



Audit Report



OIG-10-004

Audit of the Bureau of Engraving and Printing's Fiscal Years
2009 and 2008 Financial Statements

November 4, 2009

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 4, 2009

**MEMORANDUM FOR LARRY R. FELIX, DIRECTOR
BUREAU OF ENGRAVING AND PRINTING**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Audit of the Bureau of Engraving and Printing's
Fiscal Years 2009 and 2008 Financial Statements

I am pleased to transmit the attached audited Bureau of Engraving and Printing (BEP) financial statements for fiscal years 2009 and 2008. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of BEP as of September 30, 2009 and 2008 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by KPMG LLP, are incorporated in the attachment:

- Independent Auditors' Report;
- Independent Auditors' Report on Internal Control Over Financial Reporting; and
- Independent Auditors' Report on Compliance and Other Matters

In its audit, KPMG LLP found:

- that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles
- that management's assertion that BEP maintained effective internal control over financial reporting as of September 30, 2009 was fairly stated in all material respects.
- no instances of reportable noncompliance with laws and regulations tested.

In connection with the contract, we reviewed KPMG LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on BEP's financial statements or BEP management's assertion on the effectiveness of internal control over financial reporting, or a conclusion on

compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated October 30, 2009 and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Shiela Michel, Audit Manager, Financial Audits at (202) 927-5407.

Attachment



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

Financial Statements

Years ended September 30, 2009 and 2008

(With Independent Auditors' Reports Thereon)

**THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	2
Balance Sheets	2
Statements of Operations and Cumulative Results of Operations	3
Statements of Cash Flows	4
Notes to the Financial Statements	5
MANAGEMENT'S REPORT	
ON INTERNAL CONTROL OVER FINANCIAL REPORTING	16
INDEPENDENT AUDITORS' REPORT	
ON INTERNAL CONTROL OVER FINANCIAL REPORTING	17
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE	
AND OTHER MATTERS	19



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

We have audited the accompanying balance sheets of the Bureau of Engraving and Printing (the Bureau) as of September 30, 2009 and 2008, and the related statements of operations and cumulative results of operations and cash flows (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of the Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau of Engraving and Printing as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the financial statements, the Bureau has adopted the provisions of Financial Accounting Standards Board Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures*, and ASC 855-10, *Subsequent Events*, effective October 1, 2008 and September 30, 2009, respectively.

We have also examined management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2009, and have issued our report thereon dated October 30, 2009. 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 2009 audit.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2009, 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 2009 audit.

KPMG LLP

October 30, 2009

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

Balance Sheets

As of September 30, 2009 and 2008

	2009	2008
	(In Thousands)	
ASSETS		
Current assets		
Cash (Notes 3 and 14)	\$ 139,520	\$ 153,511
Accounts receivable (Note 10)	28,989	46,552
Inventories, net (Note 4)	150,023	103,967
Prepaid expenses	5,259	4,871
Total current assets	323,791	308,901
Property and equipment, net (Note 5)	307,929	281,876
Other assets, net (Note 6)	15,607	18,059
Total assets	\$ 647,327	\$ 608,836
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities (Notes 7 and 8)		
Accounts payable	\$ 16,938	\$ 13,359
Accrued liabilities	38,013	28,585
Advances	14,065	6,477
Total current liabilities	69,016	48,421
Workers' compensation liability (Note 8)	55,967	61,447
Total liabilities	124,983	109,868
Contingencies and commitments (Notes 12 and 13)		
Equity		
Invested capital	32,435	32,435
Cumulative results of operations	489,909	466,533
Total equity	522,344	498,968
Total liabilities and equity	\$ 647,327	\$ 608,836

See accompanying notes to the financial statements.

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

Statements of Operations and
Cumulative Results of Operations

For the Years Ended September 30, 2009 and 2008

	2009	2008
	(In Thousands)	
Revenue from sales (Note 10)	\$ 484,824	\$ 516,610
Cost of goods sold	380,886	443,263
Gross margin	103,938	73,347
Operating costs:		
General and administrative expenses	68,310	60,262
Research and development	12,252	12,446
	80,562	72,708
Excess of revenues over expenses	23,376	639
Cumulative results of operations at beginning of year	466,533	465,894
Cumulative results of operations at end of year	\$ 489,909	\$ 466,533

See accompanying notes to the financial statements.

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

Statements of Cash Flows
For the Years Ended September 30, 2009 and 2008

	2009	2008
	(In Thousands)	
Cash flows from operating activities		
Excess of revenues over expenses	\$ 23,376	\$ 639
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	30,905	28,619
Loss from disposal of property and equipment	72	38
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	17,563	(7,418)
(Increase) decrease in inventories	(46,056)	3,135
(Increase) decrease in prepaid expenses	(388)	581
Decrease in other assets	2,452	400
Increase (decrease) in accounts payable	3,579	(2,148)
Increase (decrease) in accrued liabilities	9,428	(704)
Increase in advances	7,588	4,854
Increase (decrease) in workers' compensation liability	(5,480)	4,012
Net cash provided by operating activities	43,039	32,008
Cash flows from investing activities		
Purchases of property and equipment	(57,030)	(54,477)
Net cash used in investing activities	(57,030)	(54,477)
Net decrease in cash	(13,991)	(22,469)
Cash at beginning of year	153,511	175,980
Cash at end of year	\$ 139,520	\$ 153,511

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

September 30, 2009 and 2008

1. Reporting Entity

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

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

Notes to the Financial Statements

September 30, 2009 and 2008

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.

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.

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).

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

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

Notes to the Financial Statements

September 30, 2009 and 2008

Other Assets

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

Employee Retirement Plans

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

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

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

Notes to the Financial Statements

September 30, 2009 and 2008

Treasury notes and bonds, which resulted in discount rates as of September 30, 2009 and 2008, of 4.22% and 4.37% in year one and 4.72% 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 \$6.5 million and \$8.4 million in the years ended September 30, 2009 and 2008, 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 Accounting Standards Codification (ASC) 410-20, *Asset Retirement and Environmental Obligations - 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.

Fair Value Measurements

On October 1, 2008, the Bureau adopted the provisions of ASC 820-10, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial

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

Notes to the Financial Statements

September 30, 2009 and 2008

liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820-10 also establishes a framework for measurement of fair value and expands disclosures about fair value measurements (See Note 14).

Subsequent Events

Effective September 30, 2009, the Bureau adopted ASC 855-10, *Subsequent Events*. It establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued (See Note 15).

Comparability

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

3. Cash

The year-end cash balances by fund are as follows as of September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Bureau of Engraving and Printing		
Revolving Fund	\$ 132,319	\$ 152,766
Mutilated Currency Revolving Fund	<u>7,201</u>	<u>745</u>
Total	<u>\$ 139,520</u>	<u>\$ 153,511</u>

The balance in the mutilated currency revolving fund, consisting of processed claims for mutilated currency submitted by the public for redemption, is offset by a liability to the public which is included in advances on the balance sheets as of September 30, 2009 and 2008, respectively (See Note 7).

4. Inventories, net

Inventories consist of the following as of September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Raw material and supplies	\$ 46,772	\$ 40,517
Work-in-process	57,879	36,619
Finished goods - currency	28,287	3,232
Finished goods - uncut currency	<u>17,085</u>	<u>23,599</u>
Total	<u>\$ 150,023</u>	<u>\$ 103,967</u>

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

Notes to the Financial Statements

September 30, 2009 and 2008

The allowance for inventory obsolescence was \$743 thousand and \$665 thousand, at September 30, 2009 and 2008, respectively.

5. Property and Equipment, net

Property and equipment consist of the following as of September 30, 2009 and 2008:

	2009	2008
(In Thousands)		
Machinery and equipment	\$ 450,566	\$ 434,795
Building and land improvements	229,750	236,040
IT equipment and software	26,009	22,060
Office machines	1,435	1,103
Furniture and fixtures	1,140	1,140
Donated assets - art work	125	125
Motor vehicles	212	212
	709,237	695,475
Less accumulated depreciation	454,385	455,184
	254,852	240,291
Construction-in-progress	53,077	41,585
Net property and equipment	\$ 307,929	\$ 281,876

Depreciation expense for the years ended September 30, 2009 and 2008, was \$30.9 million and \$28.6 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, 2009 and 2008, was \$5.0 million and \$5.7 million, respectively.

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

Notes to the Financial Statements

September 30, 2009 and 2008

7. Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2009 and 2008:

	2009	2008
	(In Thousands)	
Intragovernmental	\$ 12,435	\$ 10,952
With the public	56,581	37,469
Total	\$ 69,016	\$ 48,421

Accrued current liabilities consist of the following as of September 30, 2009 and 2008:

	2009	2008
	(In Thousands)	
Payroll	\$ 14,764	\$ 11,128
Annual leave	11,185	10,775
Workers' compensation	5,557	4,874
Other	6,507	1,808
Total	\$ 38,013	\$ 28,585

Advances consist of the following as of September 30, 2009 and 2008:

	2009	2008
	(In Thousands)	
Other Federal Agencies	\$ 6,855	\$ 5,654
Mutilated Currency	7,201	745
Public sales	9	78
Total	\$ 14,065	\$ 6,477

8. Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2009 and 2008, but not yet reimbursed to DOL by the Bureau, are approximately \$12.1 million and \$11.7 million, of which approximately \$5.6 million and \$4.9 million represent a current liability, as of September 30, 2009 and 2008, 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 \$49.5 million and \$54.6 million as of September 30, 2009 and 2008, respectively.

9. Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were \$16.5 million and \$16.1 million for 2009 and 2008, respectively. The CSRS employer contribution rate for fiscal years 2009 and 2008 was 7.0%. The FERS agency contribution rate for fiscal years 2009 and 2008 was 11.2%. The cost of providing the CSRS and FERS benefits is more than the amounts contributed by the

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

Notes to the Financial Statements

September 30, 2009 and 2008

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 \$23.8 million and \$23.1 million in 2009 and 2008, respectively.

OPM paid costs totaling \$11.1 million and \$10.3 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2009 and 2008, 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 2009 and 2008, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2009 and 2008, are reflected in the following table:

	Revenue for the year ended		Accounts Receivable as of	
	September 30		September 30	
	2009	2008	2009	2008
Federal Reserve System:	(In Thousands)		(In Thousands)	
Currency Production	\$ 467,509	\$ 492,343	\$ 27,575	\$ 45,219
Mutilated Currency	3,587	3,757	884	942
Other Federal Agencies	<u>3,163</u>	<u>7,841</u>	<u>165</u>	<u>391</u>
	<u>474,259</u>	<u>503,941</u>	<u>28,624</u>	<u>46,552</u>
Public sales	9,764	12,669	2	—
Other	<u>801</u>	<u>—</u>	<u>363</u>	<u>—</u>
	<u>10,565</u>	<u>12,669</u>	<u>365</u>	<u>—</u>
Total	<u>\$ 484,824</u>	<u>\$ 516,610</u>	<u>\$ 28,989</u>	<u>\$ 46,552</u>

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

11. Principal Suppliers

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

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

Notes to the Financial Statements

September 30, 2009 and 2008

12. Commitments and Contingencies

The Bureau is a party in various administrative proceedings, legal actions, and claims brought against the Federal Government by employees, contractors, and other parties. As of September 30, 2009, there are no contingencies for litigation involving the Bureau, where the risk of loss is probable. As of September 30, 2008, there were approximately \$800 thousand of such contingencies that were accrued in the financial statements. Contingencies, where the risk of loss is reasonably possible, are approximately \$2.1 million and \$4.5 million as of September 30, 2009 and 2008, respectively. Since the risk of loss for these litigations are 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.

The American Council of the Blind (ACB) 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, 2009 and 2008.

The United States Court of Appeals, in the above-mentioned case, also ordered that the Bureau pay the ACB and others for attorney's fees and costs. Such fees and costs were estimated to be \$800 thousand in 2008. As noted above, in 2008 this amount was accrued and included in other accrued liabilities.

Judgments resulting from litigation against the Bureau are generally paid by the Judgment Fund. In 2009, the Judgment Fund paid the attorney fees and other costs accrued in 2008. In 2009, the Bureau determined it is not required to reimburse the Judgment Fund for those attorney fees and other costs as they are not claims related to employee discrimination and contract disputes. As such, the Bureau has recognized income amounting to \$800 thousand related to attorney fees and other costs associated with the ACB settlement paid by the Judgment Fund on behalf of the Bureau.

The Bureau has contracted to purchase over-printing presses, incorporating automated inspection and packaging capability, costing approximately \$49.0 million. As of September 30, 2009, the Bureau has made cumulative payments of \$10.5 million and the remaining commitment outstanding is \$38.5 million. The Bureau has also contracted to purchase intaglio printing presses, costing approximately \$55.8 million. As of September 30, 2009, the Bureau has made cumulative payments of \$45.7 million and the remaining commitment outstanding is \$10.1 million. Delivery of the presses will be determined upon successful completion of final

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

Notes to the Financial Statements

September 30, 2009 and 2008

factory inspection tests. Progress payments related to the above contracts are included in construction-in-progress within Property and Equipment on the balance sheets as of September 30, 2009 and 2008, respectively.

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

13. Operating Lease

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

Rental expense for the years ended September 30, 2009 and 2008, was \$1.9 and \$1.8 million, respectively.

Future minimum payments under the lease as of September 30, 2009, are (in thousands):

For the years ending September 30:

2010	\$	1,838
2011		1,850
2012		<u>935</u>
Total	\$	<u><u>4,623</u></u>

14. Fair Value Measurements

As discussed in Note 2, the Bureau adopted ASC 820-10, *Fair Value Measurements and Disclosures*, on October 1, 2008. The fair values of the Bureau's financial instruments represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Bureau's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Bureau based on the best information available in the circumstances.

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quote prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The Bureau's financial instruments are comprised of cash, accounts receivable, accounts payable, accrued liabilities, and advances as of September 30, 2009 and 2008. The carrying amounts of these financial instruments approximate fair value because of the short-term nature

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

Notes to the Financial Statements

September 30, 2009 and 2008

of these instruments. The Bureau holds no financial instruments that are measured at fair value on a recurring basis or for which the fair value option has been elected at September 30, 2009.

15. Subsequent Events

The Bureau has evaluated subsequent events through October 30, 2009, the date which the financial statements were available to be issued. There were no material events that required additional accruals or disclosures.



DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
WASHINGTON, D.C. 20228

Management's Report on Internal Control Over Financial Reporting

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

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

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

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

We assessed the effectiveness of the Bureau's internal control over financial reporting as of September 30, 2009. 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, 2009.

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 30, 2009
Washington, DC



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have examined management's assertion, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that the Bureau of Engraving and Printing (Bureau) maintained effective internal control over financial reporting as of September 30, 2009, 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.

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

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

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



In our opinion, management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2009 is fairly stated, in all material respects, based on the criteria established in *Internal Control – Integrated Framework* issued by COSO.

We also have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, the balance sheets of the Bureau as of September 30, 2009 and 2008, and the related statements of operations and cumulative results of operations and cash flows of the Bureau and our report dated October 30, 2009 expressed an unqualified opinion. That report referenced that the Bureau implemented two new accounting standards in fiscal year 2009.

We noted certain additional matters that we have reported to management of the Bureau in a separate letter dated October 30, 2009.

KPMG LLP

October 30, 2009



KPMG LLP
2001 M Street, NW
Washington, DC 20036

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, 2009 and 2008, 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 30, 2009. That report referenced that the Bureau implemented two new accounting standards in fiscal year 2009.

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

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

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

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

KPMG LLP

October 30, 2009