

IN CONGRESS, JULY 4, 1776.

The unanimous Declaration of the thirteen united States of America.

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DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING



2015

CHIEF FINANCIAL OFFICER PERFORMANCE AND ACCOUNTABILITY REPORT



MISSION

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

CORE VALUES

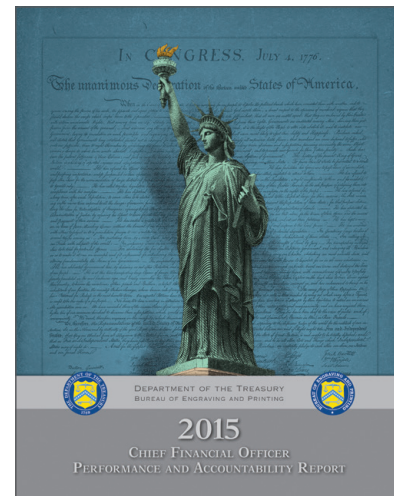
Integrity • Fairness • Performance • Respect

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

The cover features the iconic Statue of Liberty. The Statue of Liberty was a gift of friendship from the people of France to the United States and is recognized as a universal symbol of freedom and democracy. The Statue of Liberty was dedicated on October 28, 1886. The colossal copper statue was designated as a National Monument in 1924.





Treasurer of the United States Rosie Rios administers the oath of office to Director Len Olijar.



Treasurer of the United States Rosie Rios participates in a note signing event for BEP employees.



TABLE OF CONTENTS

Message from the Director	4
Message from the Chief Financial Officer	5
Highlights of the Year	6
Profile of the Bureau of Engraving and Printing	8
Executive Organizational Structure	11
Safety, Health and Environmental Management	12
Strategic Plan	15
Retooling and Business Transformation	17
Currency Quality Assurance Program	19
Program Performance Measures	22
Management Discussion and Analysis	25
FMFIA Plans and Accomplishments	28
Custody of Assets	30
Assurance Statement	31
Summary of OIG and GAO Audits	31
Independent Auditors' Report	34
Financial Statements	36
Notes to Financial Statements	39
Management's Report on Internal Control Over Financial Reporting	49
Independent Auditors' Report on Internal Control Over Financial Reporting	50
Independent Auditors' Report on Compliance and Other Matters	52



MESSAGE FROM THE DIRECTOR

In 2015, after 27 years of Federal government service, all with the Bureau, I was honored to be appointed the 26th Director of the Bureau of Engraving and Printing. I want to thank the former Director, Larry Felix, for his support and mentorship. I also thank Treasurer Rios for her support of BEP and myself.

I am excited to have the opportunity to continue to build a better BEP. As Director, I serve an incredibly talented and dedicated work force, and they deserve a BEP that lives up to its core values of Integrity, Fairness, Performance and Respect. We make a product that is desired around the world, and it faces counterfeiting threats worldwide as well. Through teamwork and innovation, the Bureau will continue to achieve its mission to develop and produce United States currency notes, trusted worldwide.

During 2015, the Bureau delivered 7.2 billion Federal Reserve notes to the Federal Reserve Board and is scheduled to produce 7.6 billion in 2016. The 2015 currency order was completed on schedule at lower cost than anticipated. This included over one billion \$100 notes and printing and processing all \$1 notes on 50-note sheets (as opposed to 32-note sheets), driving productivity up and costs down. BEP's innovations included introducing single note inspection technology to decrease spoilage and further lower costs. At the same time, the Bureau continued to integrate its Currency Quality Assurance (CQA) program into every aspect of the currency production process. CQA provides a solid foundation moving forward as we intensify our efforts to develop innovative technology features for deployment in the next redesign of currency. CQA improvements in manufacturing resulted in over \$5 million in savings during 2015.

In June 2015, Treasury Secretary Lew announced that the next note to be redesigned, the \$10 note, will be the first US currency note in more than a century to feature a woman. This historic milestone will usher in the next family of redesigned currency that will revolve around a "Symbols of Democracy" theme. The next generation of currency will also include a raised tactile feature to assist individuals who are blind and visually impaired in denominating currency. The tactile feature, along with the mobile applications to denominate US currency and the currency reader devices that BEP provides at no cost to those that need them, significantly improves access to currency for the blind and visually impaired community. Since the program began, BEP has distributed more than 35,000 currency readers nationwide (32,000 in 2015).

In my 27 years at BEP, I have learned our employees are our most important resource. In that regard, the Bureau's recently completed Human Capital Strategic Plan focuses on maintaining a motivated and productive workforce through employee engagement initiatives, performance accountability, and employee and leadership development. The BEP is enhancing its leadership development programs in order to better equip supervisors with the skills needed to manage critical projects, engage colleagues, and be successful in leadership and managerial positions. The programs are designed to strengthen core competencies, support career development, and increase leadership effectiveness.

The Bureau's Best Place to Work (BPTW) Team and Deputy Director's Circle continued to improve employee engagement through increased organizational communication, transparency, and employee involvement. During the year, they joined forces to continue to drive cultural transformation. Because of their efforts, the Bureau again ranked in the top 100 of Federal agencies as a Best Place to Work based on the results of the annual Federal Employee Viewpoint Survey (FEVS). I remain committed to making BEP the best place to work and an employer of choice.

In 2016, I look forward to another exciting and challenging year, which includes intensive research and development efforts to keep US currency secure and prepare for the next redesign of currency. I must thank BEP's employees for their support and continued excellence during the year. I am very proud of the work that they do, and continue to be amazed by their accomplishments. I know that we have the right team at the right time to meet future challenges. As an organization, we are motivated by our shared responsibilities to each other, our core values, and our passion and pride in producing US currency.



Leonard R. Olin



MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am pleased and privileged to present the Bureau of Engraving and Printing's (Bureau) Performance and Accountability Report for 2015. As the Bureau's Chief Financial Officer for the last three year's, I am especially proud of this years accomplishments, and I am committed to helping the organization reach even higher levels of excellence in 2016.

In 2015, we continued a commitment to excellent and strong financial management, timely and accurate financial reporting, and continual improvement at the Bureau. This tradition of quality financial management resulted in an unmodified audit opinion on the Bureau's financial statements for the 31st consecutive year. Also, the Bureau received an unqualified opinion on its internal controls over financial reporting based on the criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO framework). Both opinions exemplify our commitment to maintaining unparalleled excellence in financial reporting.

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

In 2015, the Bureau delivered 7.2 billion currency notes to the Federal Reserve Board, resulting in revenue of \$667 million and an excess of expenses over revenue of \$1.4 million. The excess of expenses over revenue was planned based on lower working capital requirements.

During the year, the Bureau continued to focus on improving productivity, reducing costs and streamlining operations. Overall program performance was favorable. Direct manufacturing costs for currency were below established standards. In particular, the efficiencies made on the \$5 note program and the successful implementation of the single-note inspection (SNI) process led to the continued decline in spoilage. The Currency Quality Assurance (CQA) program will provide for future cost savings and ensure that BEP resources are being utilized in the most efficient and effective manner.

The Bureau continued a multi-year recapitalization of its Washington, DC and Fort Worth, Texas facilities. Investments in new production and test equipment will improve productivity, reduce the Bureau's environmental impact, and provide the capability to produce increasingly sophisticated and complex currency designs. The Lean Six Sigma program led to completion of 14 high impact LSS projects which will result in over \$3.5 million in savings over five years. There were over 30 active LSS projects during the fiscal year all aimed at improving important Bureau processes.

As the Bureau prepares for the future, we must maintain our focus on quality manufacturing, superior customer service, and efficient stewardship of resources so we can continue to effectively meet or exceed the needs of all stakeholders. The Bureau has positioned itself to meet these needs both from an operational and financial management perspective. BEP has the financial resources necessary to invest in its employees to maintain a talented workforce, and a well-disciplined capital investment strategy to enhance product quality, promote counterfeit deterrence, and ensure the cost effectiveness of the manufacturing process.

Debra H. Richardson



HIGHLIGHTS OF THE YEAR

In 2015, the Secretary of the Treasury, Jacob Lew announced that the next redesign of the \$10 note will feature the portrait of a woman. For the first time in more than a century, a portrait of a woman will be featured on US currency. This historic first for a Federal Reserve note will usher in the next family of redesigned currency.



Secretary of the Treasury Jacob Lew speaking to employees of the Bureau and the US Mint during a joint town hall meeting.

Secretary Lew selected democracy as the theme for the next redesigned series of US notes. Images that capture this theme will be featured on the new \$10 note and all future notes.

In 2015, the Bureau received an unmodified opinion on its financial statements for the 31st consecutive year and an unqualified opinion on its internal controls over financial reporting. The Bureau continued to develop strategies for meaningful access to currency for the blind and visually impaired, while developing innovative designs containing effective counterfeit deterrent security features.

Meaningful Access to US Currency

BEP launched a nationwide currency reader distribution program to eligible US citizens and legal residents who are blind or visually impaired, and work continues on the raised tactile feature which will be included in the next family of redesigned banknotes. BEP believes that the currency reader program has proven to be a successful initiative in providing visually impaired persons with a means to independently denominate US currency. The National Institute of Health's Eye Institute has indicated interest in helping to promote information about BEP's currency reader program and raised tactile feature work. Since the program began, BEP has distributed more than 35,000 currency readers nationwide (32,000 in 2015).

New Currency Technology

Single note inspection (SNI) technology was successfully implemented in 2015 and is operational in both of BEP's facilities. BEP is using the new equipment to sort acceptable notes from defective notes. Over 300 million \$100 notes that were held in finished goods inventory were inspected through SNI and delivered to the Federal Reserve to issue into circulation, resulting in a savings of \$22.7 million.



Replacement Production Facility

After decades of study and evaluation, the BEP received approval from the Secretary of the Treasury to replace the current Washington, DC, production facility with a smaller, more efficient facility. The Bureau received an initial site investigation and screening report from the General Services Administration (GSA). The report identified 35 possible sites that met our critical criteria. The projected timeline for a new production facility from design to completion is seven to ten years, with an estimated completion date of 2025.

Bring Our Children to Work Day

BEP held its annual “Bring Our Children to Work Day”. The 2015 theme of “Money Time Travel” gave the participants a chance to learn about the evolution of currency since BEP’s founding in 1862. US Treasurer Rosie Rios led an interactive discussion on the redesigned \$10 note which included nine-year-old Sofia, whose letter to President Obama ignited his support for the inclusion of an image of a prominent woman on US currency.



Sofia speaks with children about her experience in writing President Obama at the BEP’s Bring Our Children to Work Day event.

Best Place to Work (BPTW) Initiative

For the third consecutive year, BEP placed in the top 20% among Federal agencies as a better place to work based on the results of the annual Federal Employees Viewpoint Survey (FEVS). The Bureau has a long-term plan in place to continually engage its employees in cross-functional efforts to identify opportunities for improvement throughout the organization.

The Senior Executive Team (SET) is committed to a new “Engagement in Action” initiative developed by BEP’s BPTW team that will improve communication, build long-term working relationships, and identify clear performance expectations.

EngageMENT in Action!



Six ways we are committed to engage you in 2015

Senior Executive Team (SET):	
Len Olljar, Acting Director	Will Levy III, Associate Director (Management) and Chief Information Officer
Charlene Williams, Associate Director (Manufacturing)	Harry Singh, Deputy Associate Director (Deputy Chief Information Officer)
Mike Wash, Associate Director (Chief Technology Officer)	Vic Henry, Acting Associate Director (Quality)
Judith Diaz Myers, Deputy Associate Director (Deputy Chief Technology Officer)	Sid Rocks, Chief Counsel
Debra Richardson, Associate Director (Chief Financial Officer)	Teresa Dean, Chief, Office of External Relations



PROFILE OF THE BUREAU OF ENGRAVING AND PRINTING

The mission of the Bureau of Engraving and Printing 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 means of a revolving fund established in 1950 in accordance with Public Law 81-656. This fund is reimbursed through product sales for direct and indirect costs of operations, including administrative expenses. In 1977, Public Law 95-81 authorized the Bureau to include an amount sufficient to fund capital investment and to meet working capital requirements in the prices charged for products. This eliminated the need for appropriations from Congress.

The Bureau produces US 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 with requirements of customers. In addition, the Bureau provides technical assistance and advice to other Federal agencies in the design and production of documents, which, because of their innate value or other characteristics, require counterfeit deterrence. The Bureau reviews cash destruction and unfit currency operations at Federal Reserve Banks, and it is responsible for the accountability and destruction of internally generated security waste products. As a service to the public, the Bureau also processes claims for the redemption of mutilated paper currency.

The Bureau occupies three government-owned facilities. The Main and Annex buildings, located in Washington, DC, produce Federal Reserve notes and other security products. The Western Currency

Facility, located in Fort Worth, Texas, produces Federal Reserve notes. The Main Building became operational in 1914, the Annex Building in 1938, and the Western Currency Facility began operations in 1991. The Western Currency Facility was constructed to provide increased production capacity, reduce transportation costs and enhance the Nation's emergency preparedness.

In addition to housing production facilities, free tours of currency operations are available to the public in both Washington, DC and Fort Worth, Texas. The tours include Visitor Centers with currency manufacturing displays, interactive kiosks and other



Treasurer of the United States Rosie Rios discusses the currency redesign effort with visitors at the WCF Tour and Visitors Center.

information about the history of our Nation's currency. The Visitor Centers also sell uncut sheets of currency, engravings and other collectibles. In addition to the on-site sales centers, these items are available through mail order and the Bureau's internet site: www.bep.gov. accordance

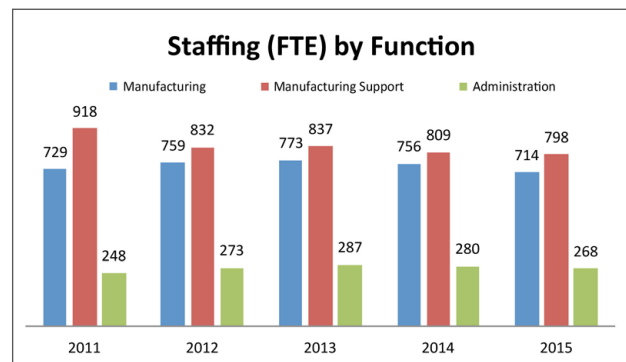
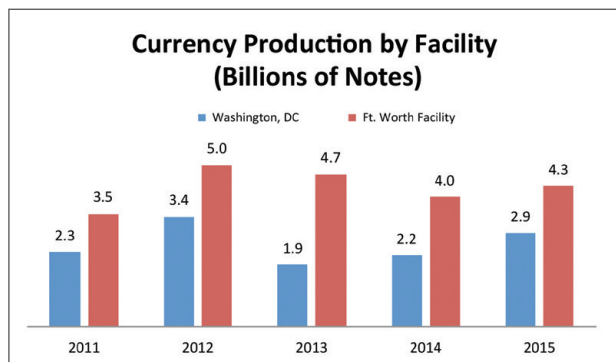


Manufacturing

In recent years, the Bureau has redesigned and the Federal Reserve has issued new \$5, \$10, \$20, \$50, and \$100 notes. The new designs are part of the US government's ongoing efforts to maintain the integrity and safety of US currency.

During 2015, the Bureau delivered 7.2 billion Federal Reserve notes to the Federal Reserve Board. The Washington, DC (DCF) and Fort Worth, Texas (WCF) facilities delivered 2.9 billion and 4.3 billion notes, respectively. For 2016, the Federal Reserve Board has ordered 7.6 billion Federal Reserve notes.

The Bureau's quality management system for the production of US currency has been registered as ISO 9001 compliant for the past twelve years. BEP is moving quickly with its partners, the Federal Reserve Board and the US Secret Service, to build and sustain a robust Currency Quality Assurance (CQA) program. Several major continuous improvement initiatives are underway under the CQA umbrella. The Bureau's goal with the CQA program is to establish a quality-driven organization that will support and sustain quality excellence through future currency design generations.



During 2015, the Bureau continued to increase its production capacity by transitioning the \$1 program from traditional 32-subject sheets (notes per sheet) to 50-subject sheet production. The WCF has been testing the new Currency Inspection System (CIS) equipment to be prepared to inspect \$5 50-subject sheets as BEP transitions to 50-subject manufacturing for \$5 notes in 2016. At both its production facilities, the BEP implemented the use of SNI machines. This equipment, which was used to inspect NexGen \$100 notes in 2015, enables the Bureau to inspect finished currency notes off-line using state-of-the-art technology.

Information Technology

In 2015, the Bureau's Chief Information Officer (CIO) continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and information technology (IT) related processes, and enhanced governance of the IT program and resources.

The Bureau accomplished "Green" (full compliance) status on all major Treasury cybersecurity metrics in 2015. At BEP, technology is an integral part of our manufacturing business and the challenge is the ability to balance business enablement with business risk. BEP continues to support the Comprehensive National Cybersecurity Initiative (CNCI); and is working closely with Treasury and the OMB to ensure an organized and unified response to future cyber incidents. BEP is committed to invest in the cutting-edge technology and personnel to meet the digital challenges of our time.



The Bureau continued modernizing its business information technology systems within BEP's Enterprise Resource Management system (BEN). Significant enhancements to BEN were made to expand access to and improve the quality of BEP operational and financial data, and streamline processes for reporting data and conducting shop floor transactions.

By expanding the functionality of the Data Management Module (DMM), the component of BEN that focuses on the shop floor and modernizes the way in which BEP captures and utilizes operational data to improve efficiency and quality, BEP has increased accessibility to data collected by the SNI machines. These changes provide BEP with better visibility into real-time machine and production status information.

As a result of new reports created through BEP's data warehouse and intelligence tool known as BEN Reporting, BEP now has the capability to review detailed data (such as press data metrics, temperature and humidity readings, and asset management information for a specific load) on a single dashboard. Production floor supervisors also have better access to maintenance metrics. Additionally, the BEN Program expanded the functionality of BEN Reporting to institute a foundation for self-service data collection by users external to the Bureau. New functionality also provided the Bureau's Office of Financial Management with new reports that are flexible and available on-demand to support more in-depth financial and cost analysis.

Building on the new functionality that was added to the Manufacturing Execution Console (MEC), the component of Manufacturing Support Suite (MSS) that focuses on transactions and reporting for production floor users and accountability, BEP continued to focus on expanding MEC integration with other production floor systems to reduce manual entry and streamline production-related transactions.

BEP continues to benefit from using Maximo to help manage its physical assets from the time they are purchased until they are ready for disposal. The Maximo system provides a central source of information regarding the maintenance activities and costs associated with BEP's assets. Maximo improves communication and efficiency by providing enhanced analyses of asset data. In 2015, Maximo was upgraded to version 7.5 and a new module, Maximo Asset Scheduler, was implemented. Maximo also deployed numerous change requests to improve user functionality and increase the speed of the system.


BEP's Identity Management (IDM) system continues to streamline the on-boarding and access authorization process for our employees and contractors. By simplifying forms and automating different steps in the system access request process, we have been able to reduce the time it takes to approve requests as well as the time it takes for users to gain access to different systems.

Organization


The Bureau's executive structure consists of the Bureau Director, a Deputy Director and five Associate Directors, and Chief Counsel. The executive committee structure includes various planning committees and subcommittees. The planning committees and subcommittees are composed of a cross-section of Bureau senior and mid-level managers that represent diverse organizational units. By cutting across organizational lines, these groups serve to promote effective communication, increased collaboration and participative, proactive management.




EXECUTIVE ORGANIZATIONAL STRUCTURE


LEONARD R. OLIJAR DIRECTOR		BUREAU MISSION The Bureau of Engraving and Printing develops and produces United States currency notes trusted worldwide.
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Currently Vacant	DEPUTY DIRECTOR BUREAU VISION The Bureau of Engraving and Printing is a world-class securities printer providing our customers and the public superior products through excellence in manufacturing and technological innovation.
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	DEBRA H. RICHARDSON ASSOCIATE DIRECTOR (CHIEF FINANCIAL OFFICER) The mission of the CFO Directorate is to provide superior customer service while: maintaining the integrity of the Bureau's revolving fund; executing financial management responsibilities; ensuring proper authorization for production activities; promoting compliance with internal controls, ISO standards for quality and environmental management systems and Treasury regulations; providing acquisition services, and redeeming mutilated paper currency.
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	CHARLENE E. WILLIAMS ASSOCIATE DIRECTOR (MANUFACTURING) The mission of the Manufacturing Directorate is to assure the manufacturing of high quality government security documents in a cost-effective and efficient manner that satisfies the needs of the customer, and to provide a safe and secure working environment for employees in both production facilities.
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	MIKE WASH ASSOCIATE DIRECTOR (CHIEF TECHNOLOGY OFFICER) The mission of the Chief Technology Officer Directorate is to design innovative currency; develop advanced materials, security features, equipment and processes that enhance counterfeit deterrence; and provide technical support for the production of US currency.
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	WILL P. LEVY III ASSOCIATE DIRECTOR (MANAGEMENT) & CHIEF INFORMATION OFFICER The mission of the Management Directorate is to provide the highest quality Security, Human Resources, Information Technology, Facilities Support, Environmental, Health and Safety Services, Employment Opportunity, and Labor Relations, in support of the overall Bureau mission.
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	SIDNEY ROCKE CHIEF COUNSEL The mission of the Office of the Chief Counsel is to provide the highest quality legal services in support of the overall Bureau mission.
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	VIC HENRY ACTING ASSOCIATE DIRECTOR (QUALITY) The mission of the Quality Directorate is to be the BEP quality champions through partnership with all BEP currency production components to include inspired designs, quality manufacturing and timely deliveries of world-class currency that works the first time, every time.
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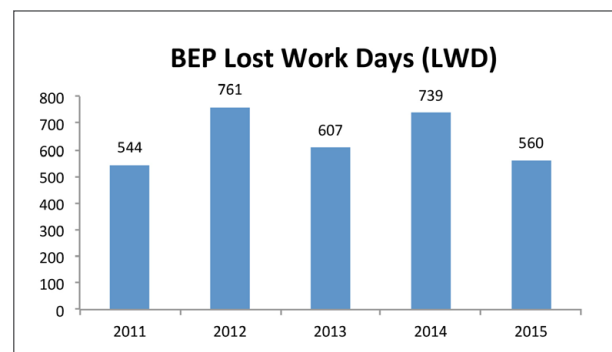
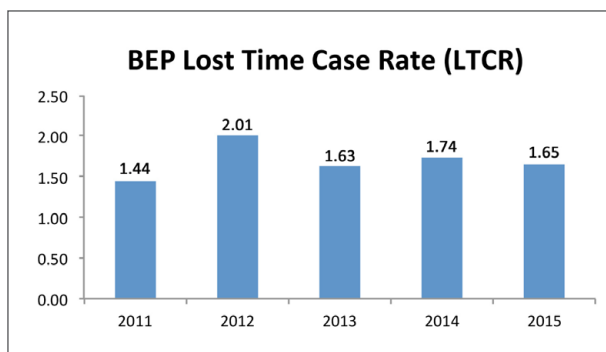


SAFETY, HEALTH AND ENVIRONMENTAL MANAGEMENT

The BEP's Office of Environment, Health, and Safety (OEHS) at the District of Columbia Facility and the Environment, Health and Safety Branch (EHSB) at the Western Currency Facility manage programs that minimize the Bureau's impact on the environment and protect workers from injuries, illnesses, and disabilities. The Bureau uses an ISO 14001 registered environmental management system (EMS) to focus and improve its environmental, health and safety programs. The continued improvement and effectiveness of this management system is demonstrated by the positive results of the ISO 14001 third-party audits, and long term improvements in our key operating metrics. The Bureau's goals are to maintain a downward trend in occupational injury and illness rates, and to minimize the environmental impact of our operations on air emissions, wastewater discharge, and solid waste. Engagement of personnel at all levels is strongly encouraged, and many OEHS improvements have been made as a result of employee suggestions, technical work groups, and projects led by safety and environmental professionals.

Improving Worker Health and Safety

BEP's Safety and Health Division (SHD) uses the Occupational Safety and Health Administration's (OSHA) recordable lost time case rate and the number of days away from work attributable to OSHA recordable cases as key performance indicators. In 2015, there was a decrease in both the lost time case rate (LTCR) and the number of lost work days (LWD). The SHD will continue to focus on comprehensive case management and returning employees to work.



The Bureau's LTCR in 2015 was 1.65 lost time cases per 100 employees. This represents a 5% decrease from last year's rate of 1.74. This decrease is attributable to recent initiatives such as the implementation of a direct strategy to manage injured employees proactively. The OEHS is working diligently to prevent injuries and illnesses through active case management, focused job safety analyses, and targeted training for all employees. With regard to the number of lost workdays, there were 560 lost workdays accrued in 2015, which is a 24% decrease from 2014 with 739 lost workdays. This decrease is due to the Bureau's emphasis towards maintaining a safe work environment and practicing workplace safety.



Protecting the Environment

In 2015, the Bureau reduced the total amount of regulated wastes it generated by 5.5% from the prior year. This reduction resulted from production efficiencies gained when printing large format (50-subject) sheets on BEP's newer presses, as well as the implementation of environmental projects at BEP's facilities. BEP also reduced total regulated air emissions by 13% and hazardous waste generation by 20%.

The Bureau has made significant progress in reducing its energy consumption and greenhouse gas (GHG) emissions. BEP has focused on improving the efficiency of its operations and facilities, and has completed a variety of energy conservation projects. BEP has reduced energy consumption per gross square foot of building space by more than 30% since 2003, exceeding the Executive Order 13423 target. Surveys show that BEP has reduced GHG emissions from the direct use of energy and fuels by more than 12,500 metric tons/year, a reduction of 18.6%.

The following are specific examples of significant environmental stewardship projects:

- **Wiping Solution Recycling Plant (WSRP)** – Waste water generated from on-site pretreatment of wiping solution is the Bureau's largest industrial waste stream. Wiping solution recycling is a process that is expected to reclaim approximately 80% of water-based wipe solution. The wipe solution recycling process will save approximately ten million gallons of water annually, while reducing energy use and the use of chemicals. The WSRP is expected to be completed and commissioned during 2016.
- **Capital Solar Challenge** – An energy services contractor completed an initial feasibility study which indicated a solar electric system can be deployed at the DCF to effectively generate renewable energy and reduce GHG emissions. Additional work is planned on this project in 2016.
- **Volatile organic compounds (VOC) reduction** – Long-term testing of lower VOC solvents used to control air emissions at the Washington, DC facility was completed. This project standardized the cleaning process across all press types, replaced a flammable solvent with a non-flammable one, and eliminated hazardous waste generation from DCF's currency printing presses. At average production rates, the amount of VOCs emitted to the air will be reduced by 3 tons/year. This project also improves process efficiency and reduces waste by helping to control a print defect that was occurring on the I-10 model presses when the presses were stopped and restarted.
- **Currency paper-related waste** – BEP is reviewing potential alternatives for recycling currency scrap and trim. BEP coordinated the composting of currency-related shreds with residual solids from an anaerobic digestion treatment process. The results of chemical analyses indicate composting produces a soil additive that meets EPA's highest standards for land application. Successful completion of this project will divert approximately 800 tons of waste from landfills.



In 2016, the Bureau will continue to strive to reduce its environmental impact and improve the safety of its employees with projects that are targeted at BEP's highest volume waste streams as well as BEP's higher risk processes. DCF plans to commission its WSRP, which will significantly reduce the volume of industrial waste water the facility discharges. Efforts to recycle or otherwise divert currency shreds and trim will continue, including the collaboration with DC Water on composting of this material. BEP will also evaluate wiping solution pretreatment plant solid waste diversion through anaerobic digestion. To address higher risk processes, BEP will study vapor phase deposition as an alternative to electrolytic hard chrome plating, and will evaluate hazardous waste reduction projects for offset lithographic presses. To reduce energy consumption and GHG emissions, BEP will continue to participate in the President's Capital Solar Challenge. At the Western Currency Facility, the diesel buses that are used to transport visitors on the public tour will be replaced with electric vehicles. BEP's long standing commitment to protecting the environment and employee health and safety has led to marked reductions of air emissions, solid waste generation, and industrial waste water discharges through the last decade, and execution of planned 2016 projects will continue those trends.

Pollution Prevention and Pretreatment Awards



Laly Joseph, Environmental Program Manager, City of Fort Worth, David Cooke, City Manager, City of Fort Worth, Nathan Hizer, Manager, Facilities Support Branch, John Robert Carman, Water Director, City of Fort Worth, Charlene Williams, Associate Director of Manufacturing, Ginny Baldwin, Manager, Environmental, Health and Safety Branch, Jesus Chapa, Assistant City Manager, City of Fort Worth

The Western Currency Facility (WCF) received the 2015 "Pollution Prevention Award" for developing an alternative air emission control method for the nickel electroplating line. After successful negotiations with the Texas Commission on Environmental Quality, Office of Air, the WCF obtained permission to remove the nickel scrubber and install a separate roof stack for the nickel electroplating line. WCF saved 108,690 gallons of water per year, reduced the wastewater generation by 9,268 gallons per year, and reduced the generation of electroplating sludge and debris from the wastewater treatment plant. In addition, the WCF received the Pretreatment Partnership award for having six consecutive years of being 100% compliant with local, state and federal pretreatment regulations.



STRATEGIC PLAN

The Bureau continues to implement its five-year strategic plan (2014 through 2018). Also, the Bureau supports the Department of Treasury's Strategic Plan by providing trusted and secure US currency notes for use by the public. The Bureau's strategic plan serves as a roadmap to guide the Bureau toward the goal of creating a new 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 towards our vision of a "world-class securities printer". We want to make sure we get it right. The Bureau will rely on 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) **Innovative Design:** To create innovative currency designs, which provide effective counterfeit deterrence and meaningful access.
- (2) **Currency:** To produce United States currency notes that function flawlessly in commerce.
- (3) **Organizational Excellence:** To achieve organizational excellence and customer satisfaction by balanced investments in people, processes, facilities, and technology.

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

- (1) **Develop New Series Notes:** Research, develop, and test innovative designs containing effective security features for the new series of notes.
- (2) **Retool Production Facilities:** Modernize BEP production facilities and create state-of-the-art manufacturing systems that leverage our enterprise resource planning system to support 21st century manufacturing and provide real-time data to improve process control.
- (3) **Expand Markets:** Develop new markets for our existing products and create value-added new products and services for our customers.
- (4) **Improve Quality:** Enhance quality assurance system practices to ensure efficient and effective note production.
- (5) **Create a Best Place to Work:** Create a work environment which fosters high levels of collaboration, job satisfaction, employee engagement, performance, and pride in accomplishments.



- (6) **Develop the Next Generation Work Force:** Attract, hire, develop and retain a highly skilled adaptive workforce with the skills needed to meet customer needs in a cost-effective manner.
- (7) **Be a Reliable Partner:** Consistently deliver high quality products and services to our customers.
- (8) **Improve Organization Efficiency, Effectiveness and Sustainability:** Develop and sustain efficient and environmentally friendly operations that consistently deliver timely and high quality products and services that meet customer expectations.

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.



BEP Director Len Olijar thanks members of the Deputy Director's Circle for their continued efforts in improving the BEP culture where employees exhibit the core values of BEP (fairness, respect, integrity and performance). From left to right: Bing Liu, Steve Herron, Parraize Butler, Hank Slikker, Angela Anderson, Director Olijar, Nia Benjamin, Mark Holt, and Rock Shelton. Not pictured: James Johnson, and George Hendrick.

Members from the new BEP Diversity Council. First row from left to right: Robinessa Prior, Elizabeth Mercado, and John Cotten. Second row from left to right: Douglas Bernia, Leonardo Rowe, and Nathaniel Perdue. Third row from left to right: Anthony Washington, Alicia Chisley, and Christopher Mahoney. Not pictured: Katherine Emmith-Dallos, Patricia Mendoza, Andrea Miller, Lester Walker, Karen Watts and Milton Featherston, Jr.



RETOOLING AND BUSINESS TRANSFORMATION

The Bureau is engaged in a multi-year program to upgrade its manufacturing capability and business processes. BEP is transforming its operations through major equipment investments and technologies, a robust Lean Six Sigma program, and a more robust quality management program.

Implementation of 50-subject Sheet Production

In support of efforts to increase production and reduce costs, the BEP continued the transition from 32-subject to 50-subject sheet production. In 2015, both BEP production facilities produced 50-subject currency sheets of \$1 notes and successfully overprinted them on the Large Examination and Printing Equipment (LEPE). Implementation of 50-subject production has dramatically reduced the manufacturing costs for \$1 notes. In 2016, the Bureau is working on transitioning to 50-subject sheet production for \$5 notes.

Design/Engraving Enhancements

The Bureau's Office of Engraving (OE) is responsible for the production of wet/dry offset plates, intaglio plates and letterpress seals used in the production of US currency, security products and public sales items. The OE purchased Computer-to-Plate (CTP) equipment in 2014 and installation will be completed at both of the Bureau's production facilities in early 2016.

The CTP equipment will be used to produce offset lithographic plates for the multiple offset presses that support both the special security products and currency programs. It is an "ultra-high resolution" device capable of producing an image up to 12,800 dpi (dots per inch) allowing the BEP the ability to print the highest quality of microprinting with quicker press make-ready's and improved image registration.

Currency Inspection

Single Note Inspection (SNI) equipment was installed in both BEP production facilities and became fully operational in 2015. The equipment is presently used to inspect finished inventories of \$100 notes to ensure they meet quality standards prior to shipping to the Federal Reserve Board. BEP processed and delivered over 300 million SNI \$100 notes to the Federal Reserve in 2015 resulting in a savings of \$22.7 million. In 2016, BEP plans to process an additional 600 million \$100 notes held in inventory since 2011 due to creasing and other flaws on some of the notes; these notes are held at zero value to the Bureau.

Process Control Improvements

Lean Six Sigma (LSS): In 2015, BEP implemented its new LSS Policy, which identified the deployment approach and defined stakeholders' roles and responsibilities. Over 150 projects were identified throughout the Bureau to reduce waste, accelerate product and service delivery and improve productivity. In 2015, BEP initiated 5S projects in the production areas including currency processing sections, vaults, packaging and staging areas, and warehouses at the Western Currency Facility (WCF) and the Washington, DC Facility (DCF). 5S is a LSS tool that stands for Sort, Straighten, Shine, Standardize and Sustain. 5S efforts improve work place efficiency and throughput by standardizing working practices and by removing variability from operational processes to provide improved product quality and customer service.





The Federal Reserve Distribution Vault prior to the 5S implementation.

The Federal Reserve Distribution Vault after the 5S clean up initiative.

Corrective and Preventive Action (CAPA) System: The Bureau's CAPA system is used as a process improvement tool to track quality issues from identification through resolution. In 2015, the system matured to become one of the BEP's core business processes. The system has had a significant impact on the cost and quality of the currency produced by the Bureau resulting in millions of dollars in cost savings.

ISO 9001 Quality Management System: BEP retained its ISO certification for the manufacturing and support processes required in the production of US Federal Reserve notes. BEP is required to maintain accurate and timely records of production and support activities to include the design, development, scheduling, production and raw material ordering and storage.

ISO 14001 Environmental Management Systems: BEP retained its ISO certification for the environmental stewardship and responsibility required to maintain large production facilities.



Chemist Glenn Flaim analyzing a wiping solution sample by acid titration method (left), and notes undergoing chemical rub testing (right).



CURRENCY QUALITY ASSURANCE PROGRAM

Federal Reserve notes are rapidly increasing in complexity to incorporate improved counterfeit deterrence and machine readability. The NexGen \$100 note has evolved into a high-tech consumer good, as will future generations of currency designs. In order to keep pace with this complexity, which includes new technologically advanced design features, a dedicated, persistent effort is needed to bring our quality management system to the next level. The Currency Quality Assurance (CQA) program objective is to move the BEP towards a proactive quality assurance environment incorporating collaboration by all quality system stakeholders.

To get to this level, the BEP and its stakeholders agree that a robust CQA program is necessary to address every aspect of the product life cycle—from product development to acquisition of material, through process and production control, to final release and delivery. The CQA Program will help BEP move away from the traditional model of quality control, and move toward a new model of quality assurance.

Management Controls

The Quality Management System Review (QMSR), also known as the Executive Management Review, is an initiative managed by the Office of Quality that provides a regular forum for the BEP Senior Executive Team to monitor quality improvement activities, and identify issues and risks. The Quality Management System (QMS) assigns solutions, owners, and due dates to process owners. Activities focus on sustaining the cross-functional review, decision-making, and proactive management of the QMS within BEP.

Facilities and Equipment Controls

The Facilities and Equipment work-stream focused on implementation of five pilot projects to address areas of improvement. The pilot projects listed below focus on banknote quality.

- Calibration;
- In-process Inspection Equipment;
- 5S Implementation (facility organization improvements);
- Maintenance Data Analysis; and
- Equipment Verification and Validation



An ink viscosity test being performed using a rheometer in the BEP Quality Assurance Ink Laboratory.



Material Controls

Material Controls project teams worked on two closely related projects. The first was Supplier Management, which focused on improving quality system integration, supplier performance measurement, inventory management, and acquisition processes for direct and indirect materials. The second was Incoming Inspection and Raw Material Management, which focused on increasing integration between supplier testing, BEP incoming material inspection, specifications, and material performance in production.

Document and Data Controls

The Document and Data Controls team published an improved procedure with a clear QMS documentation hierarchy and workflow. Development started for a new intranet landing page to aid employee navigation of the QMS documents. Other areas targeted for improvement include document change control, retention, distribution, and obsolescence.

Design Controls

Significant progress has been made in the banknote design and development area. The critical area of security feature development has to date successfully moved five new projects into the concept development phase, which is a phase where early-stage activity is completed to develop a more robust plan and, if appropriate, initiate contract activities for detailed development. The team has advanced two projects into the test and optimize phase, which is where late-stage activities are completed to ensure technology is ready for inclusion in a future banknote.

In the banknote development area, high-level requirements for the next family of notes have been completed and approved by all internal and external stakeholders. The team is now working to complete the initial release of the family-level technical requirements. These technical requirements are expected to be complete in 2016. The Series 2017 NexGen \$100 note project has now formally moved into the Banknote Development Process (BDP), which will provide stability in the materials used and reduce spoilage. The first note of the new family of notes, currently known as the Catalyst \$10 note, is expected to formally move into the BDP process in 2016. The initial phase of the BDP includes activities to perform a detailed concept analysis to allow the stakeholders to determine which product features and functions will advance into the more detailed development phases.

Corrective and Preventive Action

The Corrective and Preventive Action (CAPA) process provides a mechanism to identify, track and correct the causes of non-conformances or potential non-conformances pertaining to printing United States currency. These non-conformances are identified during day-to-day operations, customer complaints, internal quality audits, or external (ISO) audits. Improvement efforts center around more rigorous root cause investigations and thorough documentation of the corrective action plans.

BEP established a new work group to continue the maturation of our Quality Management System. This new group reviews root cause investigations and corrective action plans allowing the CAPA Council to focus solely on management of the CAPA system.



Production and Process Controls

The Production and Process Controls team improved the uniform and accurate documentation of Standard Operating Procedures as well as performed an assessment of the Change Control processes and documentation.

2015 Key Quality Assurance Accomplishments:

Increasingly complex notes require that design for manufacturability be considered early in the design process to ensure the best product. The Quality Directorate is moving toward providing Quality expertise on the production floor in real time to ensure timely feedback allowing the BEP to quickly adjust when challenges arise.

The BEP conducted supplier audits that resulted in our suppliers improving their processes to ensure delivery of high quality raw materials used in manufacturing US Currency. Supplier Management as a whole continues to take a more collaborative approach with stakeholders.

BEP reduced the size of the optically variable ink (OVI) pad resulting in a reduction of OVI waste by almost four tons. This change resulted in increased OVI mileage by nearly 30%, and saved \$5.1 million.

BEP resolved issues raised by the Board of Governors of the Federal Reserve System regarding currency strap bands that prematurely opened within their vaults. The Offices of Currency Manufacturing, Quality, and Engineering studied the process; determined the root cause; and established optimum range for critical settings such as temperature, dwell time, pressure, and glue thickness necessary to achieve consistent adhesion of the straps.



Plate Printer Ron Zachmann works diligently as he makes final cuts to the optical variable ink (OVI) pad using a pantograph machine. Inset photo: The roller which contains the modified OVI ink pads.



PROGRAM PERFORMANCE MEASURES

The Bureau measures the effectiveness and efficiency of its overall organizational performance by using program performance measures. Standards are developed annually by the senior executive team based on the prior year's performance, contracted price factors, and anticipated productivity variances. 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 2015 are as follows:

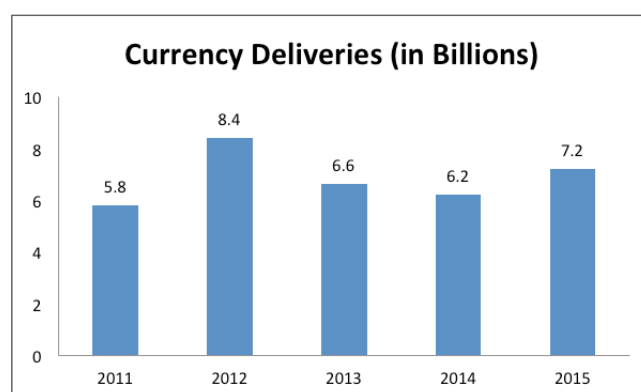
	<u>2015 Standard</u>	<u>2015 Actual</u>
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 45.20	\$ 42.35
2. Federal Reserve Notes Delivered (Billions)	7.2	7.2
3. Productivity Change 2014 to 2015	-2.3%	6.4%
4. Currency Spoilage	10.4%	9.6%

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

<u>Currency – Cost per Thousand Notes</u>	<u>2015 Standard</u>	<u>2015 Actual</u>
Federal Reserve Notes	\$ 45.20	\$ 42.35

The actual production cost per thousand currency notes, which includes direct labor, materials, and applied manufacturing overhead, was below standard in 2015. This favorable result was due to several factors: (1) The successful conversion of the \$1 note from 32 notes per sheet to 50 notes per sheet; (2) material savings achieved from better than expected ink mileage for the \$100 notes; and (3) lower than expected spoilage.

<u>Currency Deliveries</u>	<u>2015 Standard</u>	<u>2015 Actual</u>
Federal Reserve Notes (Billions)	7.2	7.2

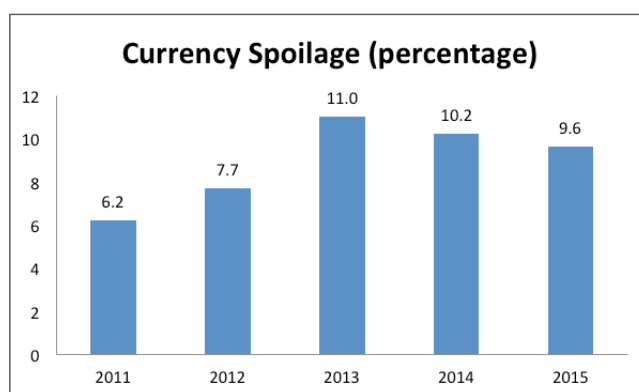


In 2015, the Bureau delivered 7.2 billion Federal Reserve notes to the FRB. Deliveries and billings are based on orders received from the customer. The FRB submits their requirements for currency deliveries to the Bureau on an annual basis. For 2016, the Federal Reserve has ordered 7.6 billion notes.

	<u>2015 Standard</u>	<u>2015 Actual</u>
Productivity Change 2014 to 2015	-2.3%	6.4%

Productivity is calculated based on units of output per labor hour. In 2015, overall productivity increased by 6.4%. This was directly attributable to the ability to produce \$1 notes using the 50-subject format on LEPE, which improved production throughput for the \$1 notes.

<u>Currency Spoilage</u>	<u>2015 Standard</u>	<u>2015 Actual</u>
Federal Reserve Notes	10.4%	9.6%



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 2015, overall currency spoilage continued to decline, which was led by the efficiencies made on the \$5 note program over the years by processing the notes through newer equipment.

	<u>2013</u>	<u>2014</u>	<u>2015</u>
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 50.45	\$ 41.96	\$ 42.35
2. Federal Reserve Notes Delivered (Billions)	6.6	6.2	7.2
3. Productivity Change	-12.1 %	3.7 %	6.4 %
4. Currency Spoilage	11.0 %	10.2 %	9.6 %

For those performance measures that are comparable, the results of the past three years are presented above. 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.

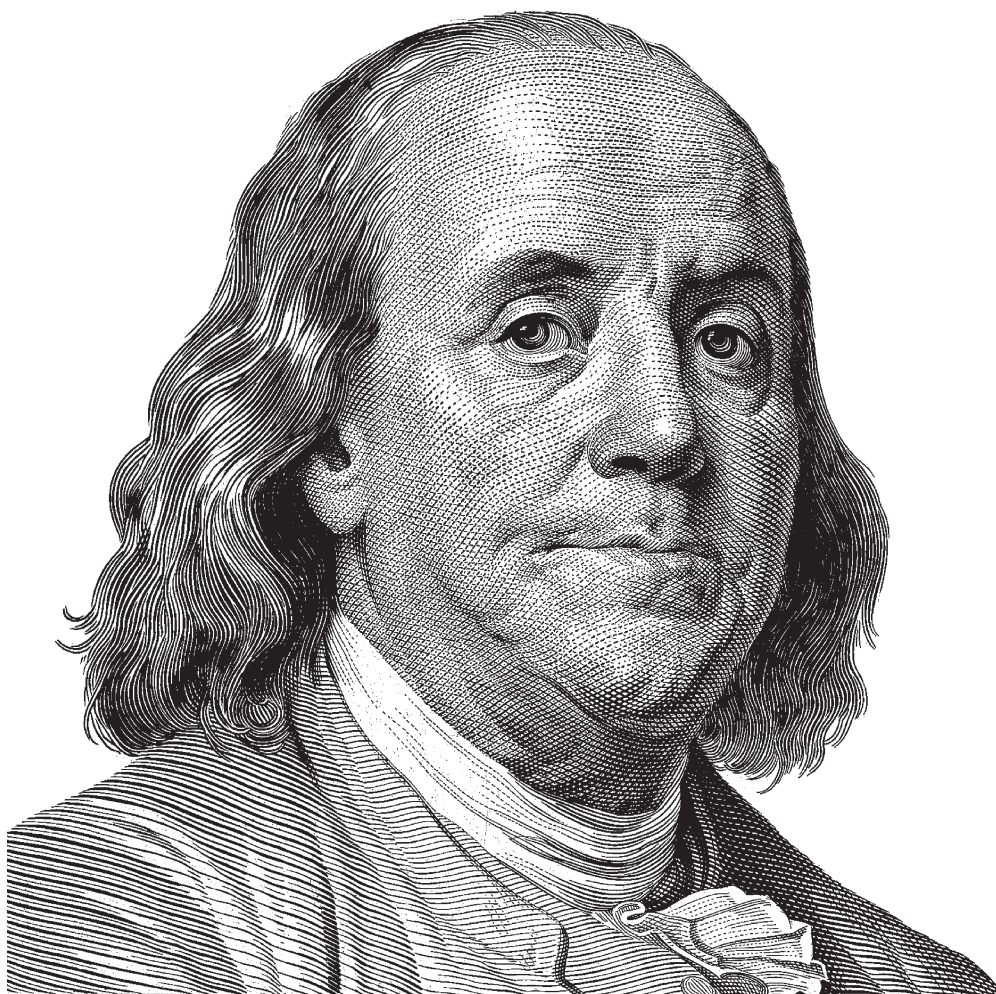


Prompt Payment

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

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Number of invoices paid late	204	31	39
Interest paid	\$12,720	\$1,469	\$1,523
Percentage of invoices paid late	3.67%	0.68%	0.89%



MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the Financial Statements and Notes thereto and selected financial data included elsewhere in this Performance and Accountability Report.

Cash

Bureau current cash requirements include operating expenses and capital expenditures. Cash increased by \$39.0 million in 2015. The increase is attributed to the increased currency deliveries during the year and the timing for cash disbursements for capital equipment and infrastructure improvements. Cash flows provided by operations for the years ended September 30, 2015 and 2014 were \$77.9 million and \$87.0 million, respectively.

Accounts Receivable

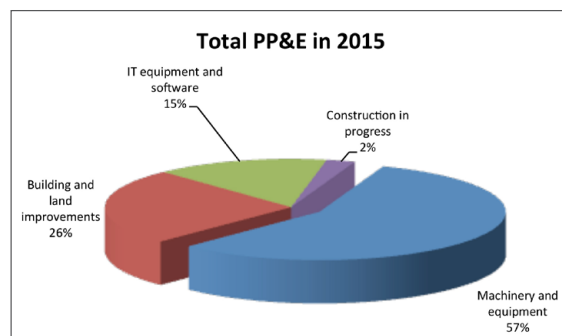
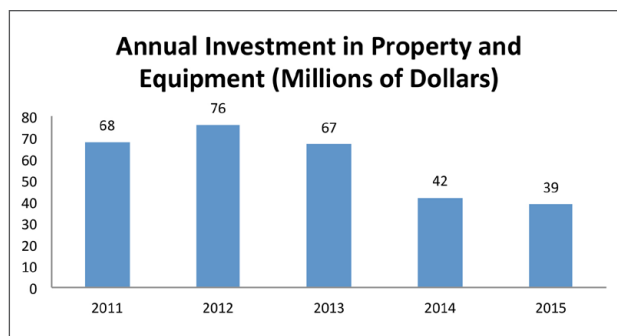
Accounts receivable decreased by \$4.3 million in 2015. This was due to a decrease in the volume of notes delivered and billed to the Federal Reserve Board (FRB) in the final month of 2015 as compared to 2014. In addition, there was a decrease to the price per note to reduce working capital.

Inventories

Net inventories decreased by \$9.2 million in 2015, due to a reduction in finished goods inventory. Anticipating capacity constraints arising from the increased size and complexity of the 2015 currency order, production began in the fourth quarter of 2014. BEP held \$2.9 million worth of currency readers in inventory at year-end.

Property and Equipment

Net property and equipment decreased \$23.0 million in 2015 to \$387.6 million. The decrease can be attributed to depreciation in excess of spending on currency manufacturing equipment; and the disposal of IT equipment during the year.

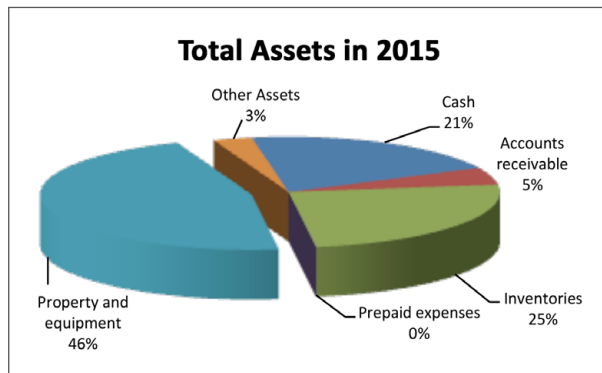
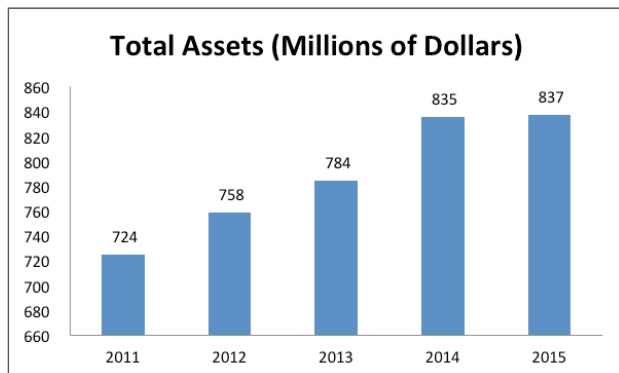


Prepaid Expenses

Prepaid Expenses remained comparable with a small increase primarily the result of new business activity with the Library of Congress, BEP's partner for the distribution of currency readers.

Other Assets

Net other assets decreased \$0.7 million in 2015 resulting from an increase to the reserve for repair parts.



Accounts Payable

Accounts payable increased from \$13.1 million in 2014 to \$17.4 million in 2015. The principal cause for the increase was the timing of outstanding invoices related to the purchase of raw materials and IT infrastructure support services.

Accrued Current Liabilities

Accrued current liabilities increased from \$25.3 million in 2014 to \$27.4 million in 2015 due to an increase in the year-end payroll accrual.

Advances

Advances remained comparable for the year with a small increase from \$4.2 million in 2014 to \$4.9 million in 2015.

Workers' Compensation Liabilities

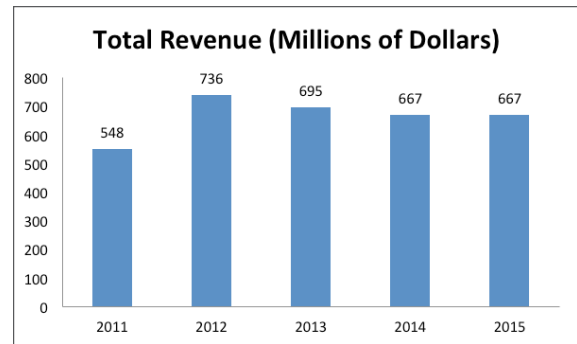
The actuarial workers' compensation liability decreased \$3.9 million in 2015. The decrease in the actuarial liability primarily resulted from changes in the Department of Labor (DOL) methodology used to determine the liability. In 2015, DOL refined the approach for selecting the discount rate by averaging for the current and prior four years. Using averaging renders estimates that reflect historical trends over five years instead of conditions that exist in one year.



Revenue from Sales

Overall, revenue from sales remained relatively unchanged from 2014 (\$667.0 million) to 2015 (\$667.1 million). While the currency program for 2015 was 15 percent higher than in 2014, BEP reduced the average billing rate. The reduction to the billing rate reflected a reduced need for working capital during the year.

Average Billing Rate for Currency		
Year	Rate per Thousand Notes	Single Note
2011	\$90.57	\$0.091
2012	\$86.22	\$0.086
2013	\$102.12	\$0.102
2014	\$101.97	\$0.102
2015	\$89.64	\$0.090

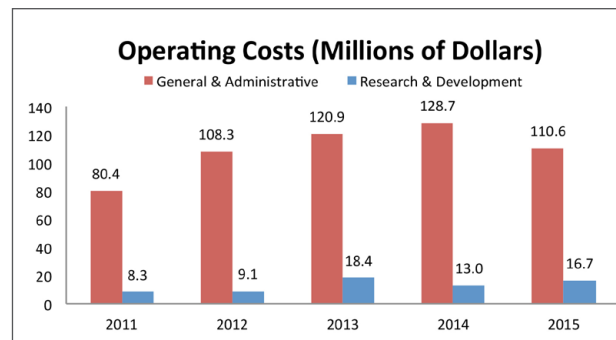


Cost of Goods Sold

Cost of goods sold increased from \$465.4 million in 2014 to \$541.1 million in 2015. The \$75.7 million increase is due to the increase in the production order for the year. The gross margin as a percentage of revenue decreased from 30.2 percent in 2014 to 18.9 percent in 2015. The gross margin decreased as the higher currency production costs were not offset by comparable billing rate increases.

Operating Costs

Operating costs decreased by \$14.4 million in 2015. The change is primarily attributed to the reduction in labor costs and investments in technology infrastructure during the year.



Legal Compliance

The Bureau of Engraving and Printing 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 programs compliance with applicable laws and regulations. For 2015, the Bureau of Engraving and Printing 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), which was passed in 1982, requires agencies to perform regular evaluations of internal controls and financial management systems to protect against fraud, waste, and abuse. The subsequent passage of the Chief Financial Officers Act, the Federal Financial Management Improvement Act, and the Sarbanes-Oxley Act of 2002 further increased 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 programs, and strong physical security and product accountability functions to safeguard products and assets. The Bureau's Strategic Plan reflects this emphasis. Security, accountability, and resource management are major strategic goals.

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

Ongoing efforts to improve internal controls include compliance reviews and an active internal control awareness program. The Bureau's Compliance Review Teams (CRTs) in both facilities promote compliance with Bureau operating policies and procedures by performing unannounced reviews in production, storage, and off-line components that have custody of security items. During 2015, the CRTs performed 557 unannounced reviews. The results of the reviews were reported to office chiefs, supervisors and managers responsible for enforcing policies and procedures, and implementing corrective actions. The Internal Control Awareness Program is used to promote the visibility and understanding of internal control issues, objectives and requirements. Internal review personnel conduct management and organizational reviews at both facilities to strengthen the Bureau's internal controls, ensure compliance with existing policies and procedures, and safeguard Bureau assets. The Bureau's quality management system for the production of US 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 Bureau's quality and environmental management systems by conducting regular audits throughout the Bureau.

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

The accompanying financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 31st consecutive year, the Bureau has received an unmodified opinion on its financial statements from an independent, certified public accounting firm. Additionally, the Bureau received an unqualified opinion from the auditors on management's assertion that the Bureau maintained effective internal control over financial reporting based on criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway



Commission (the COSO Framework). The FMFIA review process ensures the integrity of the revolving fund and the reliability of financial data used for managerial decision-making.

In 2015, the Bureau's Chief Information Officer (CIO) continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and information technology (IT) related processes and enhanced governance of the IT program and resources. In IT security, 100% of the Bureau's Major Applications (MA) and General Support Systems (GSS) have been accredited in order to meet the requirement for certification and accreditation at least every three years. Additionally, the 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 Federal Desktop Core Configuration for Microsoft software and NIST approved configurations for other operating systems and databases.

The Manufacturing Support Suite (MSS) is the Bureau's enterprise-wide financial application that uses the Oracle E-Business Suite. The system is hosted through the cloud at the Oracle Federal On-Demand (FOD) site. 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 program management office within the CIO Directorate executes quarterly Segregation of Duties analyses on all MSS system users to determine if new conflicts between permissions have been created. These ongoing assessments allow the Bureau to detect and mitigate risks associated with user permissions and controls.

During 2015, the CIO Directorate participated in a number of audits and reviews of financial and support IT systems, and FISMA implementation. 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, in order to support the annual audited financial statements. The CIO Directorate is an active participant in the Department of the Treasury's Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation 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 and the Local Area Network/Wide Area Network on, at least, an annual basis.

At the end of 2015, the CIO Directorate planned and executed an assessment of IT controls for the Treasury Departmental Office (DO) system known as HRConnect (a human resource management system). This on-site assessment tested controls across a number of IT control families to determine if these controls were designed and operating effectively. This was the second consecutive year this assessment was conducted by the CIO Directorate. Testers interviewed DO staff, reviewed all available system specific security documents, gathered test evidence and observed IT controls in place at HRConnect. Tested controls were determined to be operating effectively as of September 30, 2015. The CIO Directorate is issuing a report outlining any assessment findings and recommendations for use by the BEP CFO.

In addition, during 2015, the CIO Directorate planned and executed a security assessment of IT controls for a system owned by the Bureau of the Fiscal Service (BFS) known as the Invoice Processing Platform (or IPP). This is the first year this assessment was conducted. Testers interviewed BFS employees, reviewed all available system specific security documents and gathered test evidence. The CIO Directorate will also issue a report on the review outlining any assessment findings and recommendations for use by the BEP CFO.



CUSTODY OF ASSETS

In addition to the production of currency, the Bureau has many high-value items that are used for various purposes, such as research, product testing and historical reference. Consequently, the Bureau of Engraving and Printing has a unique fiduciary responsibility to the American public with respect to the custody and safeguarding of its assets and high-value items.

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

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

In order to effectively manage its fiduciary and custodial responsibilities, the Bureau has implemented effective internal control and security systems. To ensure that these systems are functioning properly, management has institutionalized an organizational focus on the safeguarding and accountability of all assets. This focus is reflected in the Bureau's organizational structure. Reporting to the Chief Financial Officer, who has oversight responsibility with respect to internal controls, is the Office of Compliance. This office evaluates and monitors internal control systems and maintains a comprehensive product accountability system. The Office of Security, which reports to the Associate Director Management & Chief Information Officer, 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. To further reinforce the internal control and security structure, a security and internal control element is included in each employee's performance plan. Employees are rated annually regarding their performance with respect to this element.



BEP police officers Color Guard led by Corporal Archie Williams.



ASSURANCE STATEMENT

The Bureau of Engraving and Printing (Bureau), made a conscientious effort during 2015 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Federal Financial Management Improvement Act (FFMIA) of 1996, Office of Management and Budget (OMB) Circular A-123, and the Reports Consolidation Act of 2000. The Bureau, taken as a whole, is operating in accordance with the procedures and standards prescribed by the Comptroller General of the United States and OMB guidelines.

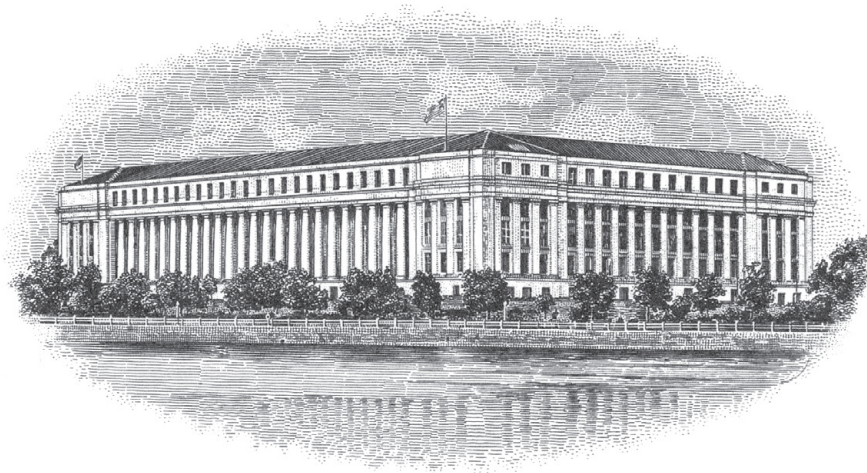
The Bureau is responsible for establishing and maintaining effective internal control to support the Department of the Treasury in providing reasonable assurance that the objectives of the FMFIA and the FFMIA are met. The Bureau evaluated both its internal controls and financial management systems for 2015. The results of these evaluations provided reasonable assurances that the internal control (Section 2) and the financial management system (Section 4) are in overall compliance with standards prescribed by the Comptroller General of the United States and guidance issued by the Office of Management and Budget. In addition, the Bureau had no instances of material internal control weaknesses and no material non-conformances outstanding as of September 30, 2015.

The Bureau evaluated its internal control over financial reporting in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control." Based on the results of this evaluation, the Bureau can provide reasonable assurance that internal control over financial reporting as of September 30, 2015, is operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting. Further, the Bureau has active programs in place to provide reasonable assurance that programs achieve their intended results; resources are used consistent with the Bureau's overall mission; programs and resources are free from waste, fraud, and mismanagement; laws and regulations are followed; controls are sufficient to minimize any improper or erroneous payments; performance information is reliable; systems security is in substantial compliance with all relevant requirements; continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and financial management systems are in compliance with federal financial systems standards.

SUMMARY OF OFFICE OF INSPECTOR GENERAL AND GOVERNMENT ACCOUNTABILITY OFFICE AUDITS

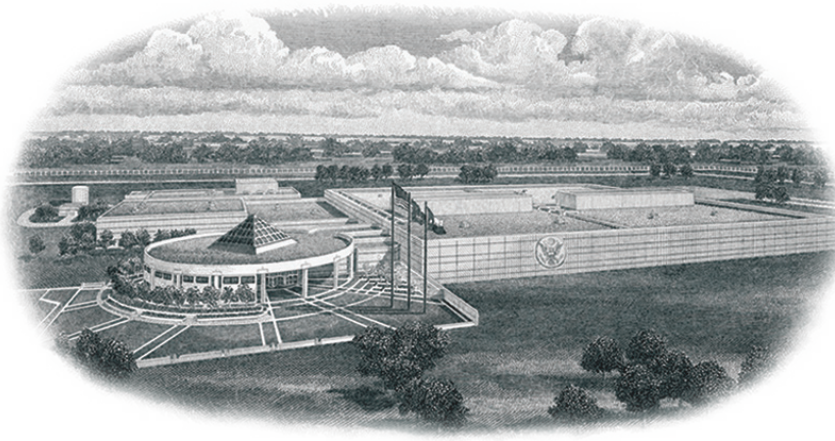
The Bureau began Fiscal Year 2015 with seven (7) open audit recommendations; and the Office of Inspector General (OIG) and Government Accountability Office (GAO) issued twenty (20) new ones. Those recommendations pertained to training, policy and/or procedure adherence, and internal controls. The Bureau implemented corrective actions on twenty-one (21) of those items during the year. The remaining six (6) issues are being actively addressed.





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 US Government, a sovereign entity. The principal financial statements have been prepared to report the financial position, results of operations and cash flows of the Bureau. They have been prepared from the Bureau's financial books and records maintained in accordance with private sector generally accepted accounting principles. These statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

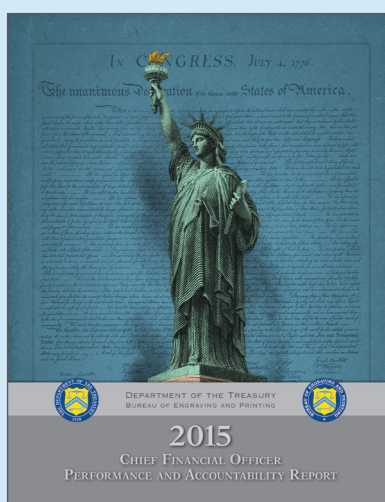




**THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING**

Financial Statements

**Years Ended September 30, 2015 and 2014
(With Independent Auditors' Reports Thereon)**





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

Independent Auditors' Report

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

Report on the Financial Statements

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, 2015 and 2014, 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.

Management's Responsibility for the Financial Statements

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 internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit 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 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.

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

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.





Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau of Engraving and Printing as of September 30, 2015 and 2014, and the results of its operations, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control over Financial Reporting

We also have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2015, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 23, 2015 expressed an unqualified opinion on management's assertion that the Bureau maintained effective internal control over financial reporting.

Report on Compliance and Other Matters

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2015, on our tests of the Bureau's compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report and the report on internal control over financial reporting are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bureau's internal control over financial reporting and compliance.

KPMG LLP

December 23, 2015



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

Balance Sheets

As of September 30, 2015 and 2014

(In thousands)

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash (Note 3)	\$ 172,313	\$ 133,326
Accounts receivable (Note 10)	42,310	46,657
Inventories, net (Note 4)	209,417	218,664
Prepaid expenses	430	294
Total current assets	<u>424,470</u>	<u>398,941</u>
Property and equipment, net (Note 5)	387,574	410,586
Other assets, net (Note 6)	24,812	25,533
Total assets	<u><u>\$ 836,856</u></u>	<u><u>\$ 835,060</u></u>
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities (Notes 7 and 8)		
Accounts payable	\$ 17,369	\$ 13,139
Accrued liabilities (Note 12)	27,430	25,257
Advances	4,891	4,187
Total current liabilities	<u>49,690</u>	<u>42,583</u>
Workers' compensation liability (Note 8)	64,117	68,036
Total liabilities	<u>113,807</u>	<u>110,619</u>
Contingencies and commitments (Notes 12 and 13)		
Equity		
Invested capital	32,435	32,435
Cumulative results of operations	690,614	692,006
Total equity	<u>723,049</u>	<u>724,441</u>
Total liabilities and equity	<u><u>\$ 836,856</u></u>	<u><u>\$ 835,060</u></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, 2015 and 2014

(In thousands)

	<u>2015</u>	<u>2014</u>
Revenue from sales (Note 10)	\$ 667,086	\$ 667,041
Cost of goods sold	<u>541,125</u>	<u>465,376</u>
Gross margin	<u>125,961</u>	<u>201,665</u>
Operating costs:		
General and administrative expenses	110,646	128,681
Research and development	<u>16,707</u>	<u>13,048</u>
	<u>127,353</u>	<u>141,729</u>
Excess of revenues over expenses	(1,392)	59,936
Cumulative results of operations at beginning of year	<u>692,006</u>	<u>632,070</u>
Cumulative results of operations at end of year	<u><u>\$ 690,614</u></u>	<u><u>\$ 692,006</u></u>

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, 2015 and 2014

(In thousands)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Excess of revenues over expenses (expenses over revenues)	\$ (1,392)	\$ 59,936
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	61,796	59,315
Loss from obsolescence	654	3,300
Loss from disposal of property and equipment	240	2,064
Changes in assets and liabilities		
Decrease in accounts receivable	4,347	16,619
Decrease (increase) in inventories	9,247	(47,160)
Decrease (increase) in prepaid expenses	(136)	3,234
Decrease (increase) in other assets	67	(1,785)
Increase (decrease) in accounts payable	4,115	(3,181)
Increase in accrued liabilities	2,173	811
Increase (decrease) in advances	704	(7,879)
(Decrease) increase in workers' compensation liability	(3,919)	1,694
Net cash provided by operating activities	<u>77,896</u>	<u>86,968</u>
Cash flows from investing activities		
Purchases of property and equipment	(38,909)	(41,860)
Net cash used in investing activities	<u>(38,909)</u>	<u>(41,860)</u>
Net increase in cash	38,987	45,108
Cash at beginning of year	133,326	88,218
Cash at end of year	<u>\$ 172,313</u>	<u>\$ 133,326</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, 2015 and 2014

1. Reporting Entity

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

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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



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

Notes to the Financial Statements

September 30, 2015 and 2014

Estimates

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

Cash

Cash represents the aggregate amount of the Bureau's funds held on deposit with the U.S. Treasury and are available to pay liabilities.

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.

The Bureau maintains an inventory of currency readers held by the Library of Congress, who manages the distribution process. The currency readers are valued using the FIFO method.

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, 2015 and 2014

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

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

Other Assets

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

Employee Retirement Plans

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

Postretirement Benefits Other than Pensions

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

Workers' Compensation Costs

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

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



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

Notes to the Financial Statements

September 30, 2015 and 2014

The second component, the actuarial FECA liability, is the estimated liability for future benefit payments. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for future FECA benefits. The actuarial liability for future worker's compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the 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, 2015 were 3.134% and 2.496% for wages and medical in year one and subsequent years, respectively. Discount rates as of September 30, 2014 were 3.455% and 2.855% 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.

Annual, Sick, and Other Leave

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

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

Revenue Recognition

Revenue from sales to the Federal Reserve 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.

Revenue from the sales of currency readers is recognized when the product is distributed to the public.

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.

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



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

Notes to the Financial Statements

September 30, 2015 and 2014

do not meet these criteria, but are reasonably possible and estimable are not accrued, but are disclosed in Note 12.

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, 2015 and 2014, 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, 2015 or 2014.

3. Cash

The year-end cash balances by fund are as follows as of September 30, 2015 and 2014:

	(In Thousands)	
	2015	2014
Bureau of Engraving and Printing		
Revolving Fund	\$ 167,628	\$ 130,051
Mutilated Currency Revolving Fund	4,685	3,275
Total	<u>\$ 172,313</u>	<u>\$ 133,326</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, 2015 and 2014, respectively (See Note 7).

4. Inventories, net

Inventories consist of the following as of September 30, 2015 and 2014:

	(In Thousands)	
	2015	2014
Raw material and supplies	\$ 67,553	\$ 55,646
Work-in-process	56,786	56,676
Finished goods - currency	55,780	83,172
Finished goods - uncut currency	26,425	23,170
Currency Reader inventory	2,873	-
Total	<u>\$ 209,417</u>	<u>\$ 218,664</u>

The Finished goods – currency balance as of September 30, 2014 includes 342 million Next Generation \$100 notes in the amount of \$43.2 million, net of \$5.8 million spoilage allowance. Those notes were produced in FY 2013 and had not been accepted by the Federal Reserve Board



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

Notes to the Financial Statements

September 30, 2015 and 2014

due to certain imperfections found on a small percentage of the notes. In FY 2015, the Bureau completed an electronic inspection of these notes and delivered to the Federal Reserve Board those notes that met the Federal Reserve Board's quality control standards. There are no Next Generation \$100 notes from the FY 2013 production remaining in the Finished goods – currency balance as of September 30, 2015.

5. Property and Equipment, net

Property and equipment consist of the following as of September 30, 2015 and 2014:

	(In Thousands)	
	<u>2015</u>	<u>2014</u>
Machinery and equipment	\$ 582,176	\$ 582,065
Building and land improvements	262,734	257,719
IT equipment and software	154,494	143,102
Office machines	1,685	1,685
Furniture and fixtures	838	749
Donated assets - art work	125	125
Motor vehicles	212	212
Leasehold improvements	130	130
	<u>1,002,394</u>	<u>985,787</u>
Less accumulated depreciation	640,388	607,750
	<u>362,006</u>	<u>378,037</u>
Construction-in-progress	25,568	32,549
Net property and equipment	<u>\$ 387,574</u>	<u>\$ 410,586</u>

Depreciation expense for the years ended September 30, 2015 and 2014 was \$61.8 million and \$59.3 million, respectively.

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

6. Other Assets, net

Other assets consist principally of machine repair parts and tools. The allowance for obsolescence for these parts and tools for the years ended September 30, 2015 and 2014 was \$11.2 million and \$10.5 million, respectively.



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

Notes to the Financial Statements

September 30, 2015 and 2014

7. Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2015 and 2014:

	(In Thousands)	
	<u>2015</u>	<u>2014</u>
Intragovernmental	\$ 6,125	\$ 6,341
With the public	43,565	36,242
Total	<u>\$ 49,690</u>	<u>\$ 42,583</u>

Accrued current liabilities consist of the following as of September 30, 2015 and 2014:

	(In Thousands)	
	<u>2015</u>	<u>2014</u>
Payroll	\$ 8,509	\$ 7,541
Annual leave	11,403	11,570
Workers' compensation	5,793	5,185
Other	1,725	961
Total	<u>\$ 27,430</u>	<u>\$ 25,257</u>

Advances consist of the following as of September 30, 2015 and 2014:

	(In Thousands)	
	<u>2015</u>	<u>2014</u>
Other Federal Agencies	\$ 143	\$ 909
Mutilated Currency	4,685	3,275
Public sales	63	3
Total	<u>\$ 4,891</u>	<u>\$ 4,187</u>

8. Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2015 and 2014, but not yet reimbursed to DOL by the Bureau, are approximately \$12.0 million and \$12.2 million, respectively, of which approximately \$5.8 million and \$5.2 million represent a current liability, as of September 30, 2015 and 2014, 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 \$57.9 million and \$61.0 million as of September 30, 2015 and 2014, respectively. The Bureau's estimated, undiscounted, non-current, actuarially derived future workers' compensation liability was approximately \$80.9 million and \$89.9 million as of September 30, 2015 and 2014, respectively.



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

Notes to the Financial Statements

September 30, 2015 and 2014

9. Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were \$20.4 million and \$18.5 million for 2015 and 2014, respectively. The CSRS employer contribution rate for fiscal years 2015 and 2014 was 7.0%. The FERS agency contribution rate was 13.2% and 11.9% for fiscal years 2015 and 2014, 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 \$26.3 million and \$26.7 million in 2015 and 2014, respectively.

OPM paid costs totaling \$10.1 million and \$9.8 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2015 and 2014, respectively. These costs are not included in the Bureau's Statements of Operations. The Bureau paid costs totaling \$15.2 million and \$15.5 million for the FEHBP and FEGLI programs in 2015 and 2014, respectively, which are included in the Bureau's Statement of Operations.

10. Concentration of Revenue

The Bureau's principal customers are other federal and quasi-federal governmental organizations. During 2015 and 2014, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2015 and 2014, are reflected in the following table:

	Revenue (In Thousands)		Accounts Receivable (In Thousands)	
	2015	2014	2015	2014
Federal Reserve Board:				
Currency Production	\$ 648,277	\$ 632,032	\$ 40,040	\$ 44,796
Mutilated Currency	3,804	3,419	988	855
Meaningful Access	2,709	374	676	374
Other Federal Agencies	4,062	4,175	85	73
	<u>658,852</u>	<u>640,000</u>	<u>41,789</u>	<u>46,098</u>
Public sales	8,232	27,040	1	1
Other	2	1	520	558
	<u>8,234</u>	<u>27,041</u>	<u>521</u>	<u>559</u>
Total	<u>\$ 667,086</u>	<u>\$ 667,041</u>	<u>\$ 42,310</u>	<u>\$ 46,657</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, 2015 and 2014

11. Principal Suppliers

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

12. Commitments and Contingencies

The Bureau is a party in various administrative proceedings, legal actions, and claims brought against the Federal Government by employees, contractors, and other parties. Contingencies for litigations involving the Bureau, where the risk of loss was probable, were approximately \$600 thousand and \$300 thousand as of September 30, 2015 and 2014, respectively, and reported as accrued liabilities in the accompanying Balance Sheets. Contingencies, where the risk of loss is reasonably possible, are approximately \$8.1 million and \$28.0 million as of September 30, 2015 and 2014, 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, 2015 and 2014. As an interim measure, the Bureau is providing currency readers, free of charge, to eligible blind and visually impaired individuals.

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

13. Operating Lease

Rental expense for the years ended September 30, 2015 and 2014 was \$3.1 million and \$3.1 million, respectively.

Future minimum payments under the lease as of September 30, 2015, are (in thousands):

For the years ending September 30:	Amount
2016	\$ 3,077
2017	3,090
2018	3,103
2019	3,117
2020	3,132
Thereafter	<u>4,715</u>
Total	<u>\$ 20,234</u>



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

Notes to the Financial Statements

September 30, 2015 and 2014

14. Subsequent Events

The Bureau has evaluated subsequent events through December 23, 2015, 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

Management's Report on Internal Control Over Financial Reporting

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

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

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

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

We assessed the effectiveness of the Bureau's internal control over financial reporting as of September 30, 2015. 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, 2015.

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
Director

Debra H. Richardson
Chief Financial Officer

December 23, 2015





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

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have examined management's assertion, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that the Bureau of Engraving and Printing (Bureau) maintained effective internal control over financial reporting as of September 30, 2015, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bureau's management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on management's assertion based on our examination.

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

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

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





In our opinion, management's assertion that the Bureau of Engraving and Printing maintained effective internal control over financial reporting as of September 30, 2015 is fairly stated, in all material respects, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the balance sheets as of September 30, 2015 and 2014, and the related statements of operations and cumulative results of operations, and cash flows, of the Bureau and our report dated December 23, 2015 expressed an unmodified opinion.

KPMG LLP

December 23, 2015





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

Independent Auditors' Report on Compliance and Other Matters

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

We have audited in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Bureau of Engraving and Printing (the Bureau), which comprise the balance sheets as of September 30, 2015 and 2014, 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, and have issued our report thereon dated December 23, 2015.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bureau's financial statements 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 the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the Bureau's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bureau's compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 23, 2015

