Management Improvement Act (FFMIA) of 1996, Office of Management and Budget (OMB) Circular A-123, and the Reports Consolidation Act of 2000. The Bureau, taken as whole, is operating in accordance with the procedures and standards prescribed by the Comptroller General of the United States and OMB guidelines.

As required by the FMFIA, the Bureau evaluated both its internal controls and financial management systems for fiscal year 2008. The results of these evaluations provided reasonable assurance that the internal controls (Section 2) and the financial management systems (Section 4) are in overall compliance with standards prescribed by the Comptroller General of the United States and guidance issued by the OMB. In addition, the Bureau had no instances of material internal control weaknesses and no material non-conformances outstanding as of September 30, 2008.

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, 2008, is operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. Further, the Bureau has active programs in place to provide reasonable assurance that programs achieve their intended results; resources are used consistent with the Bureau’s overall mission; programs and resources are free from waste, fraud, and mismanagement; laws and regulations are followed; controls are sufficient to minimize any improper or erroneous payments; performance information is reliable; systems security is in substantial compliance with all relevant requirements; continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and financial management systems are in compliance with federal financial systems standards.
Automation at the Western Currency Facility

Jimmy McCollum, Electro-machinist, demonstrates the capabilities of the new Overprinting Inspection System in Fort Worth to Treasurer Cabral.

Jimmy McCollum, Electro-machinist, discusses a currency sheet with Anna E. Cabral, Treasurer of the United States.

Robert Pettit, Office of Currency Manufacturing, discusses features of a new robotic currency palletizer to Treasurer Cabral.
In addition to the production of currency, the Bureau has many high-value items that are used for various purposes such as research, product testing, and historical reference. Consequently, the Bureau of Engraving and Printing has a unique fiduciary responsibility to the American public with respect to the custody and safeguarding of its assets and high-value items.

Currency products and other items used in tests, experimental research, and other off-line activities are normally expensed immediately and are not carried as assets in the Bureau’s financial statements. While the costs expensed may be immaterial to the financial statements, many of these items have high intrinsic value. Therefore, the Bureau ensures that adequate controls are in place to properly safeguard these items. The Bureau also has display areas at each of its facilities and maintains historical collections at its headquarters in Washington, DC. The displays and historical collections include valuable artifacts related to currency and the former postage stamp operations, as well as other securities produced by the Bureau. While these collections are not included in the inventory balances as reported in the financial statements, appropriate custodial records and controls are maintained. Physical inventories are performed regularly to ensure accountability for these collections.

Although the Bureau does not hold title to any land or facilities, it maintains custodial control over the buildings occupied in Washington, DC and Fort Worth, Texas.

In order to effectively manage its fiduciary and custodial responsibilities, the Bureau has implemented effective internal control and security systems. To ensure these systems are functioning properly, management has institutionalized an organizational focus on the safeguarding and accountability of all assets. This focus is reflected in the Bureau’s organizational structure. Reporting to the Associate Director (Chief Financial Officer), who has oversight responsibility with respect to internal controls, is

Oscar Vela, Plate Printer, monitors one of the new intaglio printing presses during production.
the Office of Compliance. This office evaluates and monitors internal control systems and maintains a comprehensive product accountability system. The Office of Security, which reports to the Associate Director (Management), plans, administers, and monitors the Bureau’s security programs. These programs include personnel, physical and operational security as well as securities destruction. Through this structure, individual unit managers are held accountable and responsible for maintaining proper custody and safeguarding of all assets under their control. To further reinforce the internal control and security structure, a security and internal control element is included in each employee’s performance plan. Employees are rated annually regarding their performance with respect to this element.
The Bureau measures the effectiveness and efficiency of its overall organizational performance by using program performance measures. Standards are developed annually by the senior executive staff based on the prior year’s performance, contracted price factors, and anticipated productivity improvement. Actual performance against standard depends on the Bureau’s ability to meet annual spoilage, efficiency, and capacity utilization goals established for currency production.

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</th>
<th>2008</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost per Thousand Notes</td>
<td>Standard</td>
<td>Actual</td>
</tr>
<tr>
<td>Federal Reserve Notes</td>
<td>$29.79</td>
<td>$29.60</td>
</tr>
</tbody>
</table>

The actual production cost per thousand currency notes, which includes direct labor and materials, and applied manufacturing overhead, was slightly below standard in 2008. This was due primarily to the increased usage of reconstituted (recycled) ink, improved ink mileage (favorable ink utilization), and reduced spoilage.

<table>
<thead>
<tr>
<th>Currency</th>
<th>2008</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliveries</td>
<td>Order</td>
<td>Actual</td>
</tr>
<tr>
<td>Federal Reserve Notes (Billions)</td>
<td>7.7</td>
<td>7.7</td>
</tr>
</tbody>
</table>

In 2008, the Bureau delivered 7.7 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 curren-
Program Performance Measures

Currency Deliveries
(Billions of Notes)

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes</td>
<td>11.4</td>
<td>9.0</td>
<td>7.6</td>
<td>7.2</td>
<td>8.2</td>
<td>8.6</td>
<td>8.2</td>
<td>9.1</td>
<td>8.8</td>
<td>7.7</td>
</tr>
</tbody>
</table>

Currency Spoilage
(Percentage)

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes</td>
<td>4.3</td>
<td>4.3</td>
<td>4.3</td>
<td>4.4</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Productivity Change

<table>
<thead>
<tr>
<th>Productivity Change</th>
<th>2008 Standard</th>
<th>2008 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity</td>
<td>-14.3%</td>
<td>-12.3%</td>
</tr>
</tbody>
</table>

Productivity is calculated based on units of output per labor hour. In 2008, overall productivity decreased by 12.3%. This was primarily due to the substantial decrease in the currency order.

Staffing development, including apprenticeship and training programs, has intensified as the multi-million capital investment initiative to retool and retrofit the Bureau’s production processes continues. The advanced technology incorporated in the new equipment requires the availability of a highly skilled and adaptive workforce. As part of this development process, new initiatives to assess skill gaps throughout the Bureau have been implemented. These initiatives are designed to identify skill gaps and training needs, as well as the possible benefits of staffing realignments. The Bureau has also launched the Treasury Learning Management System (TLMS). The TLMS empowers employees, through a web-based application, to take training online that meets their individual needs.

<table>
<thead>
<tr>
<th>Currency Spoilage</th>
<th>2008 Standard</th>
<th>2008 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Reserve Notes</td>
<td>4.5%</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Spoilage, an inherent result of any production process, is an important indicator of the overall effectiveness of the production process and quality of material inputs. In 2008, overall currency spoilage was below standard. This was the result of older, less efficient production equipment being taken off-line. As the Bureau’s multi-year retooling initiative continues, additional older equipment will be taken out of service as replacement equipment begins production.
**Prompt Payment**

To ensure that Federal agencies pay invoices in a timely manner, Congress passed the Prompt Payment Act and the Office of Management and Budget (OMB) issued Circular A-125, which is now codified as part of the Code of Federal Regulations (CFR). Generally, the CFR requires payment within 30 days from the latter of either the receipt of a proper invoice or acceptance of the goods/services. If this time frame is not met, an interest penalty must be paid to the vendor. Within the Department of the Treasury, the standard for the late payment rate is that no more than 2% of the invoices subject to prompt payment shall be paid late (at least 98% paid within 30 days). The Bureau’s prompt payment performance for the past three years is presented below. As the data indicates, the Bureau has continued to perform much better than the Department standard for late payments.

<table>
<thead>
<tr>
<th>1. Number of Invoices Paid Late</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>43</td>
<td>58</td>
<td>25</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Interest Penalties Paid</th>
<th>$2,126</th>
<th>$1,165</th>
<th>$936</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>3. Percent of Invoices Paid Late</th>
<th>0.65%</th>
<th>0.92%</th>
<th>0.40%</th>
</tr>
</thead>
</table>

**Comparable Performance Measures for Three Years**

<table>
<thead>
<tr>
<th>1. Federal Reserve Notes (Cost/Thousand Notes)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>$27.42</td>
<td>$28.66</td>
<td>$29.60</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Federal Reserve Notes Delivered (Billions)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.2</td>
<td>9.1</td>
<td>7.7</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Productivity Change Year to Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5.6%</td>
<td>7.6%</td>
<td>-12.3%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4.3%</td>
<td>4.4%</td>
<td>4.2%</td>
<td></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.
“Money Talks” at the Bureau

Cathy Ford, Executive Assistant, builds her public speaking skills with the Bureau Toastmasters chapter, “Money Talks”.

Fellow toastmasters, Claudia Asihene, D’Angela Moore, Everett Dunlap, and Alesia Turner critique a speech.

The Bureau’s Toastmasters Chapter, “Money Talks”.
Management Discussion and Analysis

During 2008, 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.

Because of planned increases in capital spending, currency-billing rates for the 2008 currency program included a charge for the acquisition of capital assets as part of the Bureau’s multi-year retooling initiative. Revenue in excess of expenses for the year was minimal because management chose not to adjust billing rates to compensate for the substantial mid-year reduction in the currency order.

Revenue in 2008 decreased due to a substantial decrease in the number of Federal Reserve notes ordered and delivered to the Federal Reserve System. Total Federal Reserve notes delivered in 2008 were 7.7 billion notes, which was a decrease of 1.4 billion notes from the previous year’s delivery of 9.1 billion notes. The Bureau continues to remain well capitalized with respect to working capital requirements.

Cash

Cash decreased by $22 million in 2008. The decrease is attributed to the reduction in the 2008 currency order.

Accounts Receivable

Accounts receivable increased by $7 million in 2008. This was due to the amount of currency delivered in the last month of the year and the price of that currency.
Management Discussion and Analysis

Inventories
Inventories remained relatively unchanged in 2008.

Property and Equipment
Net property and equipment increased $26 million in 2008 to $282 million. The increase was related to the purchase of currency manufacturing equipment obtained as part of the retooling effort.

Other Assets
Other assets, primarily machine repair parts and tools, remained relatively unchanged in 2008.

Accounts Payable
Accounts payable decreased from $16 million in 2007 to $13 million in 2008. The principal cause for the decrease was the timing of cash disbursements in making vendor payments.

Accrued Current Liabilities
Accrued current liabilities remained relatively unchanged in 2008.

Advances
Advances increased by $5 million in 2008. The increase is attributed to an increase in special security product orders and customer funding received at year-end.

<table>
<thead>
<tr>
<th>Year</th>
<th>Rates Per Thousand Notes</th>
<th>Single Note</th>
</tr>
</thead>
<tbody>
<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>
<tr>
<td>2008</td>
<td>$63.82</td>
<td>$0.064</td>
</tr>
</tbody>
</table>
Management Discussion and Analysis

Workers’ Compensation Liabilities
The actuarial workers’ compensation liability experienced an increase of $4 million in 2008. The increase in the actuarial liability primarily resulted from changes (reductions) in the discount rates used to determine the liability.

Revenue from Sales
Overall revenue from sales decreased from $578 million in 2007 to $517 million in 2008. This $61 million decrease is attributable to the decrease in the currency order.

Cost of Goods Sold
Cost of goods sold decreased from $462 million in 2007 to $443 million in 2008. The $19 million decrease relates to the lower 2008 sales volume. The gross margin as a percentage of revenue decreased from 20 percent in 2007 to 14 percent in 2008. The decreases in both accounts can be attributed to the reduction in the 2008 currency order.

Operating Costs
Operating costs increased by $3 million in 2008. The increase is attributed to increased general and administrative expenses related to labor and benefits increases and increased spending for IT security.

Annual Investment in Property and Equipment
(Millions of Dollars)

The Bureau won the 2008 Henshaw Award for Corporate Leadership in Safety for its demonstrated leadership and commitment to workplace health and safety. Pictured with the award (from left to right): Scott Wilson, Associate Director, Management, Neal Mohlmann, Office of Environment, Health, and Safety, Bill Brabitz, Office of Operations Support, and Jon Cameron, Associate Director, Eastern Currency Facility.
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, 2008 and 2007

(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, 2008 and 2007, 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, 2008 and 2007, 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, 2008, and have issued our report thereon dated October 28, 2008. 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 2008 audit.

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2008, 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 2008 audit.

KPMG LLP

October 28, 2008
### ASSETS

Current assets
- Cash (Note 3) $153,511 $175,980
- Accounts receivable (Note 10) 46,552 39,134
- Inventories, net (Note 4) 103,967 107,102
- Prepaid expenses 4,871 5,452
Total current assets 308,901 327,668

- Property and equipment, net (Note 5) 281,876 256,056
- Other assets, net (Note 6) 18,059 18,459
Total assets $608,836 $602,183

### LIABILITIES AND EQUITY

Liabilities
- Current liabilities (Notes 7 and 8)
  - Accounts payable $13,359 $15,507
  - Accrued liabilities 28,585 29,289
  - Advances 6,477 1,623
Total current liabilities 48,421 46,419

- Workers' compensation liability (Note 8) 61,447 57,435
Total liabilities 109,868 103,854

Contingencies and commitments (Notes 12 and 13)

Equity
- Invested capital 32,435 32,435
- Cumulative results of operations 466,533 465,894
Total equity 498,968 498,329

Total liabilities and equity $608,836 $602,183

See accompanying notes to the financial statements.
Statements of Operations and Cumulative Results of Operations
For the Years Ended September 30, 2008 and 2007

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from sales (Note 10)</td>
<td>$516,610</td>
<td>$578,111</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>443,263</td>
<td>461,565</td>
</tr>
<tr>
<td>Gross margin</td>
<td>73,347</td>
<td>116,546</td>
</tr>
<tr>
<td>Operating costs:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>60,262</td>
<td>56,219</td>
</tr>
<tr>
<td>Research and development</td>
<td>12,446</td>
<td>13,996</td>
</tr>
<tr>
<td></td>
<td>72,708</td>
<td>70,215</td>
</tr>
<tr>
<td>Excess of revenues over expenses</td>
<td>639</td>
<td>46,331</td>
</tr>
<tr>
<td>Cumulative results of operations at beginning of year</td>
<td>465,894</td>
<td>419,563</td>
</tr>
<tr>
<td>Cumulative results of operations at end of year</td>
<td>$466,533</td>
<td>$465,894</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
### Statements of Cash Flows

For the Years Ended September 30, 2008 and 2007

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>(In Thousands)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Cash flows from operating activities

**Excess of revenues over expenses**

<table>
<thead>
<tr>
<th></th>
<th>$ 639</th>
<th>$ 46,331</th>
</tr>
</thead>
</table>

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

- **Depreciation**: 28,619 (2008), 31,990 (2007)
- **Loss from disposal of property and equipment**: 38 (2008), — (2007)

Changes in assets and liabilities:

- **Increase in accounts receivable**: (7,418) (2008), (6,102) (2007)
- **Decrease (increase) in inventories**: 3,135 (2008), (23,586) (2007)
- **Decrease (increase) in prepaid expenses**: 581 (2008), (1,131) (2007)
- **Decrease (increase) in other assets**: 400 (2008), (934) (2007)
- **Decrease in accrued liabilities**: (704) (2008), (476) (2007)
- **Increase in advances**: 4,854 (2008), 724 (2007)
- **Increase (decrease) in workers’ compensation liability**: 4,012 (2008), (1,572) (2007)

**Net cash provided by operating activities**

<table>
<thead>
<tr>
<th></th>
<th>32,008</th>
<th>48,933</th>
</tr>
</thead>
</table>

#### Cash flows from investing activities

**Purchases of property and equipment**

<table>
<thead>
<tr>
<th></th>
<th>(54,477)</th>
<th>(37,682)</th>
</tr>
</thead>
</table>

**Net cash used in investing activities**

<table>
<thead>
<tr>
<th></th>
<th>(54,477)</th>
<th>(37,682)</th>
</tr>
</thead>
</table>

**Net (decrease) increase in cash**

<table>
<thead>
<tr>
<th></th>
<th>(22,469)</th>
<th>11,251</th>
</tr>
</thead>
</table>

**Cash at beginning of year**

<table>
<thead>
<tr>
<th></th>
<th>175,980</th>
<th>164,729</th>
</tr>
</thead>
</table>

**Cash at end of year**

<table>
<thead>
<tr>
<th></th>
<th>$ 153,511</th>
<th>$ 175,980</th>
</tr>
</thead>
</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 (continued)
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

Raw material and supply inventories are stated at standard cost, except for one advanced counterfeit deterrent material which is valued using the first-in-first-out (FIFO) method. Finished goods inventories are stated at weighted average unit cost. All methods approximate actual cost. Cost elements included in work-in-process and finished goods inventories are direct materials, direct labor, manufacturing overhead, and manufacturing support.

Property and Equipment

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

The Bureau occupies and uses buildings and land owned by the Department of the Treasury. 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.

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

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

Other Assets

Other assets consist principally of machine repair parts and tools, which are used in the production of the Bureau's products. Other assets are stated at 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 the Office of Management and Budget’s (OMB) economic assumptions for 10-year Treasury notes and bonds, which resulted in a discount rate of 4.37% in year one and 4.77% 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 $8.4 million and $3.4 million in the years ended September 30, 2008 and 2007, 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.

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, 2008 and 2007:

<table>
<thead>
<tr>
<th>Fund</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(In Thousands)</td>
<td></td>
</tr>
<tr>
<td>Bureau of Engraving and Printing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revolving Fund</td>
<td>$152,766</td>
<td>$175,154</td>
</tr>
<tr>
<td>Mutilated Currency Revolving Fund</td>
<td>745</td>
<td>826</td>
</tr>
<tr>
<td>Total</td>
<td>$153,511</td>
<td>$175,980</td>
</tr>
</tbody>
</table>

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

4. Inventories, net

Inventories consist of the following as of September 30, 2008 and 2007:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(In Thousands)</td>
<td></td>
</tr>
<tr>
<td>Raw material and supplies</td>
<td>$40,517</td>
<td>$48,864</td>
</tr>
<tr>
<td>Work-in-process</td>
<td>36,619</td>
<td>35,977</td>
</tr>
<tr>
<td>Finished goods - currency</td>
<td>3,232</td>
<td>4,504</td>
</tr>
<tr>
<td>Finished goods - uncut currency</td>
<td>23,599</td>
<td>17,757</td>
</tr>
<tr>
<td>Total</td>
<td>$103,967</td>
<td>$107,102</td>
</tr>
</tbody>
</table>

(continued)
The allowance for inventory obsolescence was $665 thousand and $560 thousand, at September 30, 2008 and 2007, respectively.

5. Property and Equipment, net

Property and equipment consist of the following as of September 30, 2008 and 2007:

<table>
<thead>
<tr>
<th></th>
<th>2008 (In Thousands)</th>
<th>2007 (In Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td>$434,795</td>
<td>$393,846</td>
</tr>
<tr>
<td>Building and land improvements</td>
<td>236,040</td>
<td>229,734</td>
</tr>
<tr>
<td>IT equipment and software</td>
<td>22,060</td>
<td>20,467</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>1,140</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><strong>Total</strong></td>
<td><strong>695,475</strong></td>
<td><strong>646,627</strong></td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td><strong>455,184</strong></td>
<td><strong>443,670</strong></td>
</tr>
<tr>
<td><strong>Construction-in-progress</strong></td>
<td><strong>240,291</strong></td>
<td><strong>202,957</strong></td>
</tr>
<tr>
<td><strong>Net property and equipment</strong></td>
<td><strong>$281,876</strong></td>
<td><strong>$256,056</strong></td>
</tr>
</tbody>
</table>

Depreciation expense for the years ended September 30, 2008 and 2007 was $28.6 million and $32.0 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, 2008 and 2007 was $5.7 million and $4.9 million, respectively.
7. Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2008 and 2007:

<table>
<thead>
<tr>
<th></th>
<th>2008 (In Thousands)</th>
<th>2007 (In Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intragovernmental</td>
<td>$10,952</td>
<td>$5,344</td>
</tr>
<tr>
<td>With the public</td>
<td>37,469</td>
<td>41,075</td>
</tr>
<tr>
<td>Total</td>
<td>$48,421</td>
<td>$46,419</td>
</tr>
</tbody>
</table>

Accrued current liabilities consist of the following as of September 30, 2008 and 2007:

<table>
<thead>
<tr>
<th></th>
<th>2008 (In Thousands)</th>
<th>2007 (In Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>$11,128</td>
<td>$13,758</td>
</tr>
<tr>
<td>Annual leave</td>
<td>10,775</td>
<td>9,994</td>
</tr>
<tr>
<td>Workers' compensation</td>
<td>4,874</td>
<td>4,220</td>
</tr>
<tr>
<td>Other</td>
<td>1,808</td>
<td>1,317</td>
</tr>
<tr>
<td>Total</td>
<td>$28,585</td>
<td>$29,289</td>
</tr>
</tbody>
</table>

8. Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2008 and 2007, but not yet reimbursed to DOL by the Bureau, are approximately $11.7 million and $10.7 million, of which approximately $4.9 million and $4.2 million represents a current liability, as of September 30, 2008 and 2007, 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 $54.6 million and $50.9 million as of September 30, 2008 and 2007, respectively.

9. Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were $16.1 million and 15.9 million for 2008 and 2007, respectively. The CSRS employer contribution rate for fiscal years 2008 and 2007 was 7.0%. The FERS agency contribution rate for fiscal years 2008 and 2007 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 in 2008 and 2007.

OPM paid costs totaling $10.3 million and $11.4 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in (continued)
2008 and 2007, 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 2008 and 2007, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2008 and 2007, 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></td>
<td>2008 (In Thousands)</td>
<td>2007 (In Thousands)</td>
</tr>
<tr>
<td>Federal Reserve System:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency Production</td>
<td>$492,343</td>
<td>$45,219</td>
</tr>
<tr>
<td>Mutilated Currency</td>
<td>3,757</td>
<td>942</td>
</tr>
<tr>
<td>Other Federal Agencies</td>
<td>7,841</td>
<td>391</td>
</tr>
<tr>
<td></td>
<td>503,941</td>
<td>46,552</td>
</tr>
<tr>
<td>Public sales</td>
<td>12,669</td>
<td></td>
</tr>
<tr>
<td></td>
<td>516,610</td>
<td>46,552</td>
</tr>
</tbody>
</table>

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

11. Principal Suppliers

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

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 $800 thousand and $402 thousand as of September 30, 2008 and 2007, respectively, and have been accrued in the accompanying financial statements. Contingencies, where the risk of loss was reasonably possible, were approximately $4.5 million and $3.4 million as of September 30, 2008 and 2007, 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 the reported financial position, results of operations, and cash flows.

(continued)
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 was appealed. In 2008, the United States Court of Appeals for the District of Columbia Circuit affirmed this ruling. No monetary damages were awarded by the Court. However, the Bureau is required to provide meaningful access to United States currency for blind and other visually impaired persons. This may require changes to U.S. currency (excluding the one-dollar note). The Court ordered such changes shall be completed, in connection with each denomination of currency, not later than the date when a redesign is next approved by the Secretary of the Treasury. Because the cost of these changes will be incorporated into future currency redesign costs, no costs have been accrued in the accompanying financial statements as of September 30, 2008 and 2007.

The United States Court of Appeals, in the above mentioned case, also ordered that the Bureau of Engraving and Printing pay the American Council of the Blind and others for attorney’s fees and costs. Such fees and costs are estimated to be $800,000. As noted above, this amount has been accrued and is included in other accrued liabilities.

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, 2008 and 2007.

The Bureau has contracted to purchase over-printing presses, incorporating automated inspection and packaging capability, costing approximately $49.0 million of which $3.5 million and $6.9 million was paid in 2008 and 2007, respectively. The Bureau has also contracted to purchase intaglio printing presses, costing approximately $55.8 million, of which $13.4 million and $12.2 million was paid in 2008 and 2007, respectively. Delivery of the presses will be determined upon successful completion of final factory inspection tests.

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, 2008 and 2007 was $1.8 million and $1.3 million, respectively.

Future minimum payments under the lease as of September 30, 2008, are (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<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>$6,449</td>
</tr>
</tbody>
</table>
Managements’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, 2008. 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, 2008.

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 28, 2008
Washington, DC
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, 2008, 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, 2008 is fairly stated, in all material respects, based on the criteria established in Internal Control – Integrated Framework issued by COSO.

October 28, 2008
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, 2008 and 2007, 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 28, 2008.

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 28, 2008

KPMG LLP