

A man wearing a grey short-sleeved shirt and a black face mask is operating a large-format printer. He is looking at a large sheet of paper that is being printed with a pattern of purple dollar signs. The printer has a control panel with many buttons and a small screen. In the background, there are several computer monitors and other equipment in a factory-like setting.

2020 Annual Financial Report

Printing Currency in Unprecedented Times
... with a *Clear Vision Ahead*



U.S. Department of the Treasury

Mission

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



Core Values

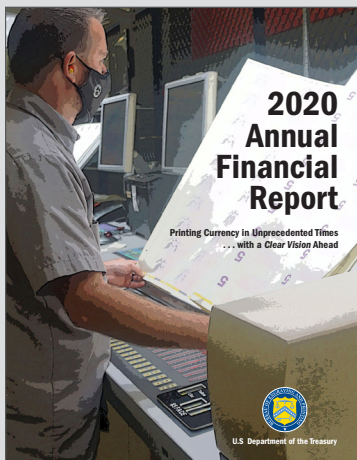
Integrity • Fairness • Performance • Respect



Vision

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

About the Cover



Heroes work here. This phrase has been used worldwide to describe the work being done at our nation's hospitals, nursing homes, grocery stores and all forms of essential business. The word "essential" perfectly describes what we do at the BEP every day. It is essential that America has access to the currency it needs to operate daily. It is essential that currency continues to circulate to ensure that small businesses can uplift their communities. It is essential that our workforce strives every day to produce the highest quality currency in a way that is also safe. The image gracing the 2020 Annual Financial Report encapsulates BEP's commitment to our

workforce's safety and the uncompromising security standards of our currency.

BEP dealt with the pandemic challenges head-on, strategically and thoughtfully, while managing safety concerns and our mission during a period of unprecedented currency demand. This meant developing a comprehensive pandemic response plan to ensure essential operations could continue, and immediately implementing stringent safety and health protocols beyond CDC recommendations.

The statement, "Heroes Work Here", perfectly encapsulates our workforce. This place and its people are truly unique and extraordinary. Sacrifices for the greater good are made every day at BEP.

Table of Contents

Message from the Director	3
Message from the CFO	5
Highlights of the Year	6
Profile of the Bureau of Engraving and Printing	11
2020 Executive Organizational Structure	13
Safety, Health and Environmental Management	14
Strategic Plan.	18
Facility Modernization	20
Currency Quality Assurance Program	21
Program Performance Measures	25
Management Discussion and Analysis.	29
Federal Managers' Financial Integrity Act Plans and Accomplishments.	32
Custody of Assets	35
Assurance Statement.	36
Summary of Office of Inspector General Audits	37
Financial Statements	39
Notes to Financial Statements	49

Message from the Director



Leonard R. Olijar

Founded in 1862, the mission of the Bureau of Engraving and Printing (BEP or Bureau) is to develop and produce United States currency notes, trusted worldwide. BEP plays an essential role in this nation's and the global economy. This past year, our commitment to meeting the nation's need for secure and safe currency was challenged like never before by the COVID-19 pandemic. Demand for U.S. currency at home and abroad jumped to unprecedented levels when the pandemic hit and has remained elevated since then. I am pleased with the outstanding teamwork demonstrated by BEP's dedicated employees, as we overcame many obstacles to meet increased demand, especially for higher denomination notes, while keeping employees safe. I am particularly proud of the employees who have been coming into our facilities, our front-line workers, who continued to serve the nation during the pandemic.

As we have witnessed the resilience and dedication of frontline workers across the country, the same can be said of the front-line workers at BEP. They are certainly international heroes. The work they have done and continue to do to produce and support the production of U.S. currency has a direct impact on the livelihoods of many and impacts nearly every financial system in the world in some way. Truly, heroes work at BEP.

In good times and bad, an innovative and empowered workforce has always been the cornerstone of our success, and this was readily apparent as we persevered through the pandemic. During 2020, the Bureau delivered 5.8 billion Federal Reserve notes to the Federal Reserve Board (Board). With the persistent engagement of our employees, this year's increased currency order was met and world-class quality standards attained. All key manufacturing and financial performance goals were met and we made significant progress toward our strategic goal of modernizing our currency manufacturing capability.

During the year, we moved forward on our major investments to expand the Bureau's Western Currency Facility (WCF) in Fort Worth, Texas, and replace the Washington, DC Facility (DCF) with a smaller, more-efficient facility. Work at the WCF has progressed steadily and the expansion is on track for completion in late 2022. Concurrently, we made important strides toward our initiative of replacing our more than 100-year-old Washington, DC Facility with a modern production facility. The Department of the Treasury (Treasury) entered into a Memorandum of Understanding with the U.S. Department of Agriculture (USDA) for the transfer of a 100-acre parcel of land in Beltsville, Maryland, to Treasury as the site for BEP's new DC-area production facility. The Bureau, working in partnership with the USDA and the Army Corps of Engineers (Corps), has completed a preliminary site evaluation to determine the feasibility and environmental impact of constructing a replacement facility on that site. A design contract was awarded to an internationally recognized design firm and the facility construction contract should be awarded in late 2022.

The COVID-19 pandemic has had and will continue to have profound effects on all of us in many ways as individuals, as an organization, and as a country. I wish to express my profound gratitude to the entire BEP workforce for their exceptional service to BEP and our nation over the past year. I also want to thank my leadership team and the leadership of BEP's 15 unions for helping us to safely lead our employees through many pandemic-driven changes and meet our critical mission.

In the coming year, we must remain focused on the continual pursuit of operational excellence as we produce and deliver high quality, secure U.S. currency notes to the Board. We have a very large currency order and it will take a tremendous team effort to safely meet the demand. At the same time, we must modernize our facilities, invest in our employees and redesign the nation's currency to keep it secure. Together, we will continue to build a better BEP and hold fast to our core values: performance, integrity, fairness and respect.

Message from the CFO



Steven A. Fisher

I am pleased to present the BEP's Annual Financial Report for the fiscal year (FY) ending September 30, 2020. Through the commitment of our dedicated employees, BEP celebrates its 36th consecutive year of receiving an unmodified audit opinion on its financial statements. Further, BEP received an unqualified opinion on the effective internal control over financial reporting based on *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Together, these opinions are strong indicators of BEP's commitment to excellence and sound financial management practices.

During FY 2020, the Bureau delivered 5.8 billion currency notes to the Board, resulting in revenue of \$773.2 million and an excess of revenue over expenses of \$23.9 million. The excess of revenue over expenses provides the necessary funding for the Bureau's working capital requirements and investments in plant and equipment as authorized by law. As noted by the Director in his message, the Bureau's workforce stepped up to the challenges brought about by the unprecedented circumstances of the pandemic and overcame significant obstacles to meet the global need for U.S. currency while meeting or exceeding established manufacturing and cost performance benchmarks. The currency notes we produce are relied upon and in demand not only in the United States, but internationally.

Although our focus was, and continues to be, to maintain safe operations for our dedicated production and support staff during these extraordinary times, we continued to make steady progress in investments to sustain and grow our productive capability for the future. In 2020, the Bureau saw significant progress in its efforts to expand the WCF to support additional production technologies needed for future designs of U.S. currency. We are on track to complete the project in late 2022. BEP also moved forward with its long-awaited initiative to replace the DCF with a more efficient facility in the Washington, DC metropolitan area. The intended site in Beltsville, Maryland, is currently undergoing environmental and other local impact assessments as required by the National Environmental Policy Act (NEPA). In parallel, an architectural and engineering contract for facility design was awarded and we are on track for construction award in 2022.

In the year ahead, we will remain committed to thoughtful stewardship of the Bureau's resources. As we continue to face growing challenges and demands, investing in our workforce; cutting-edge technologies; and property, plant and equipment will remain pillars of our growth strategy.

I am very proud of all the dedicated employees at BEP who worked tirelessly and under difficult circumstances this past year to ensure there is a sufficient supply of currency to meet the global demand. As the Director stated, we have heroes working here at BEP and I am honored to serve as the Associate Director (CFO) for the Bureau.

Highlights of the Year

For the 36th consecutive year, BEP received an unmodified opinion on its financial statements and remains one of the few federal agencies to receive an unqualified opinion on its internal controls over financial reporting. The Bureau also continued to develop strategies for meaningful access to currency for individuals who are blind and visually impaired while continuing to explore innovative currency concepts and effective counterfeit deterrent security features. BEP is delighted to recognize the following highlights of the year that are emblematic of the dedicated team of public servants who work here at BEP:

BEP Pandemic Response

BEP's mission is an essential government function and a key element to maintain the economic health of the United States. U.S. currency is internationally recognized as a desired store of value in times of crisis. As the U.S. government moved to mitigate the financial strain to the nation brought about by the pandemic, the Board called upon BEP to increase production to meet a sharp increase in currency demand.



An office space being deep cleaned

BEP began to develop its plan to continue essential operations in January 2020 as the virus began to spread across the world. BEP developed and implemented a comprehensive pandemic response standard operating procedure in March, and immediately established rigorous safety and health protocols for its employees that went above-and-beyond Centers for Disease Control and Prevention (CDC) recommendations. BEP also set up biweekly meetings for union representatives and management to ensure that clear and effective communication was taking place. On the technology front, BEP established a COVID-19 communication intranet repository to make all resources available to employees in one place and developed an app for users to confidentially report COVID-19 safety violations at the facilities, if necessary.

BEP also completed Virtual Private Network capacity upgrades, purchased and distributed laptops for new teleworkers, shipped IT equipment to those who needed it, and added support for virtual meeting capabilities.

BEP dealt with the challenges of the pandemic head on, strategically, and thoughtfully, while managing safety concerns and its mission during a period of unprecedented currency demand. In coordination with the Board, BEP ramped up production

considerably beginning in April. The dedication of front-line employees has been the driving force behind BEP's success maintaining this high level of production. The teamwork from all corners of BEP has been exceptional. The essential work of BEP supports the national and global economy, and helps provide financial stimulus to millions of jobless and homeless American families and small businesses.



DCF employees social distancing while entering the facility

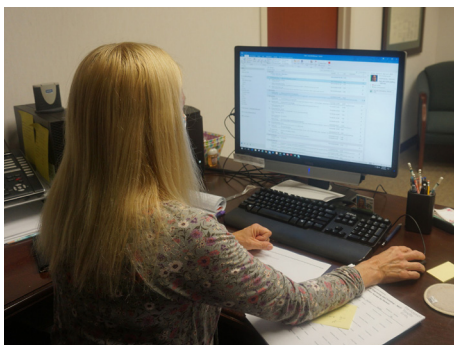


A WCF Police Officer administers a temperature screening as an employee enters the facility

BEP employees have garnered international recognition for their heroic efforts. In June 2020, Treasury Secretary Mnuchin, at a virtual event to discuss the Administration's economic response to the COVID-19 pandemic, recognized the service of BEP employees and expressed his gratitude for their hard work in keeping BEP facilities open and working tirelessly to successfully meet increased currency demand. This same sentiment was also expressed by a Board official who was participating in an international webinar on their response to the pandemic. The Board official acknowledged BEP and its employees for rising to the occasion in very challenging times to meet an unprecedented international and domestic increase in the demand for U.S. currency.

Knowledge Management

BEP has implemented a comprehensive Knowledge Management Program to identify, capture, retain and share critical job-specific knowledge to fulfill our operational mission.



By implementing a Knowledge Management program, BEP is preserving valuable information, especially from those who are retirement-eligible, empowering employees to mitigate knowledge-loss risks, and connecting individuals with critical knowledge to improve performance. Approximately 40% of employees have completed the Knowledge Management process. The process includes completing training, a knowledge capture tool and building a knowledge library resource for easy reference by employees.



Large Examining and Printing Equipment

50-Subject Currency Production

The Bureau has undertaken a multi-year effort to move from its traditional 32-subject (notes per sheet of currency) production format to 50-subjects per sheet. Fifty-subject production provides for a significant increase in productivity and efficiency as it increases production throughput by more than 50%. The Bureau's success in adopting 50-subject processing for the \$1 note two years ago has set the stage to expand

50-subject sheet processing to the \$5 and \$20 note. In FY 2020, BEP successfully began producing 50-subject \$5 sheets and is currently investing in additional production capability to produce 50-subject \$20 sheets. Over the next decade, BEP plans to convert all currency denominations to 50-subject production.

WCF Earns Industry of the Year Award

The WCF earned the Industry of the Year award at the City of Fort Worth's 21st



annual Environmental Excellence Awards ceremony. The award recognizes an organization that has demonstrated five or more years of consistent compliance and significant pollution prevention activities. Only one company in the private or public sector in the Fort Worth area receives this prestigious recognition each year. The WCF received three additional awards from the City of Fort Worth:

2019 Pollution Prevention Award for 2019 Pollution Prevention Award for currency note reclamation: During the previous two years, WCF currency note reclamation saved \$14.5 million; saved 775,800 gallons of water, reduced waste-water generation by 897,000 gallons, reduced regulated waste by 154,000 pounds, saved 650,000 pounds of currency paper, saved 163,000 pounds of ink, saved 7,500 pounds of solvent, and reduced air emissions by 5,300 pounds. Since the award, WCF has increased the savings by reclaiming larger volumes of currency notes.

2020 Pretreatment Stewardship Award for 100% compliance for 11 years: The Pretreatment Stewardship Award is the highest level pretreatment award which is given to companies with 100% environmental compliance for 11 years or more.

2020 Pollution Prevention Award for energy savings on the chilled water system: This project optimized the chilled water system to increase energy efficiency while maintaining the required supply of chilled water. Installation of Variable Frequency Drives, differential pressure sensors, test ports, and Programmable Logic Controllers enabled optimization and balancing of the control system which reduce the overall pump electrical demand by

830 horsepower (61% reduction) per year. This amounts to 1.4 million kilowatt hours of electricity and saves \$81,000 in annual facility operating costs.

FY 2020 Yearly Currency Order (YCO) Adjustment



\$100 straps awaiting final packaging

Following the World Health Organization's COVID-19 global pandemic declaration in March, BEP made substantial adjustments to its operations. In April, the Board formally increased the FY 2020 YCO of 5.2 billion Federal Reserve notes to 5.8 billion notes – a 12% increase. This increase was a response to the surge in demand for U.S. currency, especially for high denomination notes, resulting from economic stimulus packages and the pandemic. BEP rose to the challenge and devised a strategy where each facility would play to its strengths – each

producing the denominations that would put us in the best position for success. Constant communication among the facilities, the Board and our major vendors enabled the U.S. Currency Program to respond to shifting priorities, preventing any disruptions in the U.S. or international markets. Meeting the Board's order marked a major milestone for BEP.

DC-Area Replacement Facility

During 2020, BEP continued its quest to construct and operate a new, world class, highly efficient currency production facility to replace the Bureau's existing production facility located in downtown Washington, DC. Despite the COVID-19 pandemic, the Bureau reached a number of project milestones. Most notably, the interagency land transfer Memorandum of Agreement between the USDA and Treasury was successfully executed for the 100-acre parcel on the USDA Beltsville Agricultural Research Center (BARC) in Prince George's County, Maryland. In May, BEP began design activities. Additionally, in partnership with the USDA and the Corps, BEP began conducting environmental impact studies in the first quarter of 2020. The purpose of the environmental impact studies is to assess the potential property, as required by NEPA, to ascertain possible issues and impacts to the surrounding community and propose mitigation strategies.



Front gate of the Beltsville Agricultural Research Center



An aerial rendering of the proposed replacement DC-Area Facility concept

Mutilated Currency Redemption Advances

In FY 2020, BEP ushered in a new era with technological advancements that improved its free mutilated currency redemption services for individuals and institutions. The Mutilated Currency Division (MCD) successfully tested and accepted the new Mutilated Currency Case Management System. The new system provides a better user experience, audit trail and communication to both the remitter and BEP. For example, it will automatically notify claimants at various stages of the examination process, including a notification when their case is completed. The new system enables BEP to increase the number of redemption payments made electronically.



Sorting mutilated currency notes



Water damaged currency notes

Profile of the Bureau of Engraving and Printing

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

The Bureau produces U.S. currency and many other security documents issued by the federal government. Other activities at the Bureau include engraving plates and dies; manufacturing certain inks used to print security products; purchasing materials, supplies and equipment; and storing and delivering products in accordance with customer requirements. In addition, the Bureau provides technical assistance and advice to other federal agencies in the design and production of security documents, which because of their innate value or other characteristics require counterfeit deterrence. The Bureau also performs reviews of the Federal Reserve Banks' unfit currency operations, whereby banknotes that are no longer fit for circulation are taken out of circulation, accounted for and destroyed. Additionally, BEP is responsible for the accountability and destruction of internally generated security waste products. As a service to the public, the Bureau also processes claims for the redemption of mutilated paper currency.

The Bureau occupies three government-owned facilities. The Main and Annex buildings, located in Washington, DC, house research and development activities and produce Federal Reserve notes and other security products. The Main Building became operational in 1914 and the Annex Building in 1938.

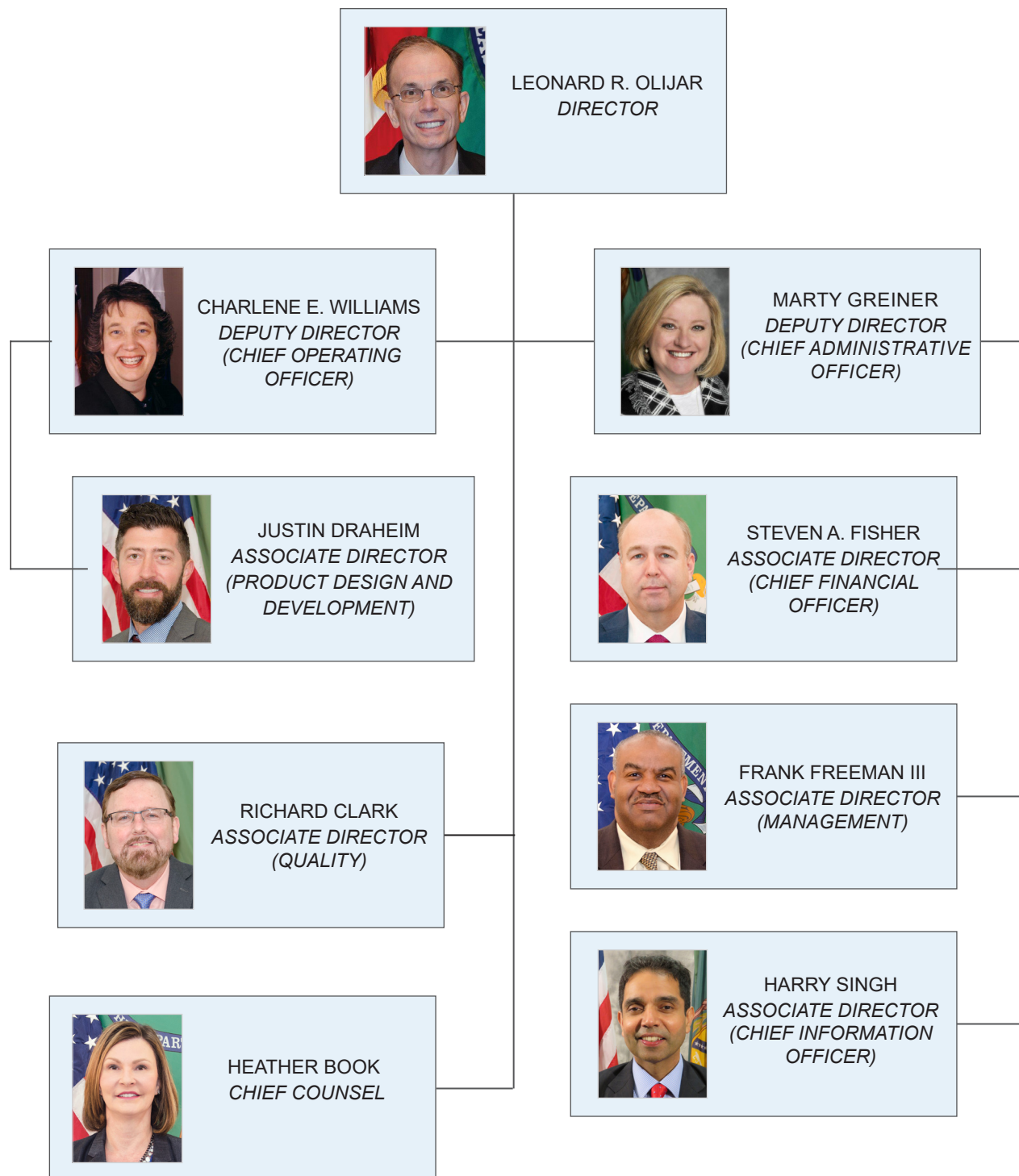
The WCF, in Fort Worth, Texas, produces only Federal Reserve notes. It began operations in 1991. The WCF was constructed to provide increased production capacity, reduce transportation costs, streamline the manufacturing process and enhance the nation's emergency preparedness.

In addition to housing production operations, free tours of the currency production process are available to the public at both facilities. Please note, public tour operations were temporarily closed as a precautionary measure due to the pandemic in March 2020. 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 onsite sales centers, these items are available through mail order and the U.S. Mint's website: Catalog.USMint.gov/bureau-of-engraving.html.

Organization

The organizational structure of BEP is displayed in the following chart. The Bureau's senior executive structure consists of the Director, a Deputy Director (Chief Operating Officer), a Deputy Director (Chief Administrative Officer), five Associate Directors and the Chief Counsel. Various planning committees and subcommittees report to the Senior Executive Team (SET). The planning committees and subcommittees are composed of a cross-section of Bureau senior and midlevel managers that represent diverse organizational units. By cutting across organizational lines, these groups serve to promote effective communication, increased collaboration, and participative, proactive management.

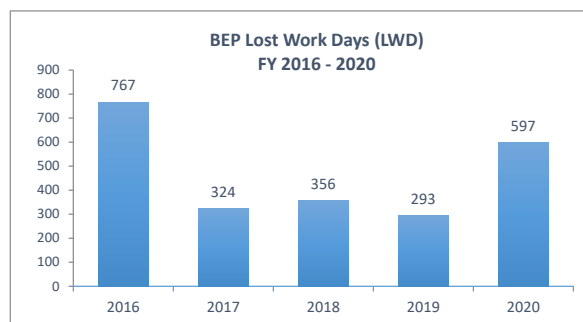
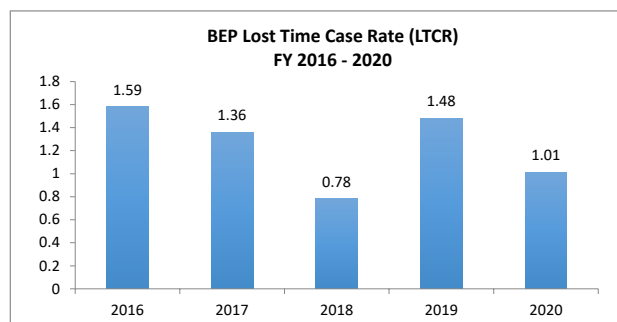
2020 Executive Organizational Structure



Safety, Health and Environmental Management

BEP's Office of Environment, Health and Safety (OEHS) at the DCF and the Safety and Occupational Health Branch (SOHB) at the WCF manage programs that reduce the Bureau's environmental impact and protect workers from injuries and illnesses. The Bureau's environmental management system conforms to International Organization for Standardization (ISO) 14001:2015, an internationally recognized standard focused on managing and improving environmental, health and safety programs. Continual improvement of BEP's ISO 14001 management system is demonstrated by the positive results of the ISO 14001 third-party audits and long-term improvements in key performance metrics. The Bureau's goals are to maintain a downward trend in occupational injury and illness rates and to continue to minimize the environmental impact of operations while continuing to produce a high quality product. BEP engages personnel at all levels and many EHS improvements have been made as a result of employee suggestions, technical work groups, and projects led by safety and environmental professionals.

BEP's key performance indicators for safety include recordable lost time cases per 100 employees (LTCR) and lost workdays (LWD) as defined by the Occupational Safety and Health Administration (OSHA). The OSHA recordable lost time case rate is calculated by multiplying the number of lost time cases by 200,000 (hours worked annually by 100 workers) divided by BEP's total number of hours worked. In FY 2020, the LTCR decreased and LWD increased from the previous fiscal year.



The Bureau's LTCR in FY 2020 was 1.01 lost time cases per 100 employees. This represents a 32% decrease from last year's rate of 1.48. This decrease may be attributable to fewer employees working onsite due to the pandemic and therefore a decreased risk for injuries. BEP's number of lost workdays increased 37% as compared to the previous four-year average. This increase is largely attributable to three cases of respiratory illness that amassed 258 days or 43% of the total lost workdays in FY 2020. OEHS and SOHB will continue to work to prevent injuries and illnesses through hazard anticipation, evaluation and controls, including engineering controls, administration controls such as training, employee awareness and job safety analyses. controls such as training, employee awareness and job safety analyses.

Personal Protective Equipment (PPE) will be utilized effectively to control hazards until additional engineering and process changes can be put into effect or as a last resort when other controls do not adequately control the hazard.

During FY 2020, BEP performed health and safety risk assessments for a number of departments to proactively identify hazards and develop targeted controls. In response to COVID-19, BEP implemented numerous safety and health measures including enhanced cleaning, social distancing, temperature screenings and the issuance of mandatory PPE. BEP also provided supervisor/manager training through the Department of Labor Employees' Compensation Operations & Management Portal. In FY 2021, we will strive to:

- Continue EHS efforts to prevent the spread of COVID-19 within the workplace.
- Implement the Salesforce software solution to document and track inspection and audit findings.
- Continue to focus on hazard identification and incident prevention and enhance coordination with the Occupational Health Units to achieve comprehensive injury case management and accelerate the return of employees to work.
- Improve injury trend analysis to include incorporating case management data from workers compensation specialists in examining the severity of injury types.

Protecting the Environment

In 2020, the COVID-19 pandemic profoundly impacted the Bureau's operations, causing an increase in currency demand over the Bureau's FY 2020 YCO, an extended shutdown of noncritical nonproduction operations and projects, and extensive telework among portions of BEP's workforce. Since the beginning of the pandemic, BEP's OEHS personnel have been closely involved in efforts to ensure critical production operations continued safely, in accordance with guidance provided by the CDC and in compliance with all applicable regulations. In comparison to FY 2019, the number of notes the Bureau printed on intaglio presses decreased by 6.8%, while the generation of regulated wastes (air, water and industrial solid wastes) was reduced by 5.3%, largely tracking with production. BEP reduced greenhouse gas (GHG) emissions by 12.7% year-over-year, which is attributable to the completion of energy efficiency projects, increased renewable energy purchases at the DCF and the WCF and milder winter weather. Since FY 2008, BEP has reduced its GHG emissions from facility energy use by 40%, with 20% of BEP's total electricity use currently coming from renewable energy sources.

The following are specific examples of ongoing projects with significant environmental benefits:

Single Note Inspection (SNI) Process – In FY 2020, BEP continued to develop and use SNI, a process that reclaims individual notes that pass quality standards from sheets of currency that contain at least one defective note. Previously, BEP shredded all sheets that contain at least one defective note. Each sheet contains either 32 or 50

notes. SNI is currently run on \$1, \$20 and \$100 currency notes. BEP reclaimed 174 million notes at the WCF and 31 million notes at the DCF in FY 2020, which diverted 226 tons of currency waste paper materials from municipal solid waste disposal. Without reclaiming these notes, BEP would have used an additional 56 tons of ink and 2.2 tons of solvent to complete its currency order and would have generated an additional 540,000 gallons of wastewater, 1.9 tons of air pollutants and 45 tons of industrial solid and hazardous wastes.

Wiping Solution Recycling Plant (WSRP) – Wastewater generated from onsite pretreatment of wiping solution is the Bureau's largest industrial waste stream. The WSRP can either clean used water-based solution for reuse on currency presses or can produce 100% fresh (unrecycled) wiping solution. During FY 2020, the COVID-19 pandemic delayed completion of construction projects intended to improve the recycling process control, which resulted in the system only being used to generate fresh wiping solution. The DCF will implement additional process improvements during FY 2021 that are expected to enable the facility to increase its use of recycled wiping solution.

Replacement Currency Facility – OEHS is significantly involved in the DC-area replacement facility project. The new facility will allow BEP to consolidate its DC-area production and warehouse facilities in a modern production facility, and incorporate a variety of sustainable features to lower the Bureau's environmental impact and to provide a safer worksite for BEP employees. The new facility will be designed to meet Leadership in Energy and Environmental Design Silver classification and will include interior and exterior water efficiency and recycling features, low air pollutant emissions and a 5 megawatt rooftop solar array. The new facility is expected to improve the energy efficiency of BEP's DC operations and to reduce the Bureau's carbon footprint. (See page 9 for further details on the BEP's facilities modernization efforts).

High-Efficiency Lighting Systems – The DCF and the WCF are upgrading interior lighting by installing LED lamps through large areas at both facilities. LED lamps reduce energy consumption, and provide a better lighting experience and work environment while also reducing fluorescent bulb breakage and hazardous waste disposal costs. At the DCF in FY 2019, BEP re-lamped office areas and common spaces, saving 1,960 megawatt hours (MWh) per year of electricity and reducing GHG emissions by 677.5 metric tons of CO₂ per year. In FY 2020, BEP initiated the second phase of this project, the re-lamping of production wings, which is expected to save an additional 1,600 MWh of electricity per year and to yield a GHG emissions reduction of 553 metric tons of CO₂/year when it is completed. At the WCF, the re-lamping project is expected to provide a cost savings of \$68,000 a year.

BEP is deeply committed to reducing its environmental impact and improving the safety of its employees and plans to undertake a variety of projects in FY 2021 to achieve these ends. The DCF will focus on optimizing its operation of the WSRP to increase recycling rates and improve water and energy efficiency. BEP will continue to strive to increase process efficiency and reduce spoilage through projects such as SNI, implementing the process on additional denominations in the future. BEP plans to acquire a Physical Vapor Deposition (PVD) plating system in FY 2021. This new system utilizes a technology that is expected to facilitate the eventual phase

out of electrolytic hard chromium plating at BEP. PVD systems result in far lower environmental impacts than electrolytic plating processes. BEP will also evaluate laser-to-plate engraving technologies that have the potential to replace nickel electroplating in the future. To reduce energy consumption and GHG emissions, the DCF will continue to re-lamp production wings with LED lighting and install variable frequency drives at the air-handling units in these areas. Execution of these planned projects will facilitate continued reductions in environmental impacts and improvements in employee health and safety, in line with BEP's long-standing commitment to proactive and responsible environmental stewardship.

Strategic Plan

The Bureau supports Treasury's Strategic Plan by providing trusted and secure U.S. currency notes for use by the public. The implementation of BEP's five-year strategic plan (2018-2022) continues. This plan serves as a roadmap to guide the Bureau toward the goal of creating an environment that will ensure high quality, cost-effective and flexible business operations for years to come. The Bureau remains resolute in producing quality currency, controlling costs, being environmental stewards and working safely as we move toward the vision of being a "world-class securities printer." To accomplish its goals, the Bureau will rely on the ingenuity, industriousness and commitment of every employee to meet the challenges of printing currency in the 21st century. This will require the near-perfect alignment of innovative design, advanced manufacturing technology and a highly skilled workforce.

The Bureau has three strategic goals:

- (1) **Execution** – To safely and in a timely manner deliver quality products to stakeholders in a cost-effective and environmentally responsible manner.
- (2) **Innovation** – To create innovative designs, processes, and products that exceed our stakeholders' expectations.
- (3) **Excellence** – To achieve overall excellence by balanced investment in people, processes, facilities and technology.

These goals help support BEP's overall mission and focus on key issues that affect the organization and its employees. These goals are emphasized through the following seven objectives:

Meet Customer Expectations: Consistently deliver high quality products and services that meet or exceed customer expectations and requirements.

Improve Quality: Enhance the quality assurance system to assure efficient and effective note production, optimized production support, and administrative processes and practices.

Deliver New Features and Capabilities: Develop, implement and deliver new and effective security features, and provide meaningful access to blind and visually impaired individuals.

Develop Next Family of Banknotes: Develop and test banknotes containing new overt and covert security features to deter counterfeiting.

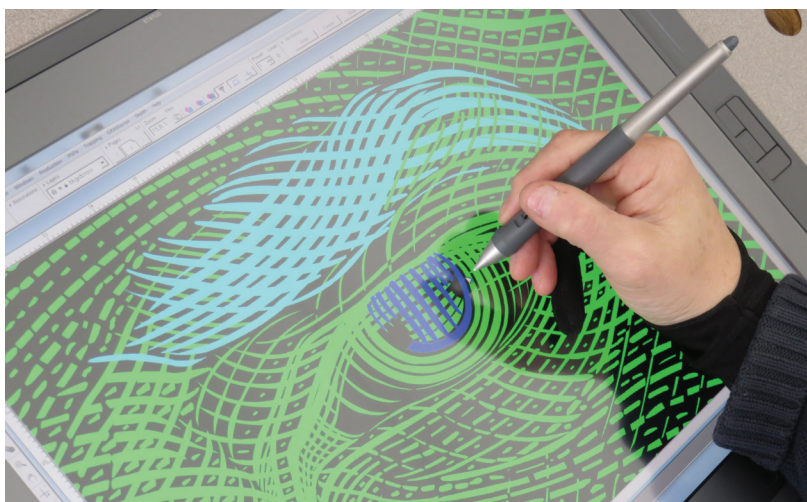
Modernize Production Facilities and Equipment: Create state-of-the art manufacturing systems to support 21st century manufacturing capabilities that will allow for the continued delivery of secure and accessible currency for all.

Modernize and Protect Information Technology: Modernize and protect information technology while keeping current functionality cost-effective operational through transitions.

Improve Organizational Efficiency, Effectiveness, and Sustainability: Enhance efficiency and effectiveness of Bureau business functions that sustain operations to consistently deliver timely and high quality products and services that meet customer expectations.

Build Workforce of Today and Tomorrow: Create and sustain a high performing, results-driven workforce that consistently demonstrates high levels of teamwork, collaboration, job satisfaction and pride in organizational, team and individual work accomplishments.

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



Digital engraving being created of a portrait image

Facility Modernization

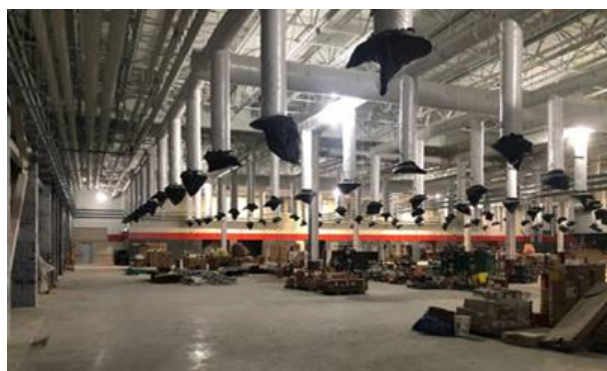
During 2020, the BEP continued to make great strides in its efforts to build a better BEP by expanding the WCF and planning for the replacement of the Washington, DC production facility. The new DC-area replacement facility, coupled with strategic renovations and improved utilization of existing space, will allow BEP to meet the growing demand of our global products with an unprecedented renewed commitment to quality.

WCF Expansion Project

Construction on the WCF Expansion Project continued in 2020 despite facing multiple challenges from unforeseen site conditions and the COVID-19 pandemic. Significant milestones for 2020 included acceptance of a new north parking lot and utility structure. This year saw considerable progress toward a 2021 completion date for the delivery and visitor processing center and west/southwest production areas. The south expansion, new plating line and administrative addition are scheduled to be complete in 2022. This major capital program will provide more than 300,000 square feet of both production and administrative areas to support new equipment and processes that will enable BEP to meet future currency requirements.



WCF expansion - new vault construction



New west production area

Replacement Washington, DC Manufacturing Facility

BEP saw tremendous progress in FY 2020 with respect to the goal of replacing its aging DC production facility with a more efficient, state-of-the-art currency production facility for the next century. The BEP is partnering with the U.S. Army Corps of Engineers to accomplish this project. Through the Corps' Baltimore District, the Bureau finalized significant predesign activities associated with a potential federally-owned site in Maryland, to include surveying, environmental assessment, traffic and utility studies, and soil analysis. These actions led to the completion of a Memorandum of Agreement between the USDA and Treasury detailing the parameters associated with a property transfer. The Bureau also awarded a multiyear contract to fully design a turnkey currency production facility. Undeterred by the global pandemic, facility design activities are on schedule. The design process is anticipated to take approximately two years to complete, allowing the Bureau to break ground on the replacement facility in 2022.

Currency Quality Assurance Program

U.S. currency notes have increased in complexity to incorporate improved counterfeit deterrence, machine readability and raised tactile functionality. The \$100 note has truly evolved into a high-tech consumer good, and the BEP will continue to design currency with the same emphasis on security for the next generation of banknotes. Managing this increased complexity in a way to maintain fitness and reliable use in commerce has required many improvements in BEP's quality assurance systems and processes. In 2020, greatly increased currency demand also created the need to verify and validate new production processes to optimize high quality production output. The Bureau continued to implement the Currency Quality Assurance (CQA) program which was designed to identify and implement improvements across the organization and integrate and align the current ISO 9001:2015 certified Quality Management System (QMS) with the development of innovative currency designs and technologically advanced security features, new equipment and processes, and ever-higher quality and environmental demands to produce trusted U.S. currency at high volume and exceptional value.

A robust CQA program is necessary to address every aspect of the U.S. currency lifecycle: from product development and acquisition of material, through process and production control, to final release and delivery. Improvements in the QMS, CQA program and Lean Six Sigma areas continued to be made to ensure that world-standard notes are produced to world-class quality levels.

Quality Policy

In FY 2020, the Bureau truly demonstrated living up to its Quality Policy Statement: "Everything we do supports producing secure, high quality banknotes that meet customer requirements. We are committed to continually improving our products and processes and investing in our employees and equipment to enable that improvement." The BEP clearly demonstrated this commitment by maintaining extremely low defect rates and very high Sigma Quality Levels in finished notes during a very challenging year.

Priority Initiatives

In FY 2020, the Bureau's major priority was trying to fulfill its mission during a time of greatly increased currency production demands while also dealing with the consequences of the COVID-19 pandemic. In spite of these pressures, the Bureau continued to deliver excellent customer value and experience in alignment with Treasury strategic goals and objectives. The Bureau continued to implement and execute plans and initiatives to maintain the quality of the nation's currency, leveraged technology to effectively support quality management systems, and engaged and developed its people to build sustainability for the future. In FY 2020, the CQA program successfully completed 34 improvement initiatives as part of the CQA Roadmap leading toward long-term quality systems maturity. A major priority and success for 2020, in light of high

currency demand, was restarting \$100 production at the DCF in a way that maintained focus on quality, progressing through a robust verification and validation process.

Customer Satisfaction and Communications

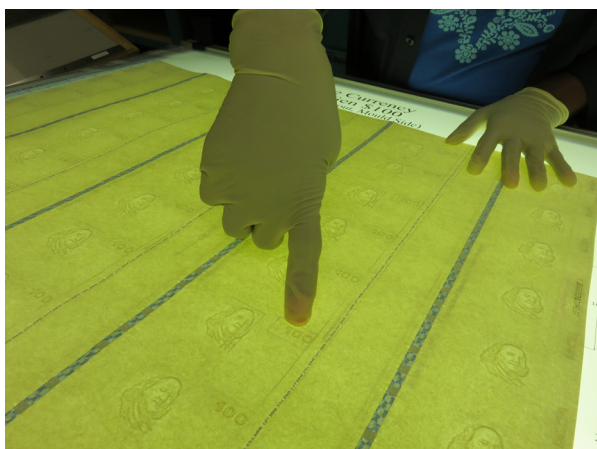
The Bureau tracks customer satisfaction with the Board based on three performance success factors: on-time-in-full deliveries, quality at expected levels, and delivered cost at the agreed upon levels. In FY 2020, the Bureau met every factor at 100% for every month of the year, demonstrating excellence in customer satisfaction and delivery. The Quality Directorate began a biannual Corrective and Preventative Actions (CAPA) review with the Board to review and discuss investigations into quality defects and quality concerns. This added an additional layer of communication demonstrating that the Bureau takes quality concerns seriously and follows up effectively to address the concerns.

Quality Assurance

In 2020, the Bureau made improvements to its Quality Assurance Release Processes to reduce the overall required cycle time with lower levels of onsite staffing to mitigate risks related to COVID-19 and to allow for expedited processing at increased shipment levels. New procedures were implemented to reduce COVID-19 risks while still effectively performing all necessary quality assurance steps. Some of these steps included reassigning people from high-density work areas, installing protective barriers in close work areas, and rearranging work areas and work flows to allow for adequate social distancing.



Chemistry lab



Inspecting embedded security features on \$100 paper

Quality Management Controls

The Quality Management System Review (QMSR) provides a regular forum for the SET to assess the effectiveness of the ISO 9001:2015 certified QMS and to identify quality improvement activities, issues and risks. In FY 2020, the Quality Directorate completed an initiative to improve the QMSR by better documenting the management review process. The Quality Audit program is also a key program driving continuous improvement of the QMS and assuring conformance to the ISO 9001:2015 requirements.

The Bureau's Quality audit team performs both internal and external supplier audits helping to assure excellent quality performance. For 2020, because of the pandemic, the challenge for the Quality Audit team was moving to virtual formats for both internal and external (supplier) audits. The audit team demonstrated flexibility and resilience in making this transition and successfully completed their audit schedule for the year.

Supplier Management

Effective supply chain management is also a part of the CQA program, assuring critical quality materials and parts are available when needed. In 2020, supply chain improvements were sustained, reducing requisition backlogs to ensure that critical quality materials were provided when needed so customer deliveries could be met. Round-robin laboratory testing with suppliers helped build strong coalitions with a focus on quality.

Material Controls

Work in the material controls area continues to focus on raw material key characteristics, inspection of incoming materials, material traceability, final quality release process improvement and supply chain activities. The materials control focus goal is to improve raw material performance, reduce costs and improve material quality. In FY 2020, a new charter for the Material Review Board (MRB) was developed and implemented with a focus not only on material nonconformances, but also to provide oversight to ensure the proper inspection of incoming materials occurs. More than 120 new material inspection plans were developed and are scheduled for review by the new MRB.

Data Analytics

In FY 2020, a new project related to note traceability and Big Data made significant progress. The project helped in understanding the factors required to drive data analytics maturity. It is a multiphase project that will span several years. The Bureau now has a better understanding of what will be needed to manage the exponential growth in data coming from new production processes, new automated inspection systems and new requirements for tracing data related to quality processes, process parameters and materials.

Corrective and Preventative Actions

The CAPA process provides a mechanism to identify, track and correct the causes of nonconformances or potential nonconformances pertaining to printing U.S. currency. These nonconformances are identified during day-to-day operations, through customer complaints, and internal and external quality audits. Continual improvement of CAPA centers on more rigorous root-cause investigations and thorough documentation of the corrective action plans.

The CAPA system has matured through the continual focus, effort and leadership of the Quality Directorate staff. A well-defined process governs the system and has led to continuous improvement related to the functioning of the system. The CAPA process continues to be an effective, mature quality process.

2020 Key Quality Assurance Accomplishments:

The Bureau conducted virtual supplier audits that resulted in suppliers improving their processes to ensure delivery of high quality raw materials used in manufacturing U.S. currency. Supplier management as a whole continues to take on a more collaborative approach.

QA specialists worked with BEP's Manufacturing Directorate to assure product quality using a newly created QA Specialist Data Collection Tool that tracks not only defects, but also the corresponding remediation efforts to address those defects. This new tool has made in-process QA work more effective.

In 2020, the Bureau awarded contracts for QMS program and project management support. The contracts leveraged contractor resources to improve calibration records management, the Change Control Board, the Material Review Board, and QMS documentation. They also supported other document control and updates.

Program Performance Measures

The Bureau employs the use of program performance measures to quantify the effectiveness and efficiency of its overall organizational performance. On an annual basis, the SET develops standards based on the prior year's performance, price factors and anticipated productivity improvement. Actual performance against standard depends on the Bureau's ability to meet annual spoilage, efficiency and capacity utilization goals established for currency production.

Bureau-level performance measures and associated results for 2020 are:

	2020 Standard	2020 Actual
1. Federal Reserve Notes (Cost per thousand notes)	\$59.65	\$56.19
2. Federal Reserve Notes Delivered (Billions)	5.8	5.8
3. Productivity Change 2019 to 2020	-16.9%	-10.5%
4. Currency Spoilage	6.9%	5.7%

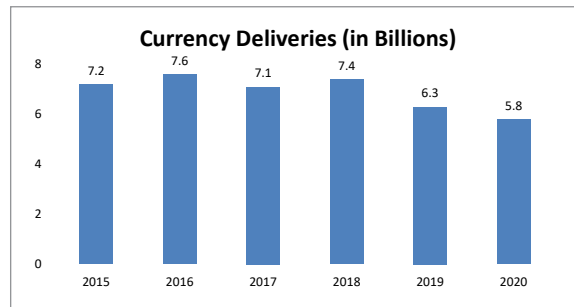
The Bureau does not receive a direct annual appropriation; Bureau operations are financed by a revolving fund that is reimbursed through product sales. Customer billings are the Bureau's only means of recovering the costs of operations and generating funds necessary for capital investment. Billing rates 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 sufficient cash is provided for operations, the Bureau must perform to these standard costs.

	2020 Standard	2020 Actual
Federal Reserve Notes	\$59.65	\$56.19

The actual production cost per thousand currency notes, which includes direct labor, materials and applied manufacturing overhead, was below standard in 2020. This was due to material savings achieved from lower than expected spoilage.

	2020 Standard	2020 Actual
Federal Reserve Notes Delivered (Billions)	5.8	5.8

In 2020, the Bureau produced and delivered 5.8 billion Federal Reserve notes to the Board. Deliveries and billings are based on orders received from the customer. The Board submits their requirements for currency deliveries to the Bureau on an annual basis. For 2021, the initial order from the Board was a range of 7.6 billion to 9.6 billion notes. As we have dealt with the pandemic, BEP has continued to meet with the Board and adjustments will be made as necessary.

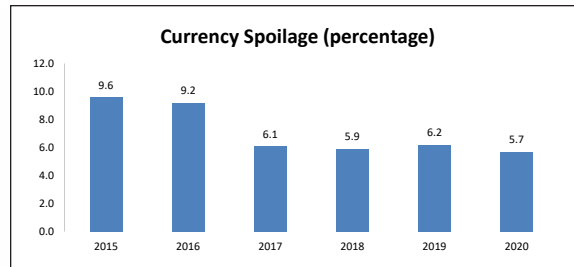


	2020 Standard	2020 Actual
Productivity Change 2019 to 2020	-16.9%	-10.5%

Productivity is calculated based on units of output per labor hour. In 2020, overall productivity decreased by less than what was projected. This resulted from additional production by the BEP to meet the Board's increase of 627 million notes above the original 2020 currency order.

	2020 Standard	2020 Actual
Federal Reserve Notes	6.9%	5.7%

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 2020, overall currency spoilage was below established standards, led by the reclamation process of the \$1, \$5, \$20, \$100 notes; work continues on the reclamation process for the remaining denominations. The BEP quality system continues to mature to self-sustaining status; spoilage was well below standard and the Bureau began reclamation of \$1 notes during the year.



	2018	2019	2020
1. Federal Reserve Notes (Cost per thousand notes)	\$47.41	\$51.01	\$56.19
2. Federal Reserve Notes Delivered (Billions)	7.4	6.3	5.8
3. Productivity Change 2019 to 2020	-0.9 %	-13.9 %	-10.5 %
4. Currency Spoilage	5.9 %	6.2 %	5.7 %

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

Prompt Payment

To ensure that federal agencies pay invoices in a timely manner, Congress passed the Prompt Payment Act and the Office of Management and Budget (OMB) issued Circular A-125, which is now codified as part of the Code of Federal Regulations (CFR). Generally, the CFR requires payment within 30 days from the latter of either the receipt of a proper invoice or acceptance of the goods/services. If this time frame is not met, an interest penalty must be paid to the vendor. Within 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 percent are paid within 30 days).

BEP's prompt payment performance for the past three years is presented below.

	2018	2019	2020
Number of invoices paid late	94	59	151
Interest paid	\$15,466	\$4,469	\$11,277
% of invoices paid late	2.21%	1.42%	3.23%

There was an increase in percentage of invoices paid late and interest penalties in FY 2020. The pandemic brought challenges in terms of performing timely verification of the receipt of items shipped by various suppliers. As a result, there was a significant increase in both the number of instances and total amount of interest paid in FY 2020. In order to improve this rate, the BEP established a cross-functional team comprised of staff from the Office of Financial Management, the Office of the Chief Procurement Officer, the Office of Compliance and the Office of Supply Chain Management. Together this team has been working on various process improvements which is expected to yield a significant improvement in the Bureau's prompt payment performance rate in FY 2021.

Management Discussion and Analysis

Please read the following in conjunction with the Financial Statements and Notes thereto and selected financial data included elsewhere in the Performance and Accountability Report.

Cash

Cash decreased by \$72.9 million in 2020 that reflected the increase in expenditures for the expansion of the WCF. Cash flows provided by operations for the years ending September 30, 2020, and September 30, 2019, were \$83.8 million and \$134.5 million, respectively.

Accounts Receivable

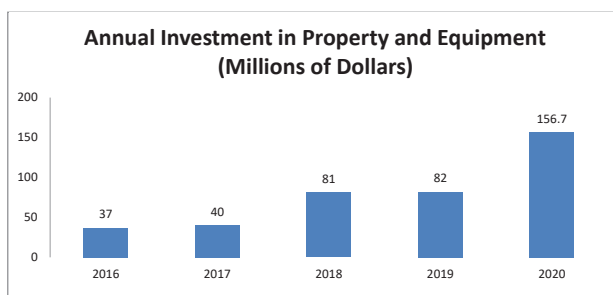
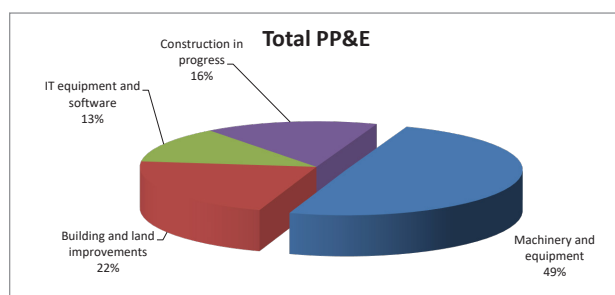
Accounts receivable decreased by \$1.8 million in 2020. This was due to a decreased amount of currency delivered to the Board in the final month of the year as compared to the final month of 2019.

Inventories

Net inventories decreased by \$7.9 million in 2020. The decrease resulted from a drawdown of inventories as BEP worked to meet a surge in currency orders from the Board in the last half of the year to meet increased currency demand during the pandemic.

Property and Equipment

Net property and equipment increased by \$113.1 million in 2020. The increase can be attributed to investments in currency manufacturing equipment and construction projects in excess of depreciation.

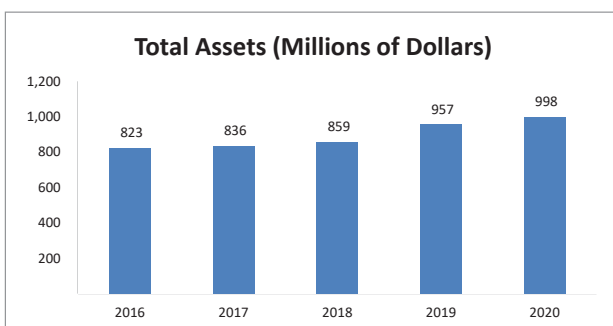
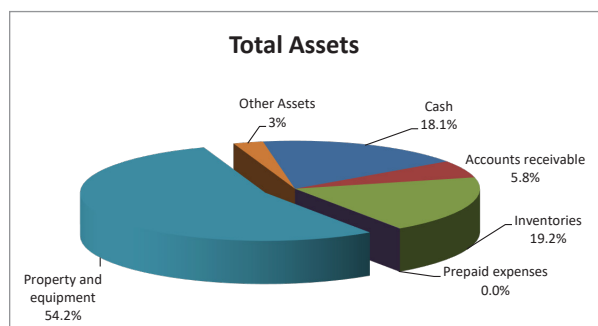


Prepaid Expenses

Prepaid expenses increased by \$108,000 from the prior year due to an advance from the Library of Congress for the currency reader program.

Other Assets

Other assets increased by \$10.1 million in 2020. The increase was related to a build-up of repair part inventories ahead of a heavy production workload anticipated for 2021.



Accounts Payable

Accounts payable increased from \$22.3 million in 2019 to \$24.2 million in 2020 as a result of an increase in purchases of raw materials and other supplies in the last month of the fiscal year in preparation for increased currency orders in 2021.

Accrued Current Liabilities

Accrued current liabilities increased from \$30.6 million in 2019 to \$38.2 million in 2020. This resulted primarily from additional financial commitments in the last quarter for incentive compensation to frontline workers and Bureau efforts to prepare for a substantial increase in the currency production order in 2021.

Advances

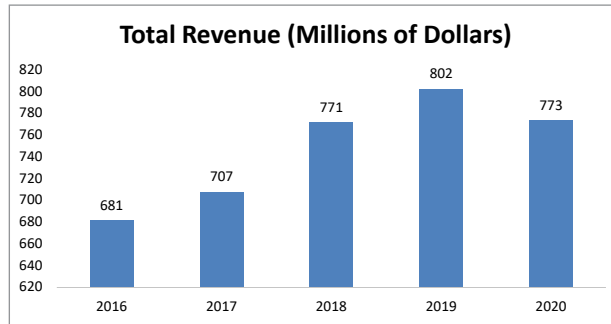
Advances increased from \$6.2 million in 2019 to \$8.4 million in 2020 primarily due to unsettled mutilated currency claims.

Workers' Compensation Liabilities

The actuarial workers' compensation liability increased from \$52.6 million in 2019 to \$57.8 million in 2020. The increase in the actuarial liability primarily resulted from a change in the Department of Labor methodology used to determine the liability.

Revenue from Sales

Overall, revenue from sales decreased from \$802.3 million in 2019 to \$773.2 million in 2020. This \$29.1 million decrease is attributable to a reduction in working capital charges to the Board.

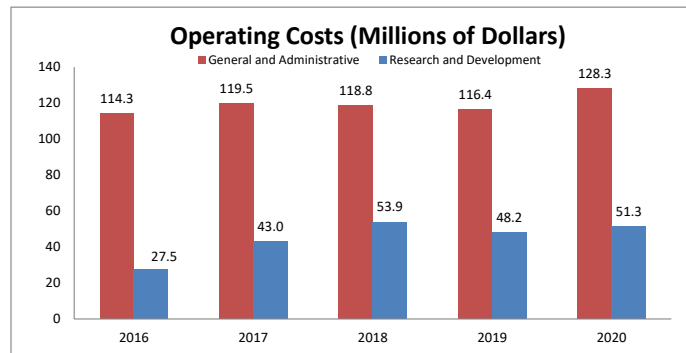


Cost of Goods Sold

Cost of goods sold increased from \$527.8 million in 2019 to \$569.7 million in 2020. The \$41.9 million increase is due, in large part, to increased orders for higher cost \$20 and \$100 currency notes from the Board to meet increased demand for these notes during the pandemic. Additionally, increased costs were incurred to maintain production operations at historically high levels over the last half of the year while maintaining safe operations for front line staff.

Operating Costs

Operating costs increased by \$15.0 million in 2020 as BEP responded to the considerable challenges of operating during the pandemic. Additional costs were incurred to upgrade information technology (IT) and communication capability, improve cybersecurity and provide expanded onsite health services for BEP frontline employees.



Legal Compliance

The Bureau is committed to ensuring its financial activities are carried out in full compliance with applicable laws and regulations. To ensure this responsibility is met, financial managers direct annual reviews of financial operations and program compliance with applicable laws and regulations. For 2020, the Bureau complied substantially with all laws and regulations considered material to internal control over financial reporting.

Federal Managers' Financial Integrity Act Plans and Accomplishments

The Federal Managers' Financial Integrity Act (FMFIA), passed in 1982, requires agencies to perform regular evaluations of internal controls and financial management systems to protect against waste, fraud and abuse. The subsequent passage of the Chief Financial Officers Act, the Federal Financial Management Improvement Act and the Sarbanes-Oxley Act of 2002 further increased the internal control requirements.

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

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

Ongoing efforts to improve internal controls include compliance reviews and an active internal control awareness program. The Bureau conducts compliance review tests (CRTs) at both facilities to promote compliance with operating policies and procedures by performing unannounced reviews in production, storage and offline components that have custody of security items. During 2020, BEP performed 256 unannounced reviews. The results of the reviews were reported to office chiefs, supervisors and managers responsible for enforcing policies and procedures, and implementing corrective actions.

The Internal Control Awareness Program is used to promote the visibility and understanding of internal control issues, objectives and requirements. Internal review personnel conduct management and organizational reviews at both facilities to strengthen the Bureau's internal controls, ensure compliance with existing policies and procedures, and safeguard assets. The Bureau's quality management system for the production of U.S. currency and the environmental management system are ISO 9001 and 14001 registered, respectively. The Bureau's ISO Lead Auditor trained staff support the maintenance and continuous improvement of the quality and environmental management systems by conducting regular audits throughout the organization.

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

The accompanying financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 36th consecutive year, the Bureau received an unmodified opinion on its financial statements from an independent, certified public accounting firm.

Additionally, for the 8th consecutive year, the Bureau received an unmodified opinion from the auditors on management's assertion that the Bureau maintained effective internal control over financial reporting based on criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management-Integrated Framework and the requirements of Appendix A of OMB Circular A-123, "Management's Responsibility for Internal Control." The unmodified audit opinion on the financial statements, the unmodified 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 2020, the Bureau's Chief Information Officer (CIO) continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and 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 were accredited in order to meet the requirement for certification and accreditation at least every three years. Additionally, BEP remains committed to full implementation of



the National Institute of Standards and Technology (NIST) SP800-53 and SP800-53A management, operational and technical controls for IT systems as well as 100% implementation of the United States Government Configuration Baseline for Microsoft software and NIST approved configurations for other operating systems and databases.

Manufacturing Support Suite (MSS) is the Bureau's enterprise-wide financial and manufacturing application that uses the Oracle E-Business Suite. The system is "Cloud-based" and hosted by the Oracle Managed Cloud Service (OMCS). MSS is a fully integrated business solution that has reduced manual processes, increased efficiency, improved data quality and provided real-time enterprise data and information for improved decision-making. As part of its commitment to ongoing monitoring of IT security controls, the system's security team within the CIO Directorate executes quarterly Separation of Duties analyses on all MSS user responsibilities to determine if new conflicts between permissions were created. These ongoing assessments allow the Bureau to detect and mitigate risks associated with user permissions and controls.

In an effort to improve the overall security posture of BEP's information systems, the Office of Critical Infrastructure and IT Security (OCIITS) worked closely with the Office of Compliance (OC) to implement corrective action plans for Notice of Finding and Recommendations (NFRs) resulting from the FY 2019 financial audit. The CIO Directorate also participated in the FY 2020 Financial Statement Audit and A-123 audit on BEP's MSS financial system. OCIITS supported the audit efforts by facilitating direct observation meetings and providing security artifacts requested by the auditors. BEP continues to design and implement controls to comply with the OMB Circular A-123, Management's Responsibility for Internal Control and the Government Accountability Office's Federal Information System Controls Audit Manual standards, in order to support the annual audited financial statements.

In compliance with BEP's security parameters and SP NIST 800-53 Rev 4 guidelines on privileged account management, the CIO Directorate conducted the annual review and recertification of MSS privileged user accounts and responsibilities. The CIO Directorate is responsible for coordinating the review process with business owners to evaluate the business need for each MSS user, including responsibilities granted, and the removal/modification of user accounts and privileges based on access requirements to perform business needs. The FY 2020 recertification successfully resulted in the removal of 881 user privileges that were no longer required to perform a business need.

The CIO Directorate is an active participant in Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operations Planning (COOP) responses through government and Treasury-wide exercises. The Directorate also tests and executes disaster recovery plans for the Bureau's major systems that support financial operations such as MSS on a biannual basis. Before the end of FY 2020, the CIO Directorate planned and executed an assessment of IT security controls for BEP systems hosted onsite and at OMCS. These onsite assessments tested security controls across a number of IT security control families to determine if these controls were designed and operating effectively. Testers examined artifacts and reviewed all available system specific security documents. Evaluated security controls were determined to be operating effectively as of September 30, 2020. The CIO Directorate is issuing a report outlining any assessment findings and recommendations for use by the BEP's CFO.

Custody of Assets

In addition to the production of currency, the Bureau has many high-value items used for various purposes such as research, product testing and historical reference. Consequently, the Bureau 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 testing, experimental research and other offline activities normally are expensed immediately and are not carried as assets in the Bureau's financial statements. While the costs expensed may be immaterial to the financial statements, many of these items have high intrinsic value. Therefore, the Bureau ensures that strong controls are in place to properly safeguard these items. Also, the Bureau has display areas at each of its facilities and maintains historical collections at its facility 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.

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 CFO, who has oversight responsibility with respect to internal controls, is the Office of Compliance. This office evaluates and monitors internal control systems and maintains a comprehensive product accountability system. The Office of Security, which reports to the Associate Director for Management, plans, administers and monitors the Bureau's security programs. These programs include personnel, physical and operational security, and 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. 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.

Assurance Statement

The Bureau, including the organizations under our purview, is responsible for meeting the objectives of Section 2 and Section 4 of the Federal Managers' Financial Integrity Act (FMFIA), as well as implementing the requirements of the Federal Financial Management Improvement Act (FFMIA), Digital Accountability and Transparency Act, and the Reports Consolidation Act of 2000. The implementation guidelines related to these acts are included in the internal control requirements of the OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control." The objectives of OMB Circular A-123, including its appendices, are to ensure: alignment of strategic goals with the agency's mission; effective and efficient operations; reliable reporting; and compliance with applicable laws and regulations.

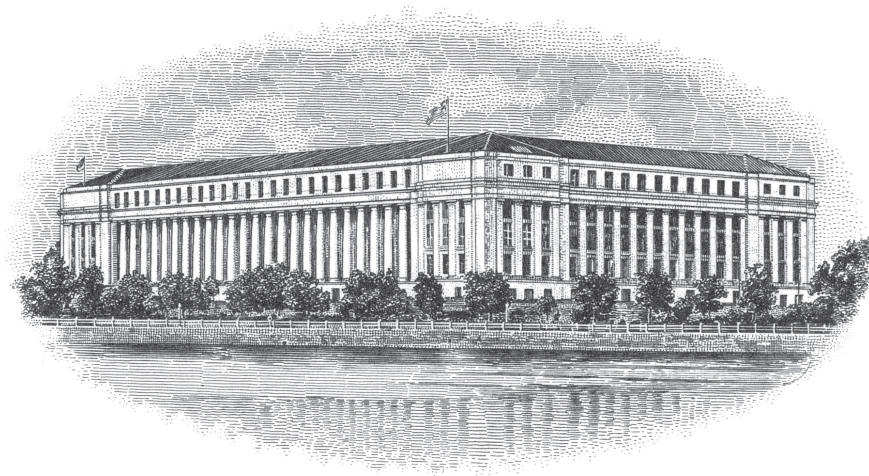
Management is responsible for managing risks and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. Risk management practices that identify, assess, respond to and report on risks are taken into account when designing internal controls and assessing their effectiveness. We conducted our assessment of risk and internal controls in accordance with OMB Circular A-123 and OMB Circular A-123, Appendix A, "Management of Reporting and Data Integrity Risk." Based on the results of this assessment, we provide reasonable assurance that the internal controls over strategic, operational, reporting and compliance objectives were operating effectively as of September 30, 2020.

In addition, we conducted an assessment of our financial management systems in accordance with OMB Circular A-123, Appendix D, "Compliance with the FFMIA." Based on the results of this assessment, our financial management systems substantially comply with FFMIA Section 803(a) as of September 30, 2020.

As part of our evaluation process, we considered the results of extensive testing and assessment across the organization and independent audits.

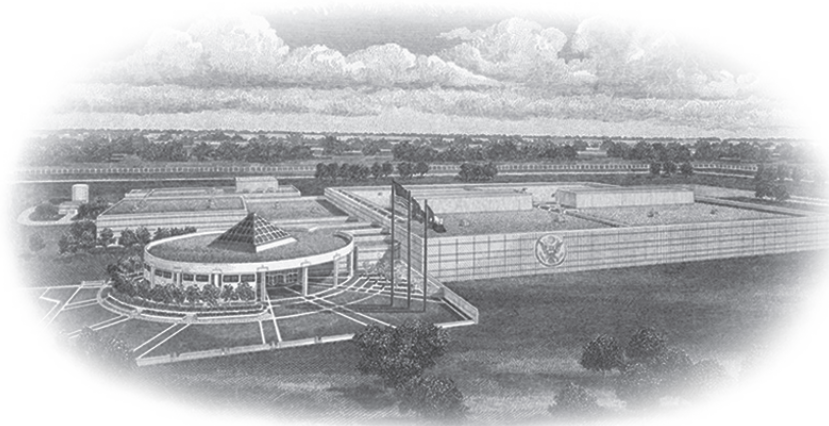
Summary of Office of Inspector General Audits

The Bureau began FY 2020 with seven open corrective actions. The Office of Inspector General (OIG) issued 45 new corrective actions during FY 2021. These pertained to training, policy and/or procedure adherence, and internal controls. The Bureau implemented corrective action on 44 items during the year. There are eight open issues outstanding.



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.

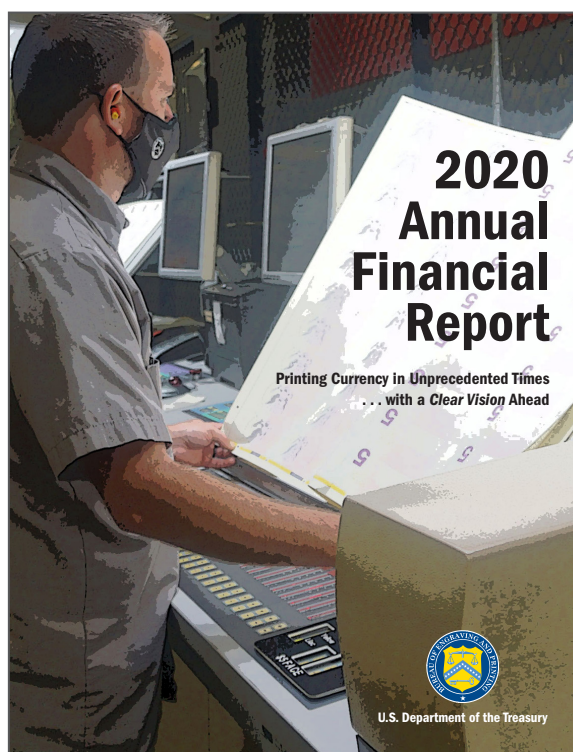


Department of the Treasury
Bureau of Engraving and Printing

Financial Statements

Years ended September 30, 2020 and 2019

(With Independent Auditors' Reports Thereon)



**THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

Table of Contents

INDEPENDENT AUDITORS' REPORT.....	41
FINANCIAL STATEMENTS	46
Balance Sheets	46
Statements of Operations and Cumulative Results of Operations	47
Statements of Cash Flows	48
Notes to the Financial Statements	49
MANAGEMENT'S REPORT	
ON INTERNAL CONTROL OVER FINANCIAL REPORTING.....	59



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Acting Inspector General, U.S. Department of the Treasury and
The Director of the Bureau of Engraving and Printing, U.S. Department of the Treasury:

Report on the Financial Statements and Internal Control

We have audited the accompanying financial statements of the Bureau of Engraving and Printing (the Bureau), which comprise the balance sheets as of September 30, 2020 and 2019, and the related statements of operations and cumulative results of operations, and cash flows for the years then ended, and the related notes to the financial statements. We also have audited the Bureau's internal control over financial reporting as of September 30, 2020, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting".

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the Bureau's internal control over financial reporting based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditors' judgment, including the assessment of the risks that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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 assessment 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.

Opinions

Opinion on Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

In our opinion, the Bureau maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020, based on the criteria established in *Internal Control – Integrated Framework* issued by COSO.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with



governance. We consider the deficiency in the Bureau's internal control described in Exhibit I below to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bureau's financial statements as of and for the year ended September 30, 2020 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.

Management's Response to Findings

Management's response to the finding identified in our audit is described in the accompanying Exhibit I. We did not audit management's response and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the deficiencies we considered to be significant deficiencies, and the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 12, 2021

Exhibit 1 – Significant Deficiency

Information Technology Controls Need Improvement

The Bureau did not fully implement information system control activities to achieve the objectives and respond to the risks as required by COSO principle 11, *the Organization selects and develops control activities over technology to support the achievement of objectives*. COSO principle 11 includes points of focus for management to select and develop control activities to restrict technology access rights to authorized users commensurate with their job responsibilities and to protect assets from external threats. In addition, COSO states that “information that is obtained from outsourced service providers that manage business processes on behalf of the entity, and other external parties on whom the entity depends, is subject to the same internal control expectations.”

During the fiscal year 2020 audit, the Bureau had control deficiencies related to its general controls over relevant financial and mixed financial systems either managed by the Bureau or hosted at service organizations. The Bureau did not have effective controls to provide assurance that:

1. User access was reviewed for compliance with account management requirements and access to systems was protected against unauthorized modification, loss, or disclosure;
2. Separated employees' and contractors' user accounts were disabled in a timely manner, and accounts not utilized for over 120 days were disabled;
3. Deficiencies in the operating effectiveness of key controls performed by service organizations were timely evaluated and mitigated.
4. The complementary user entity controls (CUEC) identified to support the operating effectiveness of controls performed by service organizations were designed and operating effectively.

COSO Principle 11, requires that the Bureau select and develop control activities over technology to support the achievement of objectives and to restrict technology access rights to authorized users commensurate with their job responsibilities and to protect assets from external threats. In addition, COSO states that “information that is obtained from outsourced service providers that manage business processes on behalf of the entity, and other external parties on whom the entity depends, is subject to the same internal control expectations.”

Collectively, the aforementioned IT control deficiencies increased the risk of unauthorized use, disclosure, disruption, modification, or destruction of information and information systems that could impact the integrity and reliability of information processed in the associated applications, which may lead to misstatements of the financial statements. These deficiencies occurred because the Bureau did not:

1. Identify relevant risks and implement controls to address such risks;
2. Use the appropriate data in designing controls;
3. Focus sufficient resources to design and implement controls for financial and mixed financial systems;

We recommend that the Bureau:

1. Perform a robust risk assessment to identify risk related to the listing of terminated users and develop controls to address these risks, to facilitate the timely removal of terminated user accounts.
2. Complete implementation of planned remediation for the re-certification of privileged users.
3. Work with service providers to monitor the remediation of known issues impacting BEP identified in Statement on Standards for Attestation Engagements (SSAE) 18 reports.

Exhibit 1 – Significant Deficiency

4. Ensure compensating controls are operating at an appropriate level of precision to reduce the level of risk posed by deficiencies impacting BEP identified in SSAE 18 reports.
5. Enhance controls to ensure that CUECs are properly designed and operating effectively.

Management's Response

The Bureau concurs. The Bureau has already initiated corrective actions to address each recommendation.

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

Balance Sheets

As of September 30, 2020 and 2019

(In Thousands)

	2020	2019
ASSETS		
Current assets		
Cash (Note 3)	\$ 180,770	\$ 253,692
Accounts receivable (Note 10)	58,290	60,104
Inventories (Note 4)	191,960	199,831
Prepaid expenses	369	261
Total current assets	431,389	513,888
Property and equipment, net (Note 5)	540,369	427,329
Other assets, net (Note 6)	26,135	16,006
Total assets	<u>\$ 997,893</u>	<u>\$ 957,223</u>
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities (Notes 7 and 8)		
Accounts payable	\$ 24,156	\$ 22,305
Accrued liabilities	39,075	30,636
Advances	8,444	6,157
Total current liabilities	71,675	59,098
Workers' compensation liability (Note 8)	63,282	58,192
Total liabilities	134,957	117,290
Contingencies and commitments (Notes 12 and 13)		
Equity		
Invested capital	32,435	32,435
Cumulative results of operations	830,501	807,498
Total equity	862,936	839,933
Total liabilities and equity	<u>\$ 997,893</u>	<u>\$ 957,223</u>

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, 2020 and 2019

	(In Thousands)	
	2020	2019
Revenue from sales (Note 10)	\$ 773,166	\$ 802,262
Cost of goods sold	570,603	527,777
Gross margin	202,563	274,485
Operating costs:		
General and administrative expenses	128,306	116,366
Research and development	51,254	48,219
	179,560	164,585
Excess of revenues over expenses	23,003	109,900
Cumulative results of operations at beginning of year	807,498	697,598
Cumulative results of operations at end of year	\$ 830,501	\$ 807,498
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, 2020 and 2019

	(In Thousands)	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Excess of revenues over expenses	\$ 23,003	\$ 109,900
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	43,687	41,700
Loss from obsolescence	822	2,596
Changes in assets and liabilities		
(Increase) Decrease in accounts receivable	1,814	6,431
(Increase) Decrease in inventories	7,871	(14,108)
(Increase) Decrease in prepaid expenses	(108)	137
(Increase) Decrease in other assets	(10,959)	(198)
Increase (Decrease) in accounts payable	1,851	(4,907)
Increase (Decrease) in accrued liabilities	8,439	668
Increase (Decrease) in advances	2,287	(1,575)
Increase (Decrease) in workers' compensation liability	5,090	(6,125)
Net cash provided by operating activities	<u>83,797</u>	<u>134,519</u>
Cash flows from investing activities		
Purchases of property and equipment	(156,719)	(81,578)
Net cash used in investing activities	<u>(156,719)</u>	<u>(81,578)</u>
Net increase (decrease) in cash	(72,922)	52,941
Cash at beginning of year	253,692	200,751
Cash at end of year	<u>\$ 180,770</u>	<u>\$ 253,692</u>
See accompanying notes to the financial statements.		

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

Notes to the Financial Statements

September 30, 2020 and 2019

1.0 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.

2.0 Summary of Significant Accounting Policies

2.1 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. Certain presentations and disclosures may be modified, if needed, to prevent the disclosure of classified information.

2.2 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

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

Notes to the Financial Statements

September 30, 2020 and 2019

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.

2.3 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.

2.4 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 valued at standard cost by denomination. 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.

Any raw materials inventory determined obsolete is immediately expensed resulting in no allowance for inventory obsolescence for raw materials.

2.5 Property and Equipment

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

The Bureau occupies and uses buildings and land owned by the Department of the Treasury. The Bureau is not charged for the use of the buildings or land, but is responsible for maintenance and repair of all buildings and land improvements. The land and building shell for the Bureau's Western Currency Facility were donated by the City of Fort Worth, Texas to the Department of the Treasury (See Note 5).

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

Notes to the Financial Statements

September 30, 2020 and 2019

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

2.6 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.

2.7 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).

2.8 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.

2.9 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 by DOL 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

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

Notes to the Financial Statements

September 30, 2020 and 2019

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 U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues to reflect the average duration in years for income payment and medical payments. Discount rates as of September 30, 2020 were 2.414% and 2.303% for wages and medical in year one and subsequent years, respectively. Discount rates as of September 30, 2019 were 2.610% and 2.350% for wages and medical in year one and subsequent years, respectively. The Department of the Treasury allocated the overall liability to Treasury components based on past claims paid information provided by DOL.

2.10 *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.

2.11 *Revenue Recognition*

Revenue from sales to the Federal Reserve Board is recognized when finished goods satisfactorily pass all Bureau quality control standards and are delivered to the on-site depository vaults designated for the Federal Reserve Board and are available for immediate shipping by the Federal Reserve Board. 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.

2.12 *Tax Status*

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

2.13 *Contingencies*

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

2.14 *Fair Value Measurements*

FASB Accounting Standard Codification (ASC) 820-10, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Bureau's financial instruments are comprised of cash, accounts receivable, accounts payable, accrued liabilities, and advances as of September 30, 2020 and 2019, respectively. The carrying amounts of these financial instruments approximate fair value because of the short-term nature of these instruments. The Bureau holds no financial instruments that are required by ASC 825-10, *Financial Instruments - Overall*, to be valued, reported, or disclosed at fair value as of September 30, 2020 or 2019.

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

Notes to the Financial Statements

September 30, 2020 and 2019

3.0 Cash

The year-end cash balances by fund are as follows as of September 30, 2020 and 2019:

	(In Thousands)	
	<u>2020</u>	<u>2019</u>
Bureau of Engraving and Printing		
Revolving Fund	\$ 172,327	\$ 247,535
Mutilated Currency Revolving Fund	8,443	6,157
Total	<u>\$ 180,770</u>	<u>\$ 253,692</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, 2020 and 2019, respectively (See Note 7).

4.0 Inventories

Inventories consist of the following as of September 30, 2020 and 2019:

	(In Thousands)	
	<u>2020</u>	<u>2019</u>
Raw material and supplies	\$ 63,356	\$ 69,630
Work-in-process	57,148	50,196
Finished goods - currency	39,336	50,391
Finished goods - uncut currency	26,415	23,532
E-Reader inventory	5,705	6,082
Total	<u>\$ 191,960</u>	<u>\$ 199,831</u>

5.0 Property and Equipment, net

Property and equipment consist of the following as of September 30, 2020 and 2019:

	(In Thousands)	
	<u>2020</u>	<u>2019</u>
Machinery and equipment	\$ 702,293	\$ 650,395
Building and land improvements	306,913	281,574
IT equipment and software	180,397	179,162
Office machines	1,685	1,685
Furniture and fixtures	1,339	1,339
Donated assets - art work	125	125
Motor vehicles	175	212
Leasehold improvements	230	230
	<u>1,193,157</u>	<u>1,114,722</u>
Less accumulated depreciation	877,381	833,732
	<u>315,776</u>	<u>280,990</u>
Construction-in-progress	224,593	146,339
Net property and equipment	<u>\$ 540,369</u>	<u>\$ 427,329</u>

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

Notes to the Financial Statements

September 30, 2020 and 2019

Depreciation expense for the years ended September 30, 2020 and 2019 was \$43.7 million and \$41.7 million, respectively.

The majority of the increase in construction-in-progress from 2019 to 2020 was due to an increase in spending for progress payments for the acquisition of new production equipment. Equipment spending occurred primarily on the WCF Intaglio Presses, \$100 Finishing Line, WCF Optinota, and Offset Inspection Upgrade. The increase in spending on construction projects occurred primarily on the WCF Expansion, but also included additional spending on the DCF Production Facility Program.

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.

6.0 Other Assets, net

Other assets consist principally of machine repair parts and tools. The allowance for obsolescence for these parts and tools for years ended September 30, 2020 and 2019 was \$17.8 million and \$16.9 million.

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

Notes to the Financial Statements

September 30, 2020 and 2019

7.0 Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2020 and 2019:

(In Thousands)

	<u>2020</u>	<u>2019</u>
Intragovernmental	\$ 4,974	\$ 4,779
With the public	66,701	54,319
Total	<u>\$ 71,675</u>	<u>\$ 59,098</u>

Accrued current liabilities consist of the following as of September 30, 2020 and 2019:

(In Thousands)

	<u>2020</u>	<u>2019</u>
Payroll	\$ 19,585	\$ 13,514
Annual leave	14,937	12,432
Workers' compensation	4,233	4,233
Other	320	457
Total	<u>\$ 39,075</u>	<u>\$ 30,636</u>

Advances consist of the following as of September 30, 2020 and 2019:

(In Thousands)

	<u>2020</u>	<u>2019</u>
Mutilated Currency	\$ 8,443	\$ 6,157
Other	1	0
Total	<u>\$ 8,444</u>	<u>\$ 6,157</u>

8.0 Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2020 and 2019, but not yet reimbursed to DOL by the Bureau, are approximately \$9.7 million and \$9.8 million, respectively, of which approximately \$4.2 million and \$4.2 million represent a current liability, as of September 30, 2020 and 2019, 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 \$57.8 million and \$52.6 million as of September 30, 2020 and 2019, respectively. The Bureau's estimated, undiscounted, non-current, actuarially derived future workers' compensation liability was approximately \$79.1 million and \$71.0 million as of September 30, 2020 and 2019, respectively.

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

Notes to the Financial Statements

September 30, 2020 and 2019

9.0 Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were \$24.2 million and \$23.1 million for fiscal years 2020 and 2019, respectively. The CSRS employer contribution rate for fiscal years 2020 and 2019 was 7.0%. The FERS agency contribution rate was 13.7% for fiscal years 2020 and 2019, respectively. The cost of providing the CSRS and FERS benefits is more than the amounts contributed by the Bureau and the employees to OPM. The additional cost of providing benefits, including the cost financed by OPM, which is not included in the Bureau's Statements of Operations, totaled \$32.1 million and \$30.9 million in 2020 and 2019, respectively.

OPM paid costs totaling \$12.9 million and \$13.0 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2020 and 2019, respectively. These costs are not included in the Bureau's Statements of Operations. The Bureau paid costs totaling \$17.4 million and \$17.1 million for the FEHBP and FEGLI programs in 2020 and 2019, which are included in the Bureau's Statement of Operations.

10.0 Concentration of Revenue

The Bureau's principal customers are other federal and quasi-federal governmental organizations. During 2020 and 2019, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2020 and 2019, are reflected in the following table:

	Revenue		Accounts Receivable	
	(In Thousands)		(In Thousands)	
	2020	2019	2020	2019
Federal Reserve Board:				
Currency Production	\$ 724,074	\$ 675,893	\$ 55,849	\$ 44,356
WCF Expansion	37,500	112,500	0	12,500
Mutilated Currency	4,013	3,551	1,003	884
Meaningful Access	543	1,350	80	1,019
New Facility	988	99	1,087	99
Other Federal Agencies	2,349	2,186	0	220
	<u>769,467</u>	<u>795,579</u>	<u>58,019</u>	<u>59,078</u>
Public sales	3,697	6,490	0	27
Other	2	193	271	999
	<u>3,699</u>	<u>6,683</u>	<u>271</u>	<u>1,026</u>
Total	<u>\$773,166</u>	<u>\$ 802,262</u>	<u>\$58,290</u>	<u>\$ 60,104</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.

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

Notes to the Financial Statements

September 30, 2020 and 2019

11.0 Principal Suppliers

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

12.0 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 do not exist as of September 30, 2020 and 2019. Contingencies, where the risk of loss is reasonably possible, are approximately \$5.1 million and \$5.8 million as of September 30, 2020 and 2019, respectively. Since the risk of loss for these litigations is not probable, the Bureau did not record any liability. Management believes that the ultimate resolution of these litigations will not have a material impact on the reported financial position, results of operations, and cash flows.

In 2007, a judge ruled that the current U.S. currency design violates Section 504 of the Rehabilitation Act. The Court awarded no monetary damages. However, the Bureau is required to provide meaningful access to United States currency for blind and other visually impaired persons as part of the next currency redesign. The cost of currency changes necessary to provide meaningful access will be incorporated into future currency redesign costs. No costs related to the Court ruling have been accrued in the accompanying financial statements as of September 30, 2020 and 2019. As an interim measure, the Bureau is providing currency readers, free of charge, to eligible blind and visually impaired individuals.

The Bureau has contracted to purchase printing equipment costing approximately \$281.3 million. As of September 30, 2020, the Bureau has made cumulative payments of \$30.4 million and the remaining commitment outstanding is \$250.9 million. Delivery of the printing equipment will be determined upon successful completion of final factory inspection tests. The Bureau entered into an Inter-Agency Agreement with the United States Army Corps of Engineers for the design review, construction, and contract administration of the Western Currency Facility expansion project and a new Washington DC Currency Facility. As of September 30, 2020, the Bureau has obligated \$321.0 million for these projects and has made cumulative payments of \$130.0 million. 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, 2020.

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

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

Notes to the Financial Statements

September 30, 2020 and 2019

13.0 Operating Lease

Rental expense for both years ended September 30, 2020 and 2019 was \$3.1 million.

Future minimum payments under the cancelable lease as of September 30, 2020, are (in thousands):

For the years ending September 30:	Amount
2021	3,150
2022	3,518
2023	3,886
2024	3,901
2025	3,916
Thereafter	5,920
Total	<u>\$24,291</u>

14.0 Subsequent Events

The Bureau has evaluated subsequent events through 2/12/21, the date that 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

February 12, 2021

KPMG LLP
1801 K Street, NW
Suite 12000
Washington, DC 20006

RE: Management's Report on Internal Control Over Financial Reporting

Ladies and Gentlemen:

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, 2020. In making this assessment, the Bureau used the criteria established in the *Internal Control – Integrated Framework (2013)* 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, 2020.

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.

Leonard R.
Olijar

Digitally signed by Leonard R.
Olijar
Date: 2021.02.12 17:36:
-

Leonard R. Olijar
Director

Steven A.
Fisher

Digitally signed by Steven A.
Fisher
Date: 2021.02.12 11:12:
-

Steven A. Fisher
Associate Director
(Chief Financial Officer)

