



MISSION

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

CORE VALUES

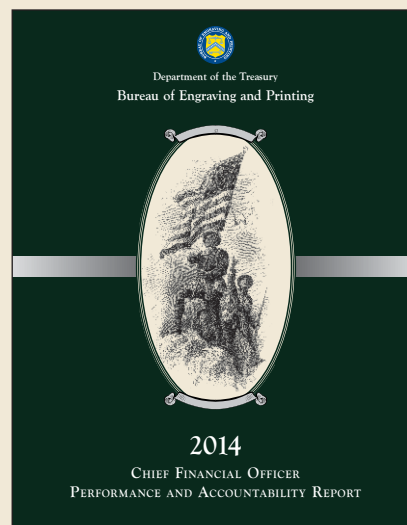
Integrity • Fairness • Performance • Respect

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 intaglio printed vignette featured on the cover is from a 1919 engraving entitled "Victory". It depicts three World War I soldiers proudly displaying the American flag. The image was used on the back of the \$500 First Liberty Loan Gold Bond from 1932 to 1947. The vignette was selected to commemorate the 100th anniversary of the start of World War I.





Director Larry Felix presents Mark Holt from the Office of Compliance with the Director's Award for Excellence recognizing his efforts to lead a robust Lean Six Sigma program at BEP.



Associate Director Will Levy III is pictured with his 2014 Causey Award, for exceptional contributions in human resource management.



From left to right BEP Deputy Director, Len Olijar, and CFO, Debra Richardson, recognize Small Business Specialist, Bernadine Stewart, and Office of Acquisitions Chief, Ernest Dilworth, for their efforts in exceeding the Department of the Treasury's Small Business Program goals and commitments in 2014.



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MESSAGE FROM THE DIRECTOR



As one of the world's premier currency manufacturers, the Bureau of Engraving and Printing (the Bureau or BEP) has been at the forefront of product innovation in the bank note printing industry, and 2014 was no exception. The Bureau celebrated a number of significant achievements in 2014 that were made possible by innovation and continuous quality improvement driven by a dedicated and resourceful workforce. Beginning with the successful release of the redesigned \$100 note into circulation by the Federal Reserve Board in October 2013, the year has been marked by historic firsts, successful manufacturing innovations, and improved efficiencies in production and support programs.

The Bureau's Meaningful Access program took a giant step forward with the pilot launch of the US Currency Reader Program. The program is the first US government sponsored effort to provide a device to assist the blind and visually impaired to authenticate their currency in daily commerce. The currency readers are provided free of charge to US citizens who are blind or visually impaired. "Meaningful Access" to US currency has been and continues to be a top priority for the Bureau. I am pleased at the successful launch of the currency reader device, and the initial feedback from users indicates that they are pleased with this service. The full national rollout of this program begins in early 2015.

Another historical milestone was achieved in the US currency production program in 2014 with the commencement of production of 50-subject sheets (50 notes per currency sheet) of \$1 Federal Reserve notes. Previous production occurred using a 32-subject sheet. This larger sheet production format was made possible by investments in new production and processing equipment. Additionally, BEP successfully deployed Single Note Inspection (SNI) technology for \$100 note production in its Washington, DC facility in 2014. SNI provides much improved capability for quality control and its single note extraction capability will, with 50-subject processing, significantly improve production yields and reduce waste. BEP is continuing to retool additional production lines in both facilities to implement these innovations for other currency denominations.

Also in 2014, the Bureau continued to make great strides in its Best Places to Work (BPTW) initiative and again ranked in the top 20% of more than 300 Federal agencies on the annual Federal Employee Viewpoint Survey (FEVS). We will continue to seek ways to involve employees to enhance the workplace and drive continuous quality improvement.

BEP, with its partners, the Federal Reserve Board and the US Secret Service, continues to build a robust Currency Quality Assurance (CQA) program that emphasizes continuous quality improvement. Our goal with the CQA program is to establish a data driven organization that will support a culture of continuous improvement and a growing Lean Six Sigma program. At times, this will require us to realign and reorganize internal components to support new and improved processes.

Finally, I recently announced my intention to retire from Federal service in January 2015. I have been privileged to serve as the Bureau's Director for these last nine years and to have witnessed the many outstanding achievements of the men and women making up the Bureau family. I thank the Treasurer of the United States, Rosie Rios, for her support for the Bureau over the past six years. I have no doubt that the Bureau's leadership team will continue the transformation that is underway, and that innovation and excellence will be the hallmarks of the Bureau. The Bureau of Engraving and Printing has been the Best Place to Work for me for 25 years. As an organization, we have tried to live up to our core values while striving to maintain the highest quality standards for US currency. I will miss my Bureau family, and look forward to its continued growth and success.



MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am pleased and privileged to present the Bureau of Engraving and Printing's Performance and Accountability Report for 2014. As the Chief Financial Officer, I am committed to continually improving the quality and integrity of the BEP financial data and reporting systems.

In 2014, we continued a commitment to strong financial management; timely, 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 30th consecutive year. Further, the Bureau received, for the second consecutive year, an unqualified opinion on management's assertion of effective internal control over financial reporting based on the criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Both accomplishments spring from the efforts of a long, unbroken line of outstanding employees committed to excellence and quality.

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 2014, the Bureau delivered 6.2 billion currency notes to the Federal Reserve, resulting in revenue of \$667.0 million and an excess of revenue over expenses of \$59.9 million. The excess of revenues over expenses funds Bureau working capital requirements and future investments in plant and equipment. Overall program performance was favorable, and direct manufacturing costs for currency were below established standards. In an environment of increasing needs and decreasing resources, BEP continued to invest in new technology to improve operating efficiency and the quality of its products.

Additionally, the Bureau effectively exceeded Treasury's Small Business program goals and commitments for the second time in 20 years. BEP will continue to support the Office of Small and Disadvantaged Business Utilization (OSDBU) on the formulation of small business procurement policy initiatives in 2015. The BEP is extremely committed to meeting our small business goals and is working closely with the small business community to ensure that all capable firms including minority, women, disabled veteran owned businesses, and businesses located in historical underutilized business zones, are provided opportunities to partner with BEP.

The Bureau is transitioning its manufacturing platform from 32-note (subject) sheets to 50-note sheets that will result in significant cost savings through productivity improvement. In addition, Single Note Inspection (SNI) equipment is being used to enable the Bureau to inspect finished currency off-line using state-of-the-art technology. These are only two aspects of the robust Currency Quality Assurance (CQA) program at BEP, which will provide for future cost savings and ensure that BEP resources are being utilized in the most efficient way.

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 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 processes.

Debra H. Richardson

HIGHLIGHTS OF THE YEAR

A primary goal for the Bureau of Engraving and Printing (Bureau/BEP) in 2014 was the transition of the \$1 program from the traditional 32-subject format to the larger 50-subject format, with final processing on the Large Examining and Printing Equipment (LEPE). In February 2014, the BEP completed its first 50-subject, \$1 process at the Western Currency Facility (WCF). The LEPE machines are capable of processing 50-subject currency sheets (compared to BEP's traditional 32-subject format), as well as providing efficient multi-tasking capabilities to print serial numbers and seals, in addition to cutting and packaging in a single process. WCF produced 34 percent of the \$1 notes in 2014 using the 50-subject format.

In 2014, the Bureau received an unqualified opinion on its financial statements for the 30th 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.

Additional operational highlights for 2014 include:

CURRENCY READER DISTRIBUTION PROGRAM

BEP entered into an Interagency Agreement with the Library of Congress to distribute free currency readers to the blind and visually impaired at no cost to them. Distribution of currency readers began on a pilot basis in 2014 with a national rollout planned for 2015. The currency readers, or iBill® Talking Money Identifiers, are part of the US government's approach to further enable visually impaired individuals to denominate US currency. In 2014, BEP distributed 1,800 currency reader devices to eligible persons at several conferences for the blind and visually impaired, and received almost 6,000 currency reader orders during the pilot phase.

REDESIGNED \$10 NOTE

The successful production of the redesigned \$100 Federal Reserve note (FRN) marked the completion of the redesign cycle that began in 2004 with the redesign of the \$20 note. With the lessons learned from the NexGen family of redesign, the Bureau established a product team to manage another cycle of redesign that begins with the \$10 FRN. The \$10 note will include an improved high contrast numeral and new security features to maintain the security of the Nation's currency.

EXCEEDING SMALL BUSINESS CONTRACTING GOALS

During 2014, BEP exceeded the Department of the Treasury's goals for contracting with small businesses for the second time in 20 years. The BEP is committed to meeting its small business goals and is working closely with the small business community to ensure that all capable firms including minority, women, disabled veteran owned businesses, and businesses located in historical underutilized business zones, are provided opportunities to partner with BEP.



VETERAN'S APPRECIATION DAY

In honor of Veteran's Day, the Bureau held "Veteran's Appreciation Day." This year's theme, "Honoring All Who Served" paid tribute to all of the Bureau's men and women who have served in the United States Armed Services.

ACHIEVING EXCELLENCE

The Federal Law Enforcement Training Accreditation (FLETA) Board granted accreditation status to the Bureau's Police Basic Training Program (PBTP). To achieve accreditation, BEP submitted to an independent review of PBTP to ensure compliance with the FLETA Standards and Procedures in the areas of: Program Administration, Training Staff, Training Development, and Training Delivery, with an additional 20 standards for Academies.

Pictured from left to right: Corporal William Copeland; Lieutenant Edward Barnes; Administrative/Training Manager Tawanda Williams; Chief of the Office of Security Troy High; Corporal Jason Daniel; Training Specialist Ronald Rucker; and Office of Security Training Supervisor Tameelah Garrett.



BEST PLACE TO WORK (BPTW) INITIATIVE

For the second 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 Bureau was recognized by the Department of the Treasury for the creative use of special events that engaged BEP employees in the spirit of the Combined Federal Campaign (CFC). Pictured from left to right: Len Olijar, BEP Deputy Director; David Lockhart, BEP CFC Committee Member; Sheryl Morrow, Commissioner of the Bureau of Fiscal Services and Treasury's CFC Vice-Chair; and Mary Warren, BEP CFC Coordinator.



PROFILE OF THE BUREAU OF ENGRAVING AND PRINTING



Sheets of the 50-subject \$1 note processing through LEPE.



Members from the Veterans Appreciation Day Committee pictured with Deputy Director Len Olijar (standing left), Treasurer Rios (seated left), DCF program speakers (seated center), and Director Larry Felix (seated right).

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

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

The Bureau occupies three government-owned facilities. The Main and Annex buildings, located in Washington, DC, produce Federal Reserve notes and other security products. The Western Currency Facility, located in Fort Worth, Texas, produces Federal Reserve notes. The Main Building became operational in 1914, the Annex Building in 1938, and the Western Currency Facility began operations in 1991. The Western Currency Facility was constructed to provide increased production capacity, reduce transportation costs and enhance the Nation's emergency preparedness.

In addition to housing production facilities, free tours of currency operations are 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 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.

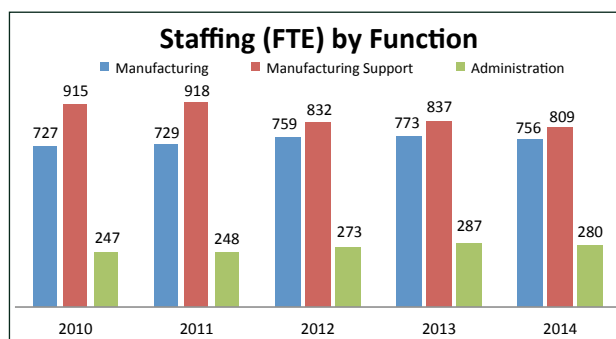
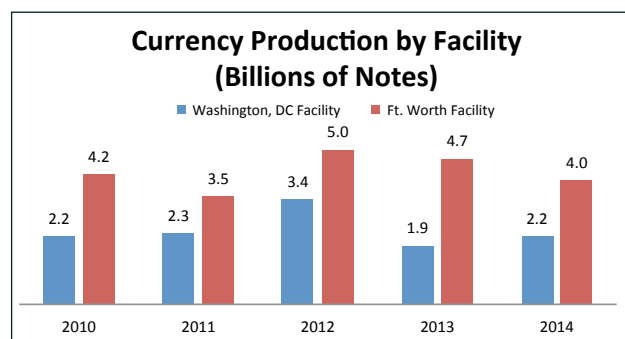
MANUFACTURING

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 2014, the Bureau delivered 6.2 billion Federal Reserve notes to the Federal Reserve System. The Washington, DC (DCF) and Fort Worth, Texas (WCF) facilities delivered 2.2 billion and 4.0 billion notes, respectively. For 2015, the Federal Reserve Board has ordered 7.2 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 generations.

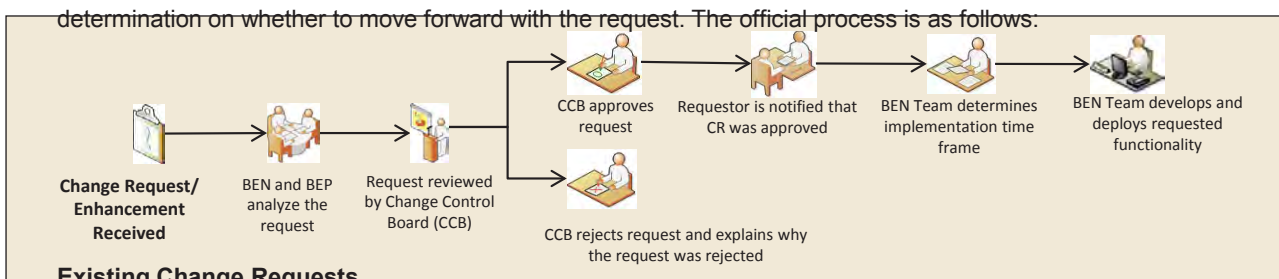
During 2014, the Bureau continued to increase its production capacity, while maintaining stringent quality standards, by transitioning the \$1 program from traditional 32-subject sheets to 50-subject sheets, with production focusing on the two LEPE presses at the WCF. The DCF is expected to start 50-subject sheet production in 2015. The WCF also received approval to implement the new Currency Inspection System (CIS) equipment to inspect 50-subject sheets prior to LEPE processing. At both its production facilities, the BEP implemented the use of Single Note Inspection (SNI) machines. This equipment, which was used to inspect 2009A series NexGen \$100 notes in 2014, enables the Bureau to inspect finished currency notes off-line using state-of-the-art technology. A fourth SNI will be installed and operational at the WCF during 2015.



INFORMATION TECHNOLOGY

In 2014, 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 continued modernizing its business information technology systems under BEP Enterprise (BEN). Also, BEP made significant enhancements to accommodate the increased data requirements of the Currency Quality Assurance (CQA) initiative including changes to the Manufacturing Support Suite (MSS), the Data Management Module (DMM), an assets management module known as Maximo, and a data warehouse and intelligence tool known as BEN Reporting. Additionally during 2014, the Bureau continued to expand on the enterprise functionality by implementing major change requests to enhance the user experience, adding new features, enhancing reporting capabilities, and developing a robust training program known as BEN University.



BEP's change request (CR) process for BEN enhancements.

MSS is an Enterprise Resource Planning (ERP) system utilizing the Oracle Managed Cloud Services for Federal environment. MSS is a fully integrated business solution that has reduced manual processes, increased efficiency, improved data quality, and provides real-time enterprise data and information for improved decision-making. MSS includes a Manufacturing Execution Console (MEC) for production floor users and accountability.

DMM is the component of BEN that focuses on the shop floor and is modernizing the way in which BEP captures and utilizes operational data to improve efficiency and quality. DMM allows for real-time machine and production status information.

In 2014, building on the 2013 implementation of the Enterprise Service Bus (ESB) to improve system integration, reduce point-to-point interfaces and improve reliability and availability; IT added functionality for supporting Bi-Directional (automatic data updates) between DMM, MEC and FlowSys which has greatly improved data integrity by eliminating multiple points of manual data entry and potential data errors.

Maximo will help BEP manage its physical assets from the time they are purchased until they are ready for disposal by providing a central source of information regarding the maintenance activities and costs associated with those assets. Maximo improves communication and efficiency by providing enhanced



analyses of assets. In 2014, Maximo enhancements were implemented to improve user functionality as well as integration with MSS for item and cost data.

BEN Reporting is BEP's enterprise reporting tool for all business area data related to BEN. In 2014, dashboards and key performance indicators (KPI's) were implemented for key stakeholders in the Offices of Financial Management; Compliance; Quality; and Currency Production. Additionally, ad hoc reporting and analytical capabilities were introduced along with additional reports for quality, accountability, and financial control.

In 2014, BEP implemented the Extranet connection with BEP's paper manufacturer (Crane). The new capability allows authorized Crane personnel to directly access BEP SharePoint servers from their location and provides near real-time data collaboration and sharing capability. Building on this success to enhance relationships/collaboration with our suppliers, BEP plans to extend this capability to its ink vendor (SICPA) in 2015.

The BEP's Identity and Access Management (IDM) system has significantly streamlined the onboarding and access authorization for our employees and contractors. Replacing the previous paper-based system; the IDM is currently assisting the BEP to process 300–500 requests per month with improved accountability (no lost forms), the ability to see where in the process a request currently resides and reduced process time.

Lastly, the BEP continues to participate in a number of external/internal reviews related to the Federal Information Security Management Act (FISMA) and OMB Circular A-123 in support of the annual financial statement audit. The reviews resulted in no significant FISMA findings at BEP in 2014. The BEP continues to be an active participant in Department of the Treasury CIO and Critical Infrastructure Protection Planning initiatives including the implementation of PIV, FISMA compliance and timely patching of all the BEP IT assets. In 2014, the BEP was one of the only Treasury bureaus to consistently meet, or exceed, on all Department of the Treasury cybersecurity metrics.

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 an Executive Committee, the Capital Investment Committee and various planning committees and subcommittees. The planning committees and subcommittees are composed of a cross-section of Bureau senior and mid-level managers that represent diverse organizational units. By cutting across organizational lines, these groups serve to promote effective communication, increased collaboration and participative, proactive management.

EXECUTIVE ORGANIZATIONAL STRUCTURE

LARRY R. FELIX
DIRECTOR



BUREAU MISSION

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

LEONARD R. OLIJAR
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.

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.

CHARLENE E. WILLIAMS
ASSOCIATE DIRECTOR
(MANUFACTURING)



The mission of the BEP 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.

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.

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.

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.

VIC HENRY
ACTING ASSOCIATE DIRECTOR
(QUALITY)



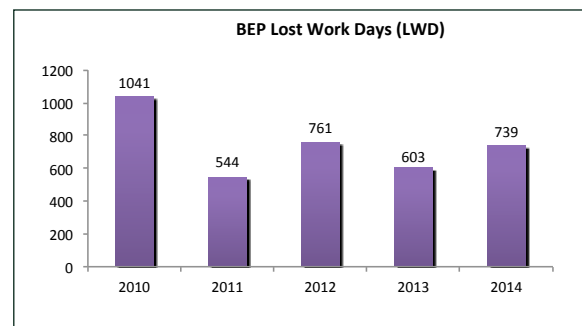
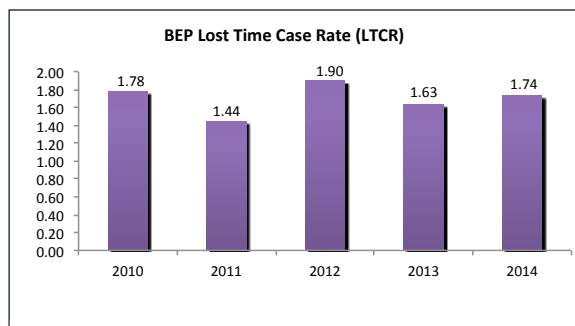
The mission of the Quality Directorate is to be the BEP quality champions through partnership with all BEP currency production components to include inspired designs, quality manufacturing and timely deliveries of world-class currency that works the first time, every time.

SAFETY, HEALTH AND ENVIRONMENTAL MANAGEMENT

The BEP's Office of Environment, Health, and Safety (OEHS) manages programs that minimize the Bureau's impact on the environment and protect workers from injuries, illnesses, and disabilities. The Bureau uses an ISO 14001 registered environmental management system (EMS) to focus and improve its environmental, health and safety programs. BEP's EMS includes all aspects of environment management, as well as health and safety. 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 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. Many EHS 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 2014, there was an increase in both the lost time case rate (LTCR) and the number of lost workdays (LWD). In 2015, the SHD will continue to focus on comprehensive case management.



PROTECTING THE ENVIRONMENT

BEP has made significant progress in reducing its industrial waste and impact on the environment in 2014. Bureau-wide, total industrial waste water discharges were reduced by 15% and total regulated solid waste disposal amounts were reduced by 10%, while total regulated air emissions showed little change year-over-year. Total regulated waste generation benchmarked to production was reduced by 7.4% due to lower production and changes in the production mix at BEP's facilities, as well as the implementation of various environmental projects at the facilities.

Another measure of sustainability is an organization's energy consumption and greenhouse gas (GHG) emissions, and the Bureau has made significant progress in reducing these. BEP has focused on improving the efficiency of its operations and facilities, and has completed a variety of energy conservation projects at its facilities. Under the guidance of its Office of Facilities Support, BEP has reduced energy intensity by more than 24% since 2003. BEP also conducts comprehensive greenhouse gas emissions surveys, and since its first survey, which used 2008 data, BEP has reduced GHG emissions from the direct use of energy and fuels by more than 11,500 metric tons/year, or more than 17%.

The following are specific examples of significant 2014 projects:

- **Wiping Solution Recycling Project (DCF).** Wiping solution recycling is a process to reclaim approximately 80% of our water-based wiping solution that is used to clean excess ink from currency printing press plates. The wiping solution recycling process will save approximately 12 million gallons of water annually, while reducing energy use by 4.5 billion BTUs (British Thermal Units) per year and reducing the use of process chemicals. The recycling plant facility design was completed in 2014 and construction will begin in 2015.
- **High Efficiency Boilers.** BEP replaced three existing boilers at WCF with high-efficiency low NOx boilers. This project is estimated to reduce energy consumption by 3.3 billion BTUs per year, and cut natural gas costs by 15–30%, NOx emissions by 70% and CO₂ emissions by 1,700 metric tons/year.
- **New, Low Emission Solvents.** BEP evaluated several lower volatile organic compounds (VOC) solvents for use on the DCF currency presses, and identified a preferred alternative. Long term on-press testing was conducted through the 2nd half of 2014. Use of the solvent was shown to reduce VOC emission rates from the currency presses, while enabling the use of automatic plate washers and an ink savings program that helps to resolve a print quality issue. Once optimized at DCF, the new solvent will be utilized Bureau-wide.
- **Energy Efficient Lighting.** BEP completed a re-lamping project at the WCF that will reduce energy costs over the life of the project.
- **Completed a facility-wide Supervisory Control and Data Acquisition (SCADA) project at DCF** that is estimated to provide energy savings of 3.8 billion BTUs per year.

In fiscal year 2015, the Bureau will continue to focus on initiatives that reduce its environmental impact and improve the safety of its employees in a cost-effective way. BEP plans to complete construction and begin operation of the wiping solution recycling plant in DCF during 2015. Other projects include initiating an evaluation of vapor deposition as an alternative to use of electrolytic chrome plating, evaluating wiping solution pretreatment plant solid waste diversion through anaerobic digestion and composting, evaluating



options for recycling shredded securities waste and trimmed edges, and evaluating hazardous waste reduction projects for offset lithographic presses. In addition, DCF will participate in a site evaluation as part of the President's Capital Solar Challenge to determine if a solar electric system can be deployed at the site to cost effectively increase use of renewable energy and reduce greenhouse gas emissions. These projects are targeted to address BEP's highest volume waste streams – wiping solution waste water, pretreatment plant solids, currency shreds and trim, and greenhouse gas emissions from energy consumption – as well as emissions from higher risk processes. As these projects indicate, BEP is committed to taking proactive and cost-effective steps to improve the efficiency of our operations and to reduce our impact on the environment.



STRATEGIC PLAN



Deputy Director Len Olijar presents Small Business Specialist Bernadine Stewart with a National Contract Management Association certificate.



Assistant Pressman Chris McCuiston loads 50-subject \$1 sheets into LEPE.

The Bureau's Strategic Plan is aligned with the Department of the Treasury's Strategic Plan. It 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. While committed to meeting the many new challenges of implementing innovative technology, the Bureau remains resolute in producing quality currency, controlling costs, being environmental stewards, and working safely as we move towards our vision – to continue to be a world-class security printer. We want to make sure we get it right – in all respects – the first time, every time. 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 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 six objectives:

- (1) **Develop New Series Notes:** Research, develop, and test innovative designs containing effective security features for 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) **Provide Meaningful Access:** Develop tactile features and issue currency reader devices to enable the blind and visually impaired to denominate US currency.
- (4) **Enhance Quality:** Enhance quality assurance system practices to assure 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) **Improve Organization Efficiency and Effectiveness:** Engage and participate in Strategic Alignment Initiatives leveraging best practices and synergies between the BEP, the United States Mint, and other banknote printers to continuously improve the BEP's operations.

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.

DRIVING CULTURAL CHANGE – DEPUTY DIRECTOR'S CIRCLE

The mission of the Deputy Director's Circle (DDC) is to lead the way in transforming the culture of the BEP into a world class organization where employees exhibit fairness, teamwork, respect, integrity and performance. The cross-functional DDC was formed in 2014 to assist in the efforts to proactively address current and possible future issues that may negatively affect employees and impact goals and objectives.



The inaugural team members of the DDC: Front row (left to right): Mark Holt, Rocke Shelton, Angela Anderson, Nia Benjamin, and Rick Risner. Back row (left to right): Hank Slikker, Bing Liu, Len Olijar, Parraize Butler, Ron Brasel, and Steve Herron.

RETOOLING AND BUSINESS TRANSFORMATION



The WCF's Boiler Room contains three new, energy-efficient boilers. Inset: A contract maintenance worker monitors the equipment.



Offset Pressman Martyn Summerfield-Brice takes a close look at the new Super Simultan IV delivery module.

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 has initiated the transition of a 32-subject formatted press-sheet to a 50-subject formatted press sheet. In 2014 the Western Currency Facility began running two lines of 50-subject \$1 intaglio sheets, which are then overprinted on the Large Examining and Printing Equipment (LEPE). Similar efforts are being made at the Washington, DC Facility. Higher denominations will be transitioned to the new production format.

DESIGN/ENGRAVING ENHANCEMENTS

The 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. New equipment purchased in 2014 by the OE includes a Computer-to-Plate (CTP) and Electrical Discharge Machining (EDM) equipment.

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 a large format CTP machine capable

of producing Digital Thermal wet-offset plates up to 40” in width. It is an “ultra-high resolution” device capable of producing an image up to 12,800 dpi, allowing the BEP the ability to print the highest quality of micro printing with quicker press make-ready’s and improved image registration.

Prior to the purchase of the Electrical Discharge Machining (EDM) equipment the production of letterpress seals used in the printing of currency was labor intensive with each letterpress block requiring hand (sculpture) efforts. BEP has been utilizing EDM for many years but continues efforts to improve the process. In 2014, BEP completed the purchase of a new “Wire” machine used to produce the blank seals, which in turn are used in the production of Federal Reserve and Treasury letterpress seals. It is imperative the seals are produced in a consistent quality level to meet demanding currency quality specifications. The currency seals are produced in support of both the 32-subject and 50-subject overprinting equipment.

SIMULTAN OFFSET PRINTING UPGRADE

The Simultan press is a dry-offset multicolor printing press used to print the background color in the production of US Federal Reserve notes.

In 2014 the DCF began refurbishing one of the Simultan presses. The press presently has printed over 300 million impressions and has shown signs of wear.

The WCF purchased, installed and began operation of a new Simultan press. With the new press the WCF presently has four offset press lines increasing its capability to support the printing of all seven denominations simultaneously.

CURRENCY INSPECTION

Each and every intaglio sheet of currency is individually inspected prior to being passed to overprinting production areas (COPE and LEPE). The sheets are scanned and electronically inspected for ink density, registration and other printing aspects. In addition, the sheets are inspected for watermark, thread quality, and other raw material quality concerns. The BEP is presently operating the Currency Inspection System (CIS) to perform this function. In 2014 the new CIS 3 was installed at the Western Currency Facility. The system has completed/passed in-house testing and produced initial test loads for quality verification for multiple denominations. A new ergonomic jogger/aerator in support of preparing work to run through CIS was also installed.

Efforts to standardized CIS training, Standard Operating Procedures (SOP’s), and Standard Work Instructions (SWI’s) between each facility have been generated, approved, and adopted.

SINGLE NOTE INSPECTION

Single Note Inspection (SNI) equipment was installed at both facilities in 2013 and 2014. The equipment is presently used to inspect finished inventories of NexGen \$100 notes to assure they meet quality standards prior to shipping to Federal Reserve Banks. BEP processed and delivered 9.6 million SNI NexGen \$100 notes to the Federal Reserve in 2014.

PROCESS CONTROL IMPROVEMENTS

Lean Six Sigma (LSS): In 2014, BEP created a Bureau-wide LSS Policy, which identified the deployment approach and defined stakeholders' roles and responsibilities. BEP established a Steering Committee to provide high-level oversight and guidance for the LSS program. The Committee is comprised of the Deputy Director, CFO, Associate Director Management, Associate Director CTO, Compliance Chief and the LSS Coordinator. The Bureau completed seven LSS projects in 2014.

- a. Exit Clearance Process – Designed a new process, including the development of a detailed Circular and Checklist, which enabled the effective clearance of personnel leaving the Bureau.
- b. Routine Testing – Streamlined routine testing processes for ink and paper. Reduced overall lead-time and improved customer service.
- c. MUT (currency manufacturing spoilage) Verification – Streamlined the MUT Verification and End-of-Load Accountability procedures resulting in improved process efficiencies and reduced waiting time for verification personnel. BEP updated procedures and training to reinforce security protocols.
- d. MUT Destruction – Optimized the MUT destruction process to increase throughput and reduce cycle time through machine utilization. Created sufficient capacity to clear the Bureau's MUT backlog and increased available vault space within the Bureau.
- e. Zero Inventory (stock outs) – Improved inventory management practices for spare parts and consumables to eliminate stock outs. BEP implemented multiple process improvements to enhance performance by increasing storeroom capacity and improving storage of hazardous materials by eliminating safety concerns through the correct grouping of stored materials.
- f. 5S Deployment – OMT Phase II, Federal Reserve Vault, Note Packaging – Improved work place efficiency and throughput using the 5S methodology by standardizing working practices and removing variability from operational processes to provide improved product quality and customer service.

ISO 9001 Quality Management System: BEP retained its ISO certification for the manufacturing and support processes required in the production of 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.

Warehouse Consolidation: The Landover, Maryland Warehouse Consolidation Plan (WCP) is an initiative in support of the Presidential Directive, dated June 10, 2010; (Presidential Memorandum – Disposing of Unneeded Federal Real Estate) to increase sales proceeds, cut operating cost, and improve energy efficiency. In conformity with the Presidential Directive, the WCP initiative is intended to reduce real estate assets/ footprint and increase utilization of existing real estate space in the federal government. The BEP partnered with the Department of the Treasury to develop a strategy and approach to combine other Treasury Bureaus warehouse requirements within the BEP’s existing warehouse space in Landover, MD.

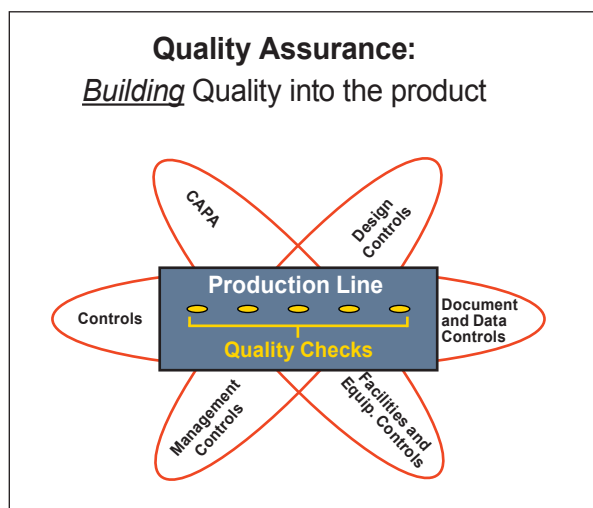
Four Treasury bureaus: the United States Mint, Internal Revenue Service/Criminal Investigations Division (IRS/CI), Bureau of the Fiscal Service, Office of the Comptroller of the Currency (OCC) and Departmental Offices (DO) with expiring lease agreements at their existing warehouses entered into interagency agreements to relocate to the BEP Landover, MD warehouse. With the installation of a new racking system, the BEP warehouse was approximately 25% underutilized, affording the opportunity to absorb the warehouse requirements of the US Mint, IRS/CI, FMS, OCC and DO. The WCP is designed to maximize the use of the BEP warehouse, eliminate separate warehouse leases for the US Mint, IRS/CI, FMS, OCC and DO, resulting in fewer lease agreements and increase operational and administrative cost savings across Treasury.



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 truly evolved into a high-tech consumer good, and so 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 underway to bring BEP's 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 from all quality system stakeholders.

To get to this level, the BEP and its stakeholders agree that the Currency Quality Assurance (CQA) program must address every aspect of the product lifecycle – 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 current model of quality control, and move toward a new model of quality assurance – building quality in, not inspecting it in.



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 identify quality improvement activities, 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 five pilot projects, also selected due to their impact on banknote quality, are:

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

MATERIAL CONTROLS

Material Controls project teams worked on two closely related projects. The first was Supplier Management that 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 that 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

The Design Planning work-stream continued efforts in refining and implementing the five-phase Product Development Process developed by the initial Design Review project team in 2012. Multiple product development projects are being piloted under the Currency Quality Assurance program. Pilot projects currently being supported through the Product Development Process include the Treasury Seal Improvement Program (TSIP), 50-subject \$1 note production, and Tactile Feature Development.

CORRECTIVE AND PREVENTIVE ACTION

The Corrective and Preventive Action (CAPA) process provides a mechanism to identify and correct the root 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 audits. Improvement efforts center around more rigorous root cause investigations and thorough documentation of the corrective action plans.

PRODUCTION AND PROCESS CONTROLS

During the earlier CQA endeavors, the Production and Process Controls team improved the uniform and accurate documentation of Standard Operating Procedures as well as the assessment of the Change Controls of processes and documents.

2014 KEY QUALITY ASSURANCE ACCOMPLISHMENTS

The BEP implemented a new risk-based Quality Audit. A partnership between the Office of Compliance and the Office of Quality resulted in a new Quality Audit Procedure, Work Instructions and training of all affected staff.

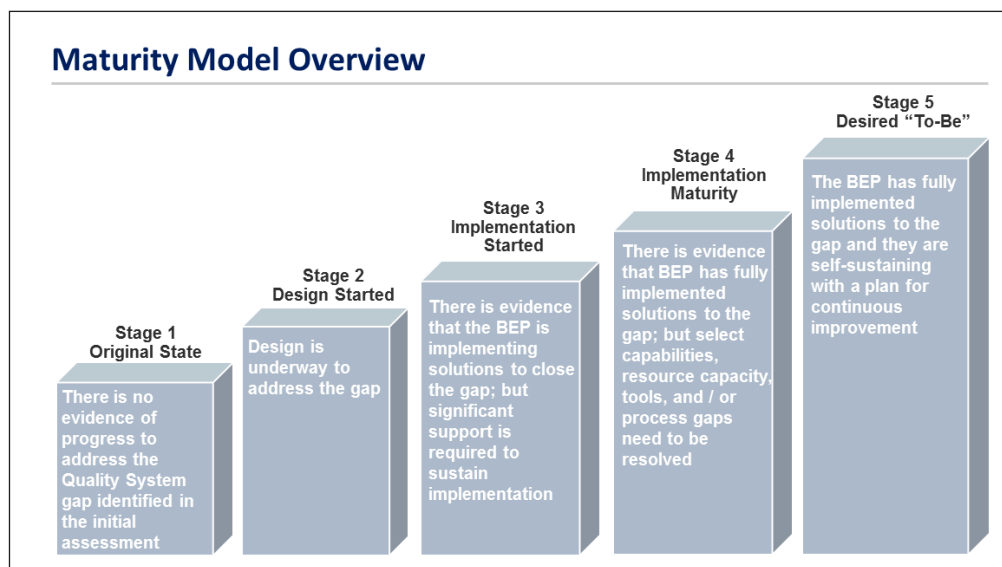
The Bureau published revised production QMS procedures to conform to the new Data and Documents Control procedure and to improve uniformity of operations between facilities. Training at both facilities ensured affected staff understood responsibilities and specific tasks associated with the new procedures.

The BEP held Supplier Business Reviews with two raw materials suppliers and one equipment supplier. These reviews were productive and beneficial to all parties concerned. Supplier Management as a whole is taking a more collaborative approach.

The Materials Controls team has instituted the materials certification process. The Contracting Officer's Representatives are preparing documentation for certification reviews to validate that materials currently in the Dock-to-Stock program qualify to remain in this status.

The Design Controls team kicked off the Technology Development Process (TDP) governance with the first Technology Review Group (TRG) and Technology Approval Committee (TAC) meetings working on two pilot projects.

The CAPA program continues to make significant progress. Use of CAPA has increased and more investigations have resulted in robust corrective action plans. The CAPA Council has prioritized CAPAs to ensure effective use of CAPA resources. The QMSR reviews metrics to manage the health of the CAPA system. This program area has achieved Level IV in the maturity model.



The BEP is committed to drive each of these CQA program areas to achieve the "To-Be" state as depicted in the chart above.

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 improvement. Actual performance against standard depends on the Bureau's ability to meet annual spoilage, efficiency, and capacity utilization goals established for currency production.

Bureau-level performance measures and associated results for 2014 are as follows:

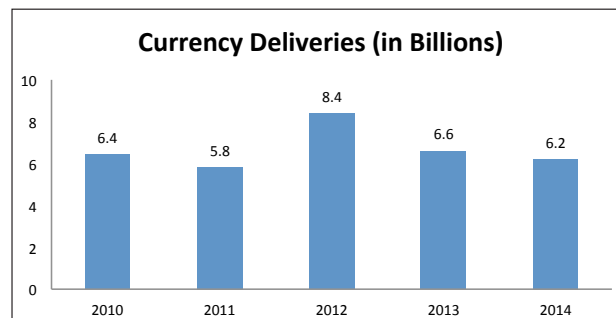
	<u>2014 Standard</u>	<u>2014 Actual</u>
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 44.24	\$ 41.96
2. Federal Reserve Notes Delivered (Billions)	6.0	6.2
3. Productivity Change 2013 to 2014	-4.5%	3.7%
4. Currency Spoilage	9.0%	10.2 %

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.

Currency – Cost per Thousand Notes	<u>2014 Standard</u>	<u>2014 Actual</u>
Federal Reserve Notes	\$ 44.24	\$ 41.96

The actual production cost per thousand currency notes, which includes direct labor, materials, and applied manufacturing overhead, was below standard in 2014. This was due to several factors: (1) The successful conversion of the \$1 note from 32-subject to 50-subject format; (2) Material savings achieved from better than expected ink mileage; and (3) Improved machine productivity associated with the \$100 note.

Currency Deliveries	<u>2014 Standard</u>	<u>2014 Actual</u>
Federal Reserve Notes (Billions)	6.0	6.2



Deliveries and billings are based on orders received from the customer. Included in the 2014 actual delivery of 6.2 billion notes are 200 million notes originally a part of the 2013 production order that were not previously delivered due to quality concerns. The Federal Reserve Board (FRB) submits their requirements for currency deliveries to the Bureau on an annual basis. For 2015, the FRB has ordered 7.2 billion notes.



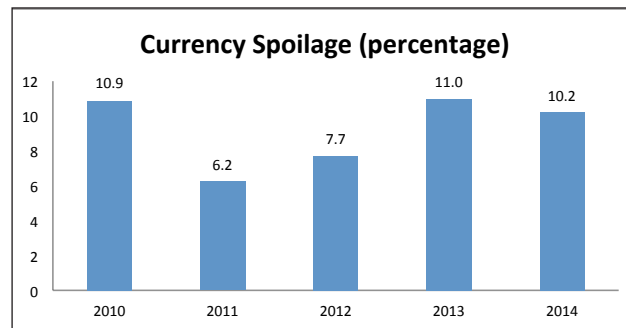
Productivity Change 2013 to 2014

<u>2014 Standard</u>	<u>2014 Actual</u>
-4.5%	3.7%

Productivity is calculated based on units of output per labor hour. In 2014, overall productivity increased by 3.7%. This was directly attributable to successful transition to a 50-subject format for the \$1 notes on the LEPE, which allowed for the early completion of the 2014 order and subsequent start of the 2015 order.

Currency Spoilage Federal Reserve Notes

<u>2014 Standard</u>	<u>2014 Actual</u>
9.0%	10.2%



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 2014, overall currency spoilage was above standard due to several factors. The limited capacity on the Bureau's newer intaglio presses required the Bureau to print the majority of the \$20 note program on older, less efficient I-10 intaglio presses. Printing-related setoff problems, which occur when sheets stacked on the delivery pile transfer ink from one sheet to another, were experienced across all denomination lines. In addition, tighter inspection standards were incorporated at the electronic inspection operation to enhance product integrity.

	<u>2012</u>	<u>2013</u>	<u>2014</u>
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 42.35	\$ 50.45	\$ 41.96
2. Federal Reserve Notes Delivered (Billions)	8.4	6.6	6.2
3. Productivity Change	25.5 %	-12.1 %	3.7 %
4. Currency Spoilage	7.7 %	11.0 %	10.2 %

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

PROMPT PAYMENT

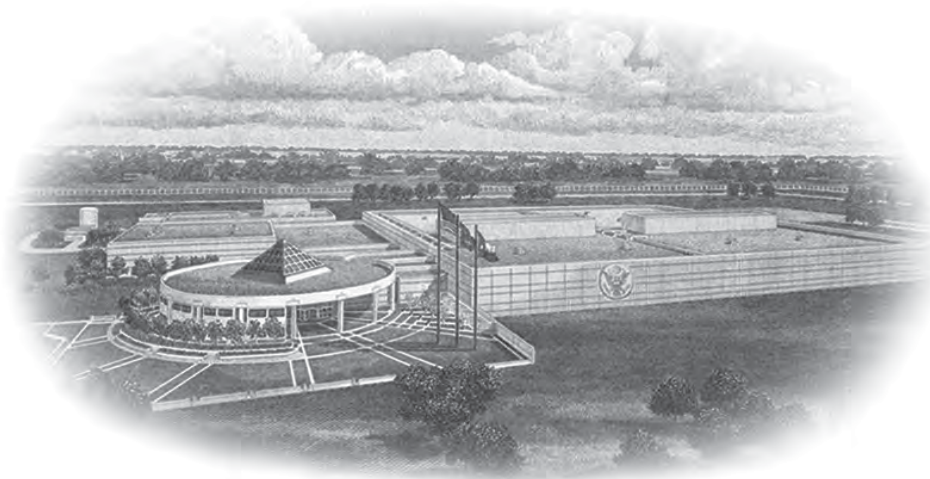
To ensure that Federal agencies pay invoices in a timely manner, Congress passed the Prompt Payment Act and the Office of Management and Budget (OMB) issued Circular A-125, which is now codified as part of the Code of Federal Regulations (CFR). Generally, the CFR requires payment within 30 days from the latter of either the



receipt of a proper invoice or acceptance of the goods/services. If this time frame is not met, an interest penalty must be paid to the vendor. Within 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. During 2012, complications arose from the conversion to the new Enterprise Resource Planning (ERP) system resulting in the increase to the number of invoices paid late. System improvements made in the second half of the year significantly reduced the number of invoices paid late. For fiscal year 2014, the Bureau has performed much better than the Department standard for late payments; and is consistent with the Bureau's prompt payment performance prior to system conversion in 2012.

	2012	2013	2014
Number of invoices paid late	324	204	31
Interest paid	\$42,594	\$12,720	\$1,469
% of invoices paid late	6.19%	3.67%	0.68%



MANAGEMENT BUSINESS DISCUSSION TRANSFORMATION & 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 \$45.1 million in 2014. 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, 2014 and 2013, were \$87.0 million and \$38.2 million, respectively.

ACCOUNTS RECEIVABLE

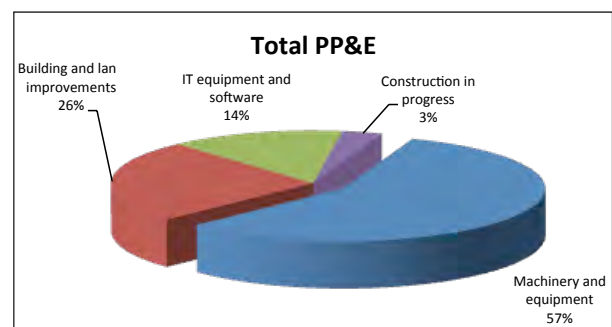
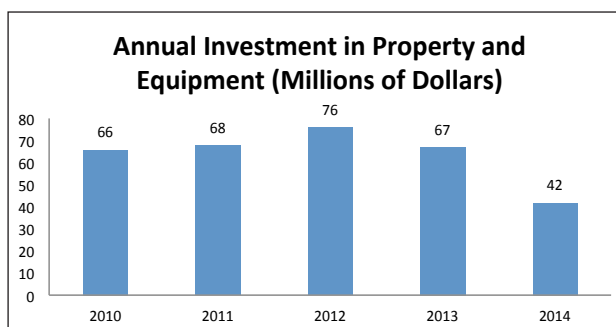
Accounts receivable decreased by \$16.6 million in 2014. This was due to a decrease for currency delivered in the final month of the year and the related billing with the Federal Reserve Board.

INVENTORIES

Net inventories increased by \$47.2 million in 2014. This was due to inventory for the \$100 new design that is being held for future inspection; and a significant amount of completed currency on hand at year-end in preparation for a larger Federal Reserve currency order in 2015.

PROPERTY AND EQUIPMENT

Net property and equipment decreased \$19.4 million in 2014 to \$410.6 million. The decrease can be attributed to depreciation in excess of spending on currency manufacturing equipment during the year.

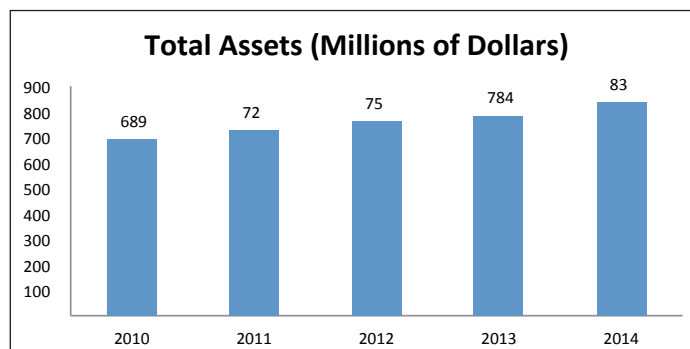


PREPAID EXPENSES

Prepaid Expenses decreased by \$3.2 million; this is primarily the result of a reclassification of certain expenses related to the Treasury Shared Services program.

OTHER ASSETS

Other assets increased by \$1.8 million in 2014. The increase was related to the increase in spare parts associated with the new LEPE machines.



ACCOUNTS PAYABLE

Accounts payable decreased from \$16.2 million in 2013 to \$13.1 million in 2014. The principal cause for the decrease was the decrease in outstanding invoices related to the agency's technology and equipment investments.

ACCRUED CURRENT LIABILITIES

Accrued current liabilities increased from \$24.4 million in 2013 to \$25.3 million in 2014 due to an increase in the year-end payroll accrual.

ADVANCES

Advances decreased \$7.9 million in 2014. The decrease is attributed to the more efficient processing and settlement of mutilated currency claims.

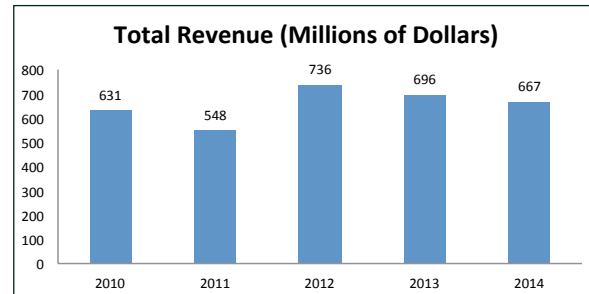
WORKERS' COMPENSATION LIABILITIES

The actuarial workers' compensation liability increased \$1.7 million in 2014. The increase in the actuarial liability primarily resulted from a change in the Department of Labor methodology used to determine the liability.

REVENUE FROM SALES

Overall revenue from sales decreased from \$695.5 million in 2013 to \$667.0 million in 2014. This \$28.5 million decrease is attributable to the decrease in the currency program for the year.

Average Billing Rate for Currency		
Year	Rate per Thousand Notes	Single Note
2010	\$96.34	\$0.096
2011	\$90.57	\$0.091
2012	\$86.22	\$0.086
2013	\$102.12	\$0.102
2014	\$101.97	\$0.102

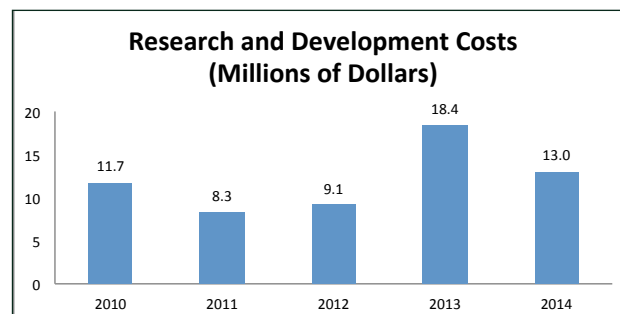


COST OF GOODS SOLD

Cost of goods sold decreased from \$527.7 million in 2013 to \$465.4 million in 2014. The \$62.3 million decrease is due to the smaller currency program in 2014. The gross margin as a percentage of revenue increased from 24.1 percent in 2013 to 30.2 percent in 2014. The gross margin increased as the higher currency production costs were offset by comparable billing rate increases.

OPERATING COSTS

Operating costs increased by \$2.4 million in 2014. The change is primarily attributed to increased depreciation on BEP's investment in its technology infrastructure.



LEGAL COMPLIANCE

The Bureau is committed to ensuring its financial activities are carried out in full compliance with applicable laws and regulations. To ensure this responsibility is met, financial managers direct annual reviews of financial operations and programs compliance with applicable laws and regulations. For 2014, the Bureau complied substantially with all laws and regulations considered material to internal control over financial reporting.



FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PLANS AND ACCOMPLISHMENTS

The Federal Managers' Financial Integrity Act (FMFIA), 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 2014, the CRTs performed 1,509 unannounced reviews. The results of the reviews were reported to Office Chiefs, Managers and Supervisors 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 30th consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. Additionally, for the seventh

consecutive year, the Bureau received an unqualified opinion from the auditors on management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework) and the requirements of Appendix A of Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control." The unqualified audit opinion on the financial statements, the unqualified opinion on the internal control over financial reporting, and the FMFIA review process, ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making.

In 2014, 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, 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.

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 BEN 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 the 2014 fiscal year, 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 Sarbanes-Oxley Act Section 404 and the Government Accountability Office's Federal Information System Controls Audit Manual audit standards, in order to support the annual audited financial statements. The CIO Directorate is an active participant to Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises. The Directorate also tests 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 (LAN/WAN) on at least an annual basis.

At the end of the 2014 fiscal year, the CIO Directorate planned and executed an assessment of IT controls for the Treasury Departmental Office (DO) system known as HRConnect. This onsite assessment tested controls across a number of IT control families to determine if these were in place and operating effectively. As part of this first time assessment by BEP, 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, 2014. The CIO Directorate is issuing a report outlining any assessment findings and recommendations for use by the BEP CFO.

CUSTODY OF ASSETS



Associate Director for Manufacturing Charlene Williams commemorates the completion of the first process of 50-subject \$1 notes with employees from WCF's LEPE Operations and Super Orlof Intaglio areas.

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 has a unique fiduciary responsibility to the American public with respect to the custody and safeguarding of its assets and high-value items.

Currency products and other items used in test, experimental research and other off-line activities normally are expensed immediately, and are not carried as assets in the Bureau's financial statements. While the costs expensed may be immaterial to the financial statements, many of these items have high intrinsic value. Therefore, the Bureau ensures that adequate controls are in place to properly safeguard these items. 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 Associate Director (Chief Financial Officer), who has oversight responsibility with respect to internal controls, is the Office of Compliance. This office evaluates and monitors internal control systems and maintains a comprehensive product accountability system. The Office of Security, which reports to the Associate Director (Management and 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.

ASSURANCE STATEMENT FISCAL YEAR 2014

The Bureau of Engraving and Printing (Bureau), made a conscientious effort during fiscal year 2014 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Federal Financial Management Improvement Act (FFMIA) of 1996, Office of Management and Budget (OMB) Circular A-123, and the Reports Consolidation Act of 2000. The Bureau, taken as whole, is operating in accordance with the procedures and standards prescribed by the Comptroller General of the United States and OMB guidelines.

As required by the FMFIA, the Bureau evaluated both its internal controls and financial management systems for fiscal year 2014. 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 issues 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, 2014.

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, 2014, is operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. Further, the Bureau has active programs in place to provide reasonable assurance that programs achieve their intended results; resources are used consistent with the Bureau's overall mission; programs and resources are free from waste, fraud, and mismanagement; laws and regulations are followed; controls are sufficient to minimize any improper or erroneous payments; performance information is reliable; systems security is in substantial compliance with all relevant requirements; continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and financial management systems are in compliance with federal financial systems standards.

SUMMARY OF OFFICE OF INSPECTOR GENERAL AND GOVERNMENT ACCOUNTABILITY OFFICE AUDITS

The Bureau began fiscal year 2014 with fourteen open audit recommendations; and the Office of Inspector General (OIG) and Government Accountability Office (GAO) issued six new ones. Those recommendations pertained to training, policy and/or procedure adherence, and internal controls. The Bureau implemented corrective action on thirteen of those items during the year. The remaining seven issues are being addressed as appropriate.



THE DEPARTMENT OF THE TREASURY BUREAU OF ENGRAVING AND PRINTING

Financial Statements

Years ended September 30, 2014 and 2013
(With Independent Auditors' Reports Thereon)

Limitations of the Financial Statements

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





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KPMG LLP
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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, 2014 and 2013, 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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 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.

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, 2014 and 2013, and the results of its operations, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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



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, 2014, based on the criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 9, 2014 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 9, 2014, 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 9, 2014



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

Balance Sheets
September 30, 2014 and 2013

ASSETS		2014	2013
		(In Thousands)	(In Thousands)
Current Assets			
	Cash(Note 3)	\$ 133,326	\$ 88,218
	Accounts Receivable(Note10)	46,657	63,276
	Inventories, net (Note 4)	218,664	171,504
	Prepaid Expenses	294	3,528
Total Current Assets		398,941	326,526
	Property & Equipment, net (Note 5)	410,586	429,985
	Other Assets	25,533	27,048
	Total Assets	\$ 835,060	\$ 783,559
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities (Notes 7 and 8)			
	Accounts payable	\$ 13,139	\$ 16,200
	Accrued liabilities	25,257	24,446
	Advances	4,187	12,066
	Total current liabilities	42,583	52,712
	Workers' compensation liability (Note 8)	68,036	66,342
	Total liabilities	110,619	119,054
Contingencies and commitments (Notes 12 and 13)			
Equity Invested capital			
	Invested capital	32,435	32,435
	Cumulative results of operations	692,006	632,070
	Total equity	724,441	664,505
	Total liabilities and equity	\$ 835,060	\$ 783,559

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
 Statements of Operations and
 Cumulative Results of Operations
 For the Years Ended September 30, 2014 and 2013

	<u>2014</u> (In Thousands)	<u>2013</u> (In Thousands)
Revenue from Sales (Note10)	\$ 667,041	\$ 695,504
Cost of goods sold	465,376	527,727
Gross Margin	<u>201,665</u>	<u>167,777</u>
Operating Costs:		
General & administrative expenses	128,681	120,890
Research & development	13,048	18,407
	<u>141,729</u>	<u>139,297</u>
Excess of revenues over expenses	59,936	28,480
Cumulative results of operations at beginning of the year	632,070	603,590
Cumulative results of operations at end of the year	<u>\$ 692,006</u>	<u>\$ 632,070</u>

See accompanying notes to the financial statements

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

Statements of Cash Flows
September 30, 2014 and 2013

Cash flows from operating activities	2014	2013
	(In Thousands)	(In Thousands)
Excess of revenues over expenses	\$ 59,936	\$ 28,480
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	59,315	52,876
Loss from obsolescence	3,300	502
Loss from inventory impairment	-	5,829
Loss from disposal of property and equipment	2,064	3
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	16,619	(8,921)
Increase in inventories	(47,160)	(32,657)
Decrease in prepaid expenses	3,234	1,215
Increase in other assets	(1,785)	(7,944)
Decrease in accounts payable	(3,181)	(1,343)
Increase (decrease) in accrued liabilities	811	(10,222)
(Decrease) increase in advances	(7,879)	7,055
Increase in workers' compensation liability	1,694	3,303
Net cash provided by operating activities	86,968	38,176
Cash flows from investing activities		
Purchases of property and equipment	(41,860)	(67,951)
Net cash used in investing activities	(41,860)	(67,951)
Net increase (decrease) in cash	45,108	(29,775)
Cash at beginning of year	88,218	117,993
Cash at end of year	\$ 133,326	\$ 88,218

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

September 30, 2014 and 2013

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.

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.

(continued)



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

Notes to the Financial Statements

September 30, 2014 and 2013

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 stated at weighted average unit cost. All methods approximate actual cost. Cost elements included in work-in-process and finished goods inventories are direct materials, direct labor, manufacturing overhead and manufacturing support.

Any raw materials inventory determined to be obsolete will be immediately expensed resulting in no allowance for inventory obsolescence for raw materials.

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).

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

(continued)



THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Notes to the Financial Statements

September 30, 2014 and 2013

multi-employer pension plans, the Bureau does not report CSRS and FERS assets, accumulated plan benefits or future liabilities, if any, applicable to its employees. This data is reported for plan participants by the Office of Personnel Management (OPM).

Postretirement Benefits Other than Pensions

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

Workers' Compensation Costs

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

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

The second component, the actuarial FECA liability, is the estimated liability for future benefit payments. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for future FECA benefits. The actuarial liability for future worker's compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the 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. In FY 2013, these projected annual benefit payments were discounted to present value using the Office of Management and Budget's (OMB) economic assumptions for 10-year Treasury notes and bonds. Discount rates as of September 30, 2014 were 3.46% and 2.86% for wages and medical in year one and subsequent years, respectively. In 2013, the discount rates were 2.73% in year one and 3.13% in subsequent years. 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.

(continued)



THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Notes to the Financial Statements

September 30, 2014 and 2013

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 Federal Reserve Depository vaults. Finished goods are released for shipment in accordance with customer requirements. Revenue from the sale of uncut currency to the public is recognized at the time the product is shipped. The Bureau does not record an allowance for returns because of a historically negligible return rate.

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 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, 2014 and 2013, 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, 2014 or 2013.

3. Cash

The year-end cash balances by fund are as follows as of September 30, 2014 and 2013:

	(In Thousands)	
	2014	2013
Bureau of Engraving and Printing		
Revolving Fund	\$ 130,051	\$ 76,750
Mutilated Currency Revolving Fund	3,275	11,468
Total	<u>\$ 133,326</u>	<u>\$ 88,218</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, 2014 and 2013, respectively (See Note 7).

(continued)



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

Notes to the Financial Statements

September 30, 2014 and 2013

4. Inventories, net

Inventories consist of the following as of September 30, 2014 and 2013:

	(In Thousands)	
	<u>2014</u>	<u>2013</u>
Raw material and supplies	\$ 55,646	\$ 66,853
Work-in-process	56,676	38,457
Finished goods - currency	83,172	49,171
Finished goods - uncut currency	23,170	17,023
Total	<u>\$ 218,664</u>	<u>\$ 171,504</u>

At September 30, 2014 and 2013, the Bureau has on hand approximately 342 million and 349 million Next Generation \$100 notes, respectively, produced in FY 2013 that have not been accepted by the Federal Reserve Board due to certain imperfections found on a small percentage of these notes. The Bureau has been performing an electronic inspection of the notes to identify those that do not meet the Federal Reserve Board's quality control standards. Bureau management's estimate of the amount of spoilage in these notes is approximately \$5.8 million, or 11.9%, out of a total of approximately \$49.0 million, which was included in Cost of Goods Sold in the Statement of Operations and Cumulative Results of Operations for the year ended September 30, 2013. Accordingly, management wrote off \$5.8 million for inventory spoilage as of September 30, 2013. No such allowance was required as of September 30, 2014 based on the Bureau's continued electronic inspection of notes produced.

5. Property and Equipment, net

Property and equipment consist of the following as of September 30, 2014 and 2013:

	(In Thousands)	
	<u>2014</u>	<u>2013</u>
Machinery and equipment	\$ 582,065	\$ 544,452
Building and land improvements	257,719	260,496
IT equipment and software	143,102	148,163
Office machines	1,685	2,786
Furniture and fixtures	749	1,448
Donated assets - art work	125	125
Motor vehicles	212	212
Leasehold improvements	130	130
	<u>985,787</u>	<u>957,812</u>
Less accumulated depreciation	<u>607,750</u>	<u>604,789</u>
	378,037	353,023
Construction-in-progress	32,549	76,962
Net property and equipment	<u>\$ 410,586</u>	<u>\$ 429,985</u>

Depreciation expense for the years ended September 30, 2014 and 2013 was \$59.3 million and \$52.9 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

(continued)



THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
Notes to the Financial Statements
September 30, 2014 and 2013

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, 2014 and 2013 was \$10.5 million and \$7.2 million, respectively.

7. Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2014 and 2013:

	2014 (In Thousands)	2013 (In Thousands)
Intragovernmental	\$ 6,341	\$ 5,673
With the public	36,242	47,039
Total	\$ 42,583	\$ 52,712

Accrued current liabilities consist of the following as of September 30, 2014 and 2013:

	2014 (In Thousands)	2013 (In Thousands)
Payroll	\$ 7,541	\$ 6,826
Annual leave	11,570	11,840
Workers' compensation	5,185	5,071
Other	961	709
Total	\$ 25,257	\$ 24,446

Advances consist of the following as of September 30, 2014 and 2013:

	2014 (In Thousands)	2013 (In Thousands)
Other Federal Agencies	\$ 909	\$ 550
Mutilated Currency	3,275	11,468
Public sales	3	48
Total	\$ 4,187	\$ 12,066

8. Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2014 and 2013, but not yet reimbursed to DOL by the Bureau, are approximately \$12.2 million and \$11.6 million, respectively, of which approximately \$5.2 million and \$5.1 million represent a current liability, as of September 30, 2014 and 2013, 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 \$61.0 million and \$59.8 million as of September 30, 2014 and 2013, respectively. The Bureau's estimated, undiscounted, non-current, actuarially derived future workers' compensation liability was approximately \$89.9 million and \$85.8 million as of September 30, 2014 and 2013, respectively.

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

Notes to the Financial Statements

September 30, 2014 and 2013

9. Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were \$18.5 million and \$18.6 million for 2014 and 2013, respectively. The CSRS employer contribution rate for fiscal years 2014 and 2013 was 7.0%. The FERS agency contribution rate was 11.9% for fiscal years 2014 and 2013, 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 \$26.7 million and \$26.9 million in 2014 and 2013, respectively.

OPM paid costs totaling \$9.8 million and \$9.7 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2014 and 2013, respectively. These costs are not included in the Bureau's Statements of Operations. The Bureau paid costs totaling \$15.5 million and \$15.2 million for the FEHBP and FEGLI programs in 2014 and 2013, 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 2014 and 2013, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2014 and 2013, are reflected in the following table:

	Revenue (In Thousands)		Accounts Receivable (In Thousands)	
	2014	2013	2014	2013
Federal Reserve Board:				
Currency Production	\$ 632,032	\$ 679,287	\$ 44,796	\$ 57,874
Mutilated Currency	3,419	3,029	855	773
Meaningful Access	374	—	374	-
Other Federal Agencies	4,175	2,395	73	251
	<u>640,000</u>	<u>684,711</u>	<u>46,098</u>	<u>58,898</u>
Public sales	27,040	10,793	1	3,784
Other	1	—	558	594
	<u>27,041</u>	<u>10,793</u>	<u>559</u>	<u>4,378</u>
Total	<u>\$ 667,041</u>	<u>\$ 695,504</u>	<u>\$ 46,657</u>	<u>\$ 63,276</u>

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

11. Principal Suppliers

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

(continued)



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

Notes to the Financial Statements

September 30, 2014 and 2013

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 \$300 thousand as of September 30, 2014. There are no contingencies for litigation involving the Bureau, where the risk of loss is probable as of September 30, 2013. Contingencies, where the risk of loss is reasonably possible, are approximately \$28.0 million and \$3.1 million as of September 30, 2014 and 2013, 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, 2014 and 2013. 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, 2014 and 2013 was \$3.1 million and \$3.0 million, respectively.

Future minimum payments under the lease as of September 30, 2014, are (in thousands):

For the years ending September 30	Amount
2015	3,064
2016	3,077
2017	3,090
2018	3,103
2019	3,117
Thereafter	<u>7,847</u>
Total	<u>\$23,298</u>

14. Subsequent Events

The Bureau has evaluated subsequent events through December 9, 2014, 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, 2014. In making this assessment, the Bureau used the criteria established in the *Internal Control Integrated Framework* (1992) 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, 2014.

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

Larry R. Felix
Director

Leonard R. Olijar
Deputy Director

Debra H. Richardson
Chief Financial Officer

December 9, 2014





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Suite 12000
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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, 2014, based on the criteria established in *Internal Control – Integrated Framework (1992)* 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, 2014 is fairly stated, in all material respects, based on the criteria established in *Internal Control – Integrated Framework (1992)* issued by COSO.



In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in the Bureau's internal control described in Exhibit I of this report to be a significant deficiency.

The Bureau's response to the significant deficiency identified in our examination is included in Exhibit I. We did not examine the Bureau's response and, accordingly, we express no opinion on the response.

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. 14-02, *Audit Requirements for Federal Financial Statements*, the balance sheets as of September 30, 2014 and 2013, 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 of the Bureau, and our report dated December 9, 2014 expressed an unmodified opinion.

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

KPMG LLP

December 9, 2014

Fiscal Year 2014 Significant Deficiency

Internal Control Over Financial Reporting Related to Accounts Payable and Fixed Assets Needs Improvement

During the fiscal year (FY) 2014 audit, we noted several matters that highlighted the need for improvements in internal control over financial reporting that collectively are considered a significant deficiency. Specifically, we noted the following:

- When reviewing the reasonableness of fiscal year-end payable accruals, a look-back analysis is only performed on “recurring” vendors to determine whether the estimated payables recorded in the prior fiscal year for these vendors was accurate; the Bureau does not perform a look-back analysis over the estimated payables for “non-recurring” vendors.
- The Bureau did not include in its FY 2014 accounts payable approximately \$1.5 million for goods and services received in FY 2014 from five vendors but not yet paid. The Bureau subsequently recorded an accrued liability estimate in the amount of \$440 thousand for one of the five vendors.
- The report that the Bureau initially relied on to develop the fiscal year-end estimate of accounts payable was not complete and accurate because the invoices listed in the report did not include all the related Contract Line Item Numbers. This resulted in an understatement of accounts payable by approximately \$600 thousand.
- The Office of Financial Management relies on inquiries to the Office of Acquisitions regarding invoices received from “non-recurring vendors” after fiscal year-end to determine the related estimated payables. The Bureau recorded an invoice for \$82 thousand received from one of its “non-recurring” vendors as an FY 2014 expense although the related services were provided in FY 2013. This invoice was not included in the Bureau’s accrued liability estimate for FY 2013 since the Office of Financial Management was not informed about it.
- A project totaling \$2.5 million was classified as Construction-in-Progress (CIP) but should have been reported as an active fixed asset as of September 30, 2014. The Bureau subsequently corrected this classification error.

The Bureau’s Financial Policy Manual, Chapter XI Section 4 states: “The purpose of internal accounting controls is to promote effective operations of the Bureau through controls designed to safeguard assets and ensure the reliability of financial records. The Bureau is required to establish and maintain a cost-effective system of internal controls to provide reasonable assurance that Bureau resources are protected against fraud, waste, mismanagement or misappropriation and that both existing and new program and administrative activities are effectively and efficiently managed to achieve the goals of the Bureau.”

The 1992 version of the Committees of Sponsoring Organizations Internal Controls Integrated Framework, states: “Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.”



OMB Circular No. A-123, Management Accountability and Control, Section II: Establishing Management Controls, states: “Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.”

The deficiencies noted above were caused by the following:

- The Bureau’s model to estimate the fiscal year-end accounts payable only developed an estimated accrual for “recurring” vendors and the Bureau’s Office of Financial Management relied on inquiries to the Office of Acquisitions to estimate accrued liability for “non-recurring” vendors.
- The Bureau relied on a report used to estimate FY 2014 accounts payable without testing the report to determine that it is complete and accurate.
- Although the Bureau’s Financial Policy Manual requires the activation of CIP projects once placed in service, the Bureau’s practice has been to place assets in service on the first day of the following month.

Inadequate controls over financial reporting increases the risk that the Bureau’s financial statements may be materially misstated.

We recommend that the Bureau:

1. Develop a model to estimate fiscal year-end accounts payable for “non-recurring” vendors and not solely rely on inquiries to the Office of Acquisitions.
2. Develop a look-back analysis that compares prior year accounts payable to subsequent disbursements for all vendors.
3. Establish and implement formal policies and procedures over the accounts payable estimate model and look-back processes. Such policies and procedures should include procedures over the completeness and accuracy of the underlying data used.
4. Design and implement controls to ensure that CIP projects are appropriately reclassified to property and equipment in the general ledger timely in accordance with the Bureau’s Financial Policy Manual.
5. Maintain the documentation related to the above procedures. Such documentation should be reviewed and approved by an appropriate supervisor.

Management Response:

Management concurs with the recommendations and will take the necessary steps to implement policies and procedures to ensure a proper accrual model and activation of CIP projects.





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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. 14-02, *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, 2014 and 2013, 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 9, 2014.

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, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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. 14-02.

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 9, 2014

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