

2016

CHIEF FINANCIAL OFFICER

PERFORMANCE AND ACCOUNTABILITY REPORT



DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING





MISSION

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

CORE VALUES

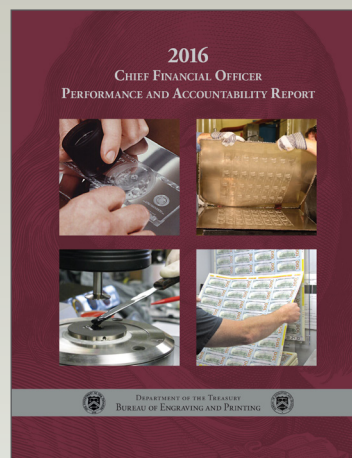
Integrity • Fairness • Performance • Respect

VISION

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

ABOUT THE COVER

The cover depicts some of the key processes that are integral to the production of US currency notes. This includes (clockwise from top left) the intricate details of the engraved Benjamin Franklin portrait for the NexGen \$100 notes; inspection of an electroplated intaglio plate; visual quality inspection of NexGen \$100 32-subject Intaglio sheet after back printing; and an example of continuous quality assurance as shown by an ink viscosity test being performed using a rheometer in the BEP Quality Assurance Ink Laboratory.





Director Len Olijar proudly presented the Department of State Under Secretary for Management Patrick Kennedy with the new Great Seal dies for approval. The Department of State, the official keeper of the seal, contacted BEP regarding reproduction of the seal. BEP reproduced the seal with its original and embossing dies including fixtures.



Director Len Olijar presents Joseph Corbo from the Office of Facilities Support with the Director's Award for Excellence at the BEProud Awards Recognition Ceremony.



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Message from the Director



The Bureau of Engraving and Printing (Bureau or BEP) achieved significant operational and program results in 2016 and is poised for strong results for years to come. BEP continued to move forward as a world-class leader in securities manufacturing by investing in its people and technology, accelerating process improvement, and pursuing cutting edge research and development of new counterfeit deterrent technologies. Concurrently, we continued to collaborate closely with our partner, the Federal Reserve Board, to strengthen BEP's Currency Quality Assurance (CQA) program and engaged with Treasury to develop a new human capital strategy, while proceeding with a multi-year, major retooling of the Bureau's entire manufacturing platform.

During 2016, the Bureau delivered 7.6 billion Federal Reserve notes to the Federal Reserve Board, on schedule and under budget, while meeting or exceeding the Board's high quality standards. Additionally, a major milestone event for the Bureau, Treasury, and the Nation was the Secretary of the Treasury's announcement that the next redesign of currency will feature the portrait of a prominent woman on the face of the new design for the \$20 note. BEP is bringing together the necessary technology, science, and skilled and talented workforce to meet the challenges of designing the next generation of currency notes that continue to be safe and secure while improving accessibility for all users.

BEP had tremendous success during the past year in its multi-year research and development program for the next redesign of US currency which is expected to go into production in the next three-to-five years. BEP expanded the security feature development pipeline as contracts were awarded for seven new security features and further development of two already in the pipeline. In addition, six new security feature concepts were added to the concept stage. Six of the security features placed under contract are public features, an area that the Federal Reserve Board and US Secret Service have requested that BEP focus on.

The effectiveness of BEP's research and development efforts are ultimately revealed by the performance of new design currency notes circulating in day-to-day commerce. For example, the redesigned \$100 note continues to show remarkable counterfeit deterrence. This note is the first to include a robust, state-of-the-art 3-D security ribbon utilizing micro-lens technology. This feature has not been successfully simulated, resulting in the lowest level of counterfeiting seen on the \$100 note in over 20 years. Similarly, counterfeiting levels (notes passed into circulation in the US) on all denominations fell by an average of 8%, which was the first decrease in counterfeit notes passed domestically in more than five years. In addition, the level of counterfeit notes passed outside the US fell by more than 70%.

BEP's most valuable resource is its workforce. In 2016, the BEP developed and began implementation of its first ever Human Capital Strategic Plan. The Plan establishes human capital strategic goals and initiatives for the next five years. The impetus for the plan is to create a motivated and productive workforce through employee engagement initiatives, performance accountability, and leadership effectiveness and employee development. Key human capital initiatives begun in 2016 include an Apprenticeship/Upward Mobility program; Leadership Development; Workforce Planning; Competency Modeling; and Knowledge Management.

The organization's success in setting a global standard for the production of distinct and technologically sophisticated currency notes has rested on the unique skills, craftsmanship, determination, and dedication of our employees. The Bureau is extremely fortunate to have a focused and dedicated group of professionals at every level. They are a diverse team of employees united by a resolute commitment to excellence. Together we will continue to upgrade our technology, and improve work processes and quality performance to produce and deliver world-class currency befitting our rich tradition of excellence.

Leonard R. Oliver



Message from the Chief Financial Officer



I am pleased and privileged to present the Bureau of Engraving and Printing's (Bureau or BEP) Performance and Accountability Report for 2016. As the Bureau's Chief Financial Officer for the last four years, I am especially proud of this year's accomplishments, and I am committed to helping the organization reach even higher levels of excellence in 2017.

In 2016, we continued a commitment to excellent and strong financial management, timely and accurate financial reporting, and continual improvement at the Bureau. This tradition of quality financial management resulted in an unmodified audit opinion on the Bureau's financial statements for the 32nd consecutive year. Also, the Bureau received an unqualified opinion on its internal controls over financial reporting based on the criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO framework). Both opinions exemplify our commitment to maintaining unparalleled excellence in financial reporting.

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

In 2016, the Bureau delivered 7.6 billion currency notes to the Federal Reserve Board, resulting in revenue of \$681 million and an excess of expenses over revenue of \$21.3 million. The excess of expenses over revenue was planned based on lower working capital requirements.

The Bureau continued a multi-year recapitalization of its Washington, DC and Fort Worth, Texas facilities. Investments in new production and test equipment is improving productivity, reducing the Bureau's environmental impact, and will provide the capability to produce increasingly sophisticated and complex currency designs. An example of our commitment to the environment that will also yield significant cost savings is our current investment in a waste-water recycling process for the Washington facility. When fully operational, annual water consumption will be reduced by 8 - 10 million gallons, while reducing energy use and the use of chemicals. Annual cost savings of over \$500,000 are expected. A similar recycling process will be installed at the Bureau's Fort Worth, Texas facility over the next few years.

During the year, the Bureau continued to build on its Currency Quality Assurance (CQA) accomplishments highlighted by the implementation of a new Corrective and Preventive Action (CAPA) tracking system. The new system improves the ability to track and trend detailed performance metrics, and effectively implement timely corrective actions throughout the Bureau. BEP developed an internal, risk-based quality auditing capability to assess quality system effectiveness that will drive a culture of continuous improvement across the Bureau.

The Bureau continued the business transformation of its Washington, DC and Fort Worth, Texas facilities through the Lean Six Sigma (LSS) program. A fundamental part of BEP's LSS program is the 5S methodology that provides for an effective approach for organizing and optimizing work areas to improve efficiency and enhance the work environment. The LSS program led to the completion of 15 high impact LSS projects with a potential savings of about \$1 million over the next five years.

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

Duha H. Richardson

Highlights of the Year

The Next Family of Redesigned Notes

After a massive public engagement effort that brought in more than a million suggestions, former Secretary of the Treasury Jacob Lew announced that the \$5, \$10, and \$20 notes in the next family of redesigned notes will recognize some of the many people, places, and movements and moments that have strengthened our democracy. Harriet Tubman's portrait will be featured on the face of the \$20 note. Changes are planned for the reverse of the \$5, \$10 and \$20 notes, which will include prominent historical figures. The next redesign series is still in the early stages of concept development and the issue date for the new series will be determined by the Federal Reserve Board as the issuing authority. The security features, design concepts, and tactile feature for the next series of notes will continue to go through refinement and testing until we have a secure note that is manufacturable and works seamlessly in commerce.



Former Treasury Secretary Jacob Lew and former US Treasurer Rosie Rios view Series 2013 \$5 notes featuring their signatures.

The Great Seal

The Department of State, the official keeper of the seal, contacted BEP regarding the reproduction of the seal with its original counter and embossing dies. The Great Seal of the United States is rich in history and is an emblem of our Nation's democracy and independence. Used as a national coat of arms, the seal reflects the hopes, freedoms, beliefs, and values of America's Founding Fathers and provides visible evidence of this nation's sovereignty. The seal was reproduced on a nickel plate similar to that of creating a currency printing plate. BEP is proud to be a part of this historic effort.



The finished counter and emboss Great Seal dies.



The nickel master plate.



The nickel master in the nickel tank growing the 4-subject (Alto) counter plates.

Small Business is Big Business

The Department of the Treasury's Office of Small and Disadvantaged Business Utilization recognized the outstanding accomplishments and achievements of BEP's Office of Acquisition's Small Business Program. BEP has worked closely with the small business community, fostering a collaborative effort from all BEP offices in utilizing small business supply goods and services that support our mission, including IT support, construction and consulting. The BEP received the Silver Award for achieving four out of five goals: Women Owned Small Business, Small Disadvantage Business, Service Disabled Veteran Owned Small Business and Historically Underutilized Business Zone.

Bring Our Children to Work Day

BEP held its annual Bring Your Children to Work Day. The 2016 theme, "Money Train," gave the participants a chance to learn about the historical and present-day transformations of the currency and manufacturing process.

Best Place to Work (BPTW)

For the fourth 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 BEP held the inaugural Employee Appreciation Week during the year.

Tour Operations

BEP's DCF public tour earned the Trip Advisor 2016 Certificate of Excellence. This award places BEP in the top-performing 10% of all businesses worldwide and is given to businesses that consistently earn high ratings from Trip Advisor travelers.



The electric trams at the WCF feature a main car and an attached trailer car for additional seating capacity.

Profile of the Bureau of Engraving and Printing

The mission of the Bureau of Engraving and Printing is to develop and produce United States currency notes trusted worldwide.

The Bureau began printing currency in 1862. The Bureau operates on the authority conferred upon the Secretary of the Treasury by 31 U.S.C. 321(a) (4) to engrave and print currency and other security documents. Operations are financed by 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 security documents, which, because of their innate value or other characteristics, require counterfeit deterrence. The Bureau also performs reviews of the Federal Reserve Banks' unfit currency operations whereby bank notes that are no longer fit for circulation, are taken out and accounted for. Additionally, BEP is responsible for the accountability and destruction of internally generated security waste products. As a service to the public, the Bureau processes claims for the redemption of mutilated paper currency.



BEP hosted a Joint Town Hall that featured discussions led by (from left to right); Rhett Jeppson, US Mint Principal Deputy Director, Rosie Rios, former US Treasurer, Len Olijar, BEP Director and Charlene Williams, BEP Associate Director (Manufacturing).

The Bureau occupies three government-owned facilities. The Main and Annex buildings, located in Washington, DC, house research and development activities and produce Federal Reserve notes and other security products. The 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, streamline the manufacturing process by taking advantage of efficiencies gained by having all production on the same floor, and enhance the Nation's emergency preparedness.

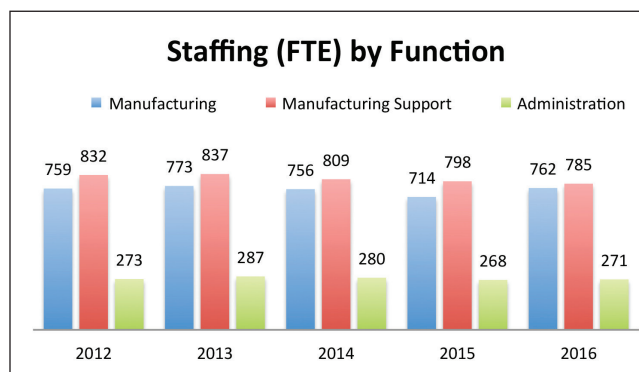
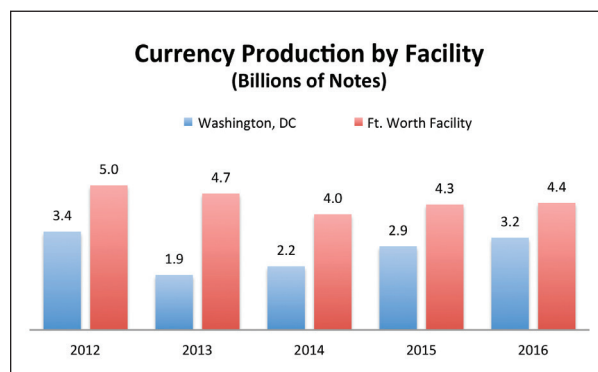
In addition to housing production facilities, free tours of currency operations are available to the public in both Washington, DC and Fort Worth, Texas. The tours include Visitor Centers with currency manufacturing displays, interactive kiosks, and other information about the history of our Nation's 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.moneyfactory.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 2016, the Bureau delivered 7.6 billion Federal Reserve notes to the Federal Reserve System. The Washington, DC (DCF) and Fort Worth, Texas (WCF) facilities delivered 3.2 billion and 4.4 billion notes, respectively. For 2017, the Federal Reserve Board has ordered 7.1 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 fifteen years. BEP is moving quickly with its partners, the Federal Reserve Board and the US Secret Service, to complete 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.



Information Technology

In 2016, 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 infrastructure and systems under the BEP Enterprise (BEN) Program and made significant enhancements to solutions to improve the quality of BEP's operational and financial data, and streamline processes for reporting data and conducting shop floor transactions.

BEP enhanced collaboration across the Bureau by deploying Microsoft Lync to improve communication and collaboration among the BEP users; introducing guest wireless network capability at multiple locations in both DCF and WCF; and, creating an Organizational Chart/Employee Phonebook with photos and search capability on the Bureau Intranet (In\$ite). In addition, the Bureau has optimized network performance of Remote Access/Telework capability.

Throughout 2016, the cyber program enabled BEP to continuously achieve “Green” (full compliance) status on all reported Treasury and the Office of Management and Budget (OMB) cyber metrics as well as to ensure compliance with the President’s Cyber Sprint guidance. Cyber initiatives included network segmentation to further secure the enterprise network, significantly reducing the Privileged Accounts and implementing Data Loss Prevention (DLP) capability at the Treasury Network (TNET) level. In addition, BEP completed the Information Security Continuous Monitoring Program (ISCM) Implementation Plan, which describes our approach to transition to the Continuous Monitoring model to reduce risk of security incidents.

BEP continued to expand the functionality of the Data Management Module (DMM), the component of BEN that focuses on the shop floor and modernizes the way in which BEP captures and utilizes operational data to improve efficiency and quality. BEP has increased visibility into real-time machine and production status reports information to provide continuous performance feedback to equipment operators.

As a result of new reports created through BEP’s data warehouse and intelligence tool known as BEN Reporting, BEP now has a central location to view strategic goals and key performance indicators (KPIs) and improved access to historical information.

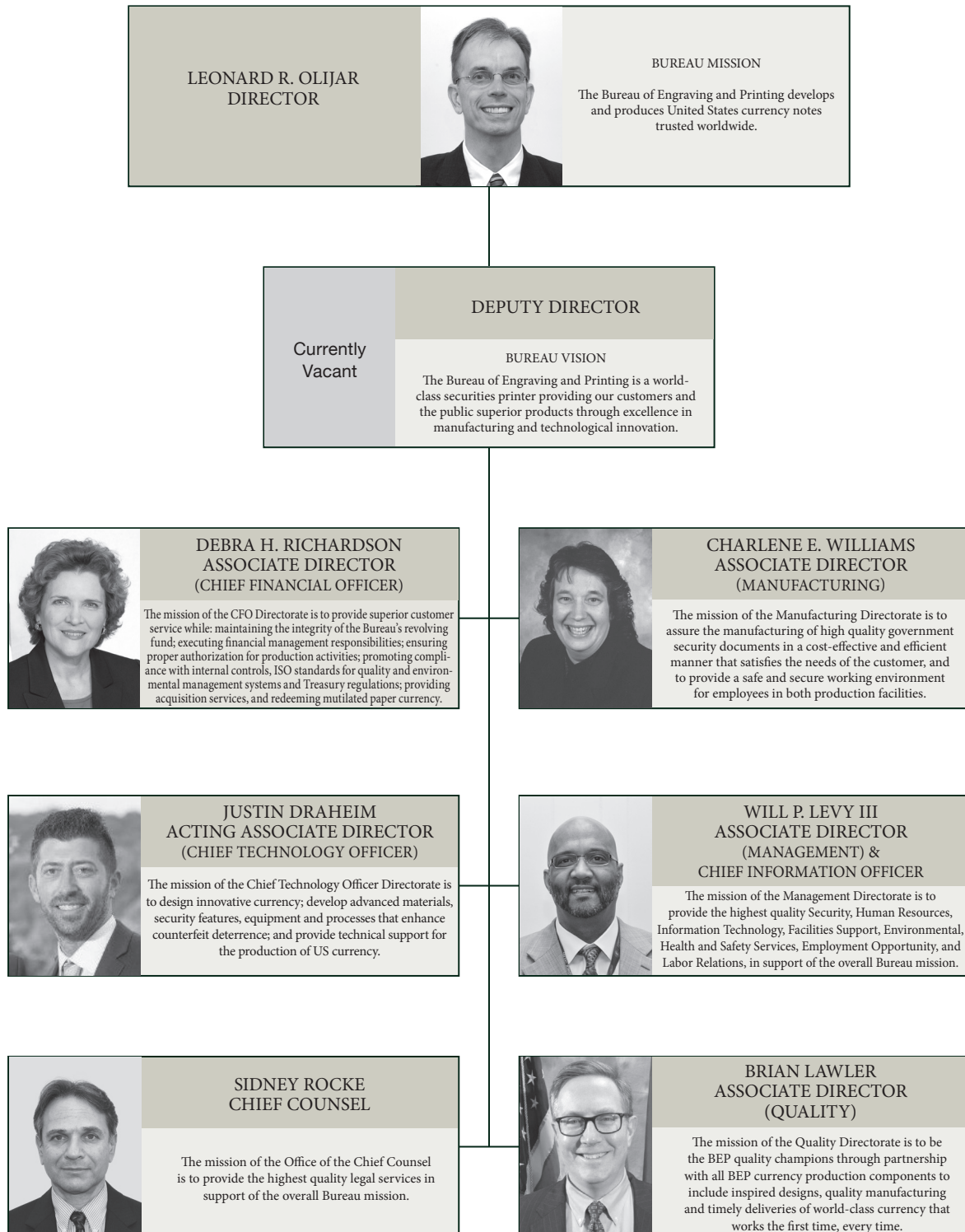
New functionality was added to the Manufacturing Execution Console (MEC), which is the component of Manufacturing Support Suite (MSS) that focuses on transactions and reporting for production floor users and accountability. BEP focused on expanding MEC integration with other production floor systems to reduce manual entry and streamline production-related transactions. Examples of changes that were implemented include enabling the bi-directional consumable data flow between Flowsys and MEC, modeling the new Reclamation business process in MEC, and enabling the use of bar code functionality to scan and validate spoilage. These changes enable BEP to improve data integrity and accountability by eliminating multiple points of manual data entry and potential data errors.

BEP’s Identity Management (IDM) system continues to streamline the on-boarding and access authorization process for our employees and contractors. By simplifying forms and expanding the scope of automated requests in 2016, we have been able to reduce the time it takes to approve requests, as well as the time it takes for users to gain access to the systems they need.

Organization

The Bureau’s executive structure consists of the Bureau Director, a Deputy Director, 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



As of September 2016

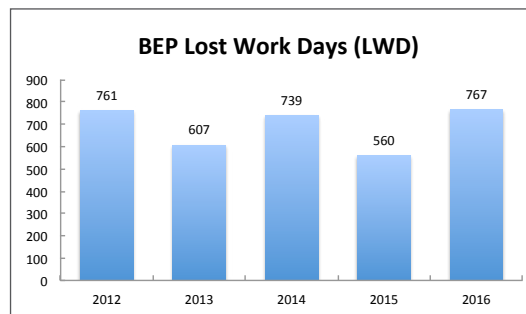
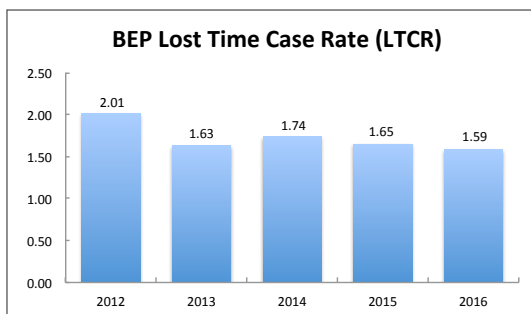


Safety, Health and Environmental Management

The BEP's Office of Environment, Health, and Safety (OEHS) at the District of Columbia Facility (DCF) and the Environment, Health and Safety Branch (EHSB) at the Western Currency Facility manage programs that minimize the Bureau's impact on the environment and protect workers from injuries, illnesses, and disabilities. The Bureau uses an ISO14001 registered environmental management system (EMS) to focus and improve its environmental, health and safety programs. The continued improvement and effectiveness of this management system is demonstrated by the positive results of the ISO14001 third-party audits and long-term improvements in our key operating metrics. The Bureau's goals are to maintain a downward trend in occupational injury and illness rates, and to minimize the environmental impact of our operations on air emissions, wastewater discharge, and solid waste. Engagement of personnel at all levels is also a goal, and many OEHS improvements have been made as a result of employee suggestions, technical work groups, and projects lead by safety and environmental professionals. The Bureau's EMS has been registered as ISO14001 compliant for the past eleven years at the Western Currency Facility and for nine years at the Washington, DC Facility.

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. The SHD will continue to focus on comprehensive case management, returning employees to work, and injury awareness. In 2016, there was an increase in the number of lost workdays (LWD), however, the lost time case rate (LTCR) decreased. The number of lost time cases was reduced by one during the year.



The Bureau's LTCR in 2016 was 1.59 lost time cases per 100 employees. This represents a 4% decrease from last year's rate of 1.65. The OEHS is working diligently to prevent injuries and illnesses through active case management, focused job safety analyses, and targeted training for all employees. With regard to the number of lost workdays, there were 767 lost workdays accrued in 2016, which is a 37% increase from 2015 with 560 lost workdays. This increase is largely attributable to three cases that amassed 437 days or 56% of the total lost work days in 2016.

Protecting the Environment

In 2016, the Bureau's total amount of regulated waste generated increased by 1.8% from the prior year. The change is consistent with the increase in the notes produced during the year.

BEP anticipates that commissioning of the wiping solution recycling plant at DCF will significantly reduce waste generation rates. The production efficiencies gained when printing large format (50-subject) sheets on BEP's newer presses are also expected to reduce waste generation. BEP also has reduced its greenhouse gas (GHG) emissions from facility energy use by 22.5%. BEP has reduced its energy intensity by 27.7% since 2003, and increased its purchases of renewable energy to 11.6% of total electricity use.

The following are specific examples of significant environmental stewardship projects:

- Wiping Solution Recycling Plant (WSRP) – Wastewater generated from on-site pretreatment of wiping solution is the Bureau's largest industrial waste stream. Wiping solution recycling is a process that is expected to reclaim approximately 80% of water-based wipe solution. The WSRP will save approximately ten million gallons of water annually, while reducing energy use and the use of chemicals. The WSRP installation was completed at the DCF during 2016, and the plant is expected to be commissioned and begin operation in 2017.
- Capital Solar Challenge – BEP has awarded a contract to install a rooftop solar energy system on the Main Building of the DCF during 2017. Under the contract, the system will be installed, operated and maintained by a regional utility company, which will sell the solar electric energy generated to BEP at a significantly lower rate than current electric rates. This project is coordinated with GSA and will replace a portion of DCF's electricity consumption, reduce energy costs, and reduce greenhouse gas emissions.
- Low Emission Vehicles – At the WCF, the BEP replaced diesel buses used for transporting visitors to public tours with electric trams. The Bureau leases additional electric vehicles for routine use and has installed electric charging stations at its facilities.
- High Efficiency Lighting Systems – The DCF is installing more efficient interior LED lighting. This project is estimated to reduce electricity consumption by 2,000 megawatt hours/year while also reducing waste generation and facility maintenance requirements.

In 2017, the Bureau will continue to strive to reduce its environmental impact and improve the safety of its employees with projects that are targeted at BEP's highest volume waste streams as well as BEP's higher risk processes. DCF plans to commission its WSRP, which will significantly reduce the volume of industrial waste water the facility discharges. Efforts to recycle or otherwise divert currency shreds and trim will continue. BEP will also evaluate wiping solution pretreatment plant solid waste diversion through anaerobic digestion. To address higher risk processes, BEP will continue to study vapor phase deposition as an alternative to electrolytic hard chrome plating, and will evaluate hazardous waste reduction projects for offset lithographic presses. To reduce energy consumption and GHG emissions, BEP will continue to participate in the President's Capital Solar Challenge. BEP's long-standing commitment protecting the environment and employee health and safety while improving the efficiency of our operations, has led to marked reductions of air emissions, solid waste generation, and industrial waste water discharges through the last decade, and execution of planned 2017 projects will continue those trends.

Environmental Awards



City of Fort Worth officials present the Pretreatment Partnership Award and Pollution Prevention Award to BEP representatives (from left to right): City of Fort Worth Assistant City Manager Jay Chapa, City of Fort Worth Environmental Programs Manager Laly Joseph, Acting BEP Associate Director of Manufacturing Ronald Voelker, BEP Environmental Health and Safety Branch Manager Ginny Baldwin, BEP Offset/LEPE/COPE Division Manager Vernon Hathaway, BEP Public Affairs Specialist Jorge Pineda, BEP Environmental Engineer Davin Greenly, and City of Fort Worth Water Director John Carman.

The WCF was presented with two great honors at the City of Fort Worth Water Department's 18th Annual Pretreatment Awards. WCF accepted the Pretreatment Partnership Award for seven consecutive years of 100 percent compliance with local, state, and federal pretreatment regulations. Additionally, the WCF received the Pollution Prevention Award for our significant efforts in the use of materials, processes, and practices to reduce and eliminate waste to protect natural resources and the environment. This award was received for the following environmental initiatives in safeguarding the BEP and the environment:

- Replacement of diesel buses with new electric tram cars at the WCF Tour and Visitor Center.
- Installation of a new solvent distillation unit for solvent recycling in the WCF Offset printing operations.
- Installation of an aerosol can puncturing project for cans collected throughout the WCF.

Strategic Plan

The Bureau continues to implement its five-year strategic plan (2014 through 2018). Also, the Bureau supports the Department of Treasury's Strategic Plan by providing trusted and secure US currency notes for use by the public. The Bureau's strategic plan serves as a roadmap to guide the Bureau toward the goal of creating a new environment that will ensure high quality, cost-effective and flexible business operations for years to come. The Bureau remains resolute in producing quality currency, controlling costs, being environmental stewards, and working safely as we move towards our vision of a world-class securities printer. The Bureau will rely on the ingenuity, industriousness, and commitment of every employee to meet the challenges of printing currency in the 21st century. This will require the near-perfect alignment of innovative design, advanced manufacturing technology, and a highly-skilled workforce.

The Bureau has three strategic goals:

- (1) **Currency** – To produce United States currency notes that function flawlessly in commerce.
- (2) **Innovation** – To create innovative designs, processes, and products that exceed our stakeholders' expectations.
- (3) **Excellence** – To achieve overall excellence and customer satisfaction by balanced investment 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. These goals are emphasized through the following nine objectives:

- (1) **Retool Production Facilities:** Create state-of-the-art manufacturing systems, including leveraging our BEN Enterprise system to support 21st century manufacturing and provide real-time data to improve process control.
- (2) **Develop the Next Generation Family of Banknotes:** Redesign the new family of banknotes (\$5, \$10, \$20, \$50, and \$100).
- (3) **Deliver New Series Features and Capabilities:** Research, develop, test and deliver innovative and effective features for new series notes containing effective security features, to deter counterfeiting and provide meaningful access to blind and visually impaired persons.
- (4) **Expand Markets:** Develop new markets for our existing products and create value-added new products and services for our customers.

- (5) **Improve Quality:** Enhance quality assurance system practices to ensure efficient and effective note production.
- (6) **Increase Employee Engagement:** Create a work environment that fosters high levels of collaboration, job satisfaction, performance, and pride in accomplishment.
- (7) **Improve Organizational Efficiency, Effectiveness & Sustainability:** Develop and sustain efficient and environmentally friendly operations that consistently deliver timely and high quality products and services that meet customer expectations.
- (8) **Train and Develop the BEP Workforce and Leadership:** Attract, hire, develop and retain the most adaptive workforce and leaders possible.
- (9) **Be A Reliable Partner:** Consistently deliver high-quality products and services to our customers.

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.

The BEP Diversity Council (BDC) held its first Diversity and Inclusion Week during the year to help raise awareness on the importance of diversity, inclusion, and equality within the workplace. Along with the Office of Equal Opportunity and Diversity Management, the BDC is committed to promoting an inclusive work environment that fosters values and leverages human differences, opinions, and perspectives to empower employees to achieve their fullest potential and ultimately strengthen the success of the BEP.



WCF Diversity Council members coordinated a week of special activities.



DCF Diversity Council members along with Community Storytelling Advocate Rebecca Kling and Deputy Executive Director from the National Center for Transgender Equality Lisa Mottet.

Business Transformation

The Bureau is transforming its operations through major equipment investments and technologies, a robust Lean Six Sigma program, and a more robust quality management program.

Lean Six Sigma (LSS):

The LSS project portfolio is growing by leaps and bounds. BEP has 23 active LSS and 5S projects in progress, the most BEP has ever had at one time; and more than 100 are planned for future completion. BEP continues to aggressively implement 5S methodology as part of the overall LSS program initiatives deployment. 5S is a LSS tool that stands for Sort, Straighten, Shine, Standardize and Sustain. 5S efforts improve work place efficiency and throughput by standardizing working practices and by removing variability from operational processes to provide improved product quality and customer service.

- **Plate Printing** – The WCF Plate Printing section completed a 5S project in the paper storage area. Project team members created and organized a layout to achieve flow and compose an efficient work-space within the paper storage area. This project resulted in a man-hour savings of 12 hours per week, including a 50 percent reduction in product movement, and eliminated stock shortages in the supply area by establishing visual replenishment buffers.
- **Mutilated Currency** – BEP's Mutilated Currency Division (MCD) processes more than 20,000 claims totaling more than 40 million worth of damaged US currency as a free public service. The examination process is rigorous and time consuming, and although the MCD works very hard to complete claims as quickly as possible, the processing times can vary from six months to more than two years. In order to address this, the MCD applied LSS methodologies to remove waste, redundant process steps, and systemic variation. The MCD completed a renovation of the examiner rooms, lab room, lunchroom, hallways including asbestos abatement, new examiner tables complete with air extraction units and new lighting, increased camera coverage, and refurbished two vaults. In addition, process mapping was used to document and display the entire process to identify and eliminate non-value added process steps. The project resulted in process times improving up to 75% faster for completion.
- **Advanced Instrumentation and Materials Lab** – This project for the BEP Office of Technology is now in the 5S sustain phase. Initially, the Advanced Instrumentation and Materials Lab was not set up to be an active laboratory, which allowed for all of the 5S principles to be implemented to label testing and reference materials. Additionally, procedures were put in place to monitor inventory levels to allow for a more efficient and productive work area.

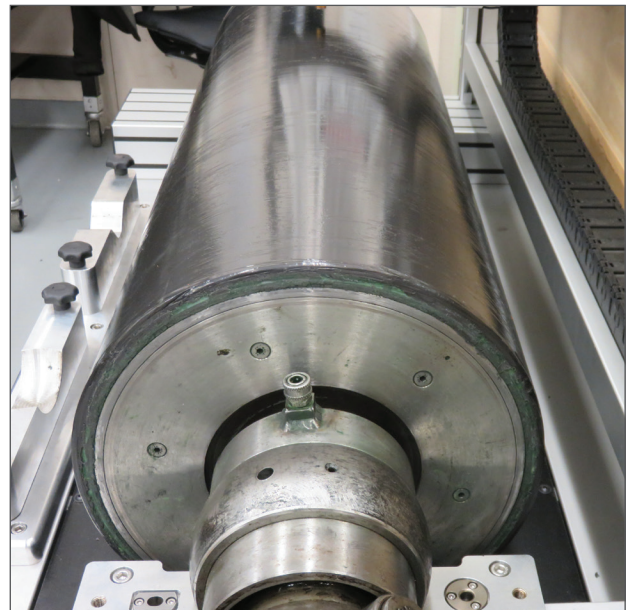
The 5S deployment at the WCF also included projects in the Cash-Pack area, Single Note Inspection (SNI), Currency Overprinting and Processing Equipment (COPE), Mechanical Exam, the BPS Laboratory and the Warehouse. Likewise, at the DCF, projects included Mechanical Exam, SNI, COPE, COPE-PAK Numbering Blocks and Roller Recovery.



Above are the before (left) and after (right) pictures of the Mutilated Currency Division's (MCD) main vault. During the past year MCD completed its 5S initiative as part of a larger Lean Six Sigma project. The grid patterns on the floor identify the parking places for mobile vaults and secure cabinets that contain active currency redemption claims from the public that are held in the main vault for safekeeping during non-work hours.

LSS Excellence Award:

For the first time, the BEProud Awards Recognition Ceremony added a new category to highlight LSS achievements. This award recognizes BEP employees or teams that have utilized the LSS methodology to implement and sustain significant improvements to essential BEP processes. Ten people received this year's award for their work on several essential processes and production areas.



Wiper Roller Durometer Test Stand – A more consistent technology for recording wiper roller durometer, a measure of hardness. This is being rolled out in DCF wiper roller recovery room as a means of ensuring consistency of wiper hardness batch-to-batch.

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 our quality management system to the next level. The Currency Quality Assurance (CQA) program is moving the BEP towards a proactive quality assurance environment incorporating collaboration by all quality system stakeholders.

To get to this level, the BEP and its stakeholders are building a robust CQA program to address every aspect of the product life cycle – from product development to acquisition of material, through process and production control, to final release and delivery. The CQA Program is moving BEP away from its traditional model of quality control toward a model of quality assurance – building quality in, not inspecting it in.

Quality Policy

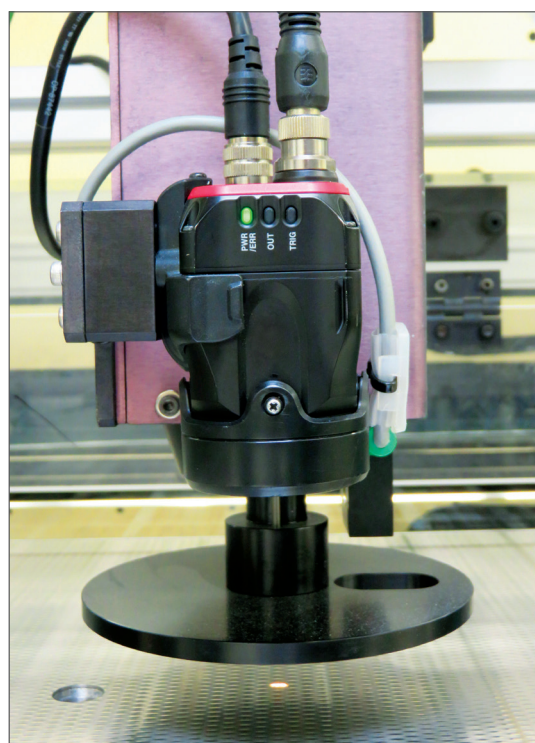
The Quality Policy of the Bureau of Engraving and Printing is to assure that customers are provided with products that consistently meet their quality requirements. BEP products conform to design standards that prevent compromise of customer security, functional, aesthetic and durability requirements. We will continue to strive to improve in these efforts so that we may better serve our customers.

Management Controls

The Quality Management System Review (QMSR), also known as the Executive Management Review, is an initiative managed by the Office of Quality Engineering and Management 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.

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



TPIS – A BEP developed system implemented currently on all Large Examining and Printing Equipment (LEPE) machines that confirms the presence of a certain security feature on Federal Reserve Notes.

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. All QMS documents were reviewed in 2015 and 2016 for adequacy of use, and updated as needed. The Quality Directorate implemented a redesigned intranet landing page to aid employee navigation of the QMS documents. Areas targeted for improvement in 2017 include document change control, retention, distribution, and obsolescence.

Design Controls

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

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

Corrective and Preventive Action

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

BEP added Internal Audit Findings to the CAPA system for use in 2017.

2016 Key Quality Assurance Accomplishments

BEP reorganized and created the Quality Directorate led by the Associate Director Quality. Quality technicians began working the day shift at both plants to provide quality expertise on the production floor in real time to ensure more real-time feedback allowing the BEP to quickly adjust when challenges arise.

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

BEP quality assurance specialists worked with manufacturing to assure product quality using the new Single Note Inspection equipment.

Priority Initiative: Currency Quality Assurance (CQA)

Aligns with Strategic Objective 5.4

Overview

Purpose

Establish a program to develop and execute a quality system that supports the challenging environment required to efficiently produce technologically advanced currency. The Quality Directorate and CQA program will evolve to see BEP through the development and production of future currency generations.

Anticipated Results

- Build on the foundation of CQA accomplishments, leverage ongoing efforts to establish a Quality Culture and Quality System to achieve BEP goals.
- Build an independent, risk-based, operationally focused internal quality auditing capability to assess the effectiveness of the quality system and drive a culture of continuous improvement.
- Develop processes, techniques, analysis and management controls to improve data-driven decision making on cost, volume and quality for current and future currency products.

Milestones/Accomplishments

Spring QPR

- New Managers – New manager in Quality Operations. Offer accepted for manager in Quality Engineering. 5 of 6 roles filled.
- Increased Staff – Authorized staff increased from 23 to 84. Of those, 51 positions now filled and staff on board.
- Capability Improvements – Increase from level 3 to level 4 for Design & Development Planning capability (FRB/PwC update of Feb 16).

Fall QPR

- New Roles – Rollout of new Quality Technician roles supporting production operations.
- Capability Improvements – Building on work done and planned in Quality Audit, Corrective and Preventative Actions (CAPA), Management Review, and others.

Future FY Milestones

- Full-time Quality Operations Support – Quality Technicians on all shifts, for all products and at both locations.
- Self-Sufficiency – Bureau managing quality operations independent of contractor support.
- Future Leaders – Succession planning for current management roles. Development of junior staff into engineer and leadership roles.

The above is an excerpt from the Bureau's Quarterly Performance Review (QPR) report to the Treasury. The report provides a summary status of priority initiatives at the Bureau which includes the CQA initiative.

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 staff based on the prior year's performance, contracted price factors, and anticipated productivity improvement. Actual performance against standard depends on the Bureau's ability to meet annual spoilage, efficiency, and capacity utilization goals established for currency production.

Bureau-level performance measures and associated results for 2016 are as follows:

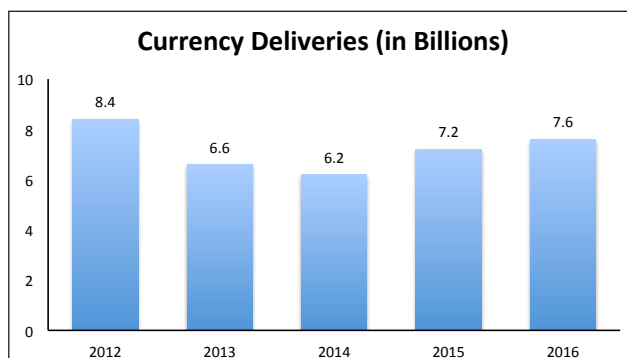
	<u>2016 Standard</u>	<u>2016 Actual</u>
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 46.24	\$ 44.25
2. Federal Reserve Notes Delivered (Billions)	7.6	7.6
3. Productivity Change 2015 to 2016	-5.7%	0.2%
4. Currency Spoilage	9.5%	9.2%

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.

	<u>2016 Standard</u>	<u>2016 Actual</u>
Currency – Cost per Thousand Notes		
Federal Reserve Notes	\$ 46.24	\$ 44.25

The actual production cost per thousand currency notes, which includes direct labor, materials, and applied manufacturing overhead, was below standard in 2016. This was due to material savings achieved by improved ink mileage and reduced spoilage.

	<u>2016 Standard</u>	<u>2016 Actual</u>
Currency Deliveries		
Federal Reserve Notes (Billions)	7.6	7.6

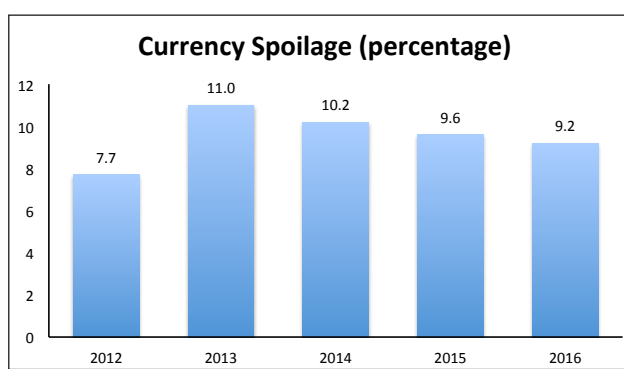


In 2016, the Bureau delivered 7.6 billion Federal Reserve notes to the Federal Reserve Board (FRB). Deliveries and billings are based on orders received from the customer. The FRB submits their requirements for currency deliveries to the Bureau on an annual basis. For 2017, the Federal Reserve has ordered 7.1 billion notes.

	<u>2016 Standard</u>	<u>2016 Actual</u>
Productivity Change 2015 to 2016	-5.7%	0.2%

Productivity is calculated based on units of output per labor hour. In 2016, overall productivity increased by 0.2%.

	<u>2016 Standard</u>	<u>2016 Actual</u>
Currency Spoilage Federal Reserve Notes	9.5%	9.2%



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 2016, overall currency spoilage continued to decline, driven by improved raw material quality used in the production of the \$100 notes.

	<u>2014</u>	<u>2015</u>	<u>2016</u>
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 41.96	\$ 42.35	\$ 44.25
2. Federal Reserve Notes Delivered (Billions)	6.2	7.2	7.6
3. Productivity Change	3.7 %	6.4 %	0.2 %
4. Currency Spoilage	10.2 %	9.6 %	9.2 %

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.

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Number of invoices paid late	31	39	69
Interest paid	\$1,469	\$1,523	\$3,317
% of invoices paid late	0.68%	0.89%	1.54%



Management Discussion and Analysis

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

Cash

Bureau current cash requirements include operating expenses and capital expenditures. Cash increased by \$31.7 million in 2016. The increase is attributed to the increased currency deliveries during the year and the timing of cash disbursements for capital equipment and infrastructure improvements. Cash flows provided by operations for the years ended September 30, 2016 and 2015 were \$68.7 million and \$77.9 million, respectively.

Accounts Receivable

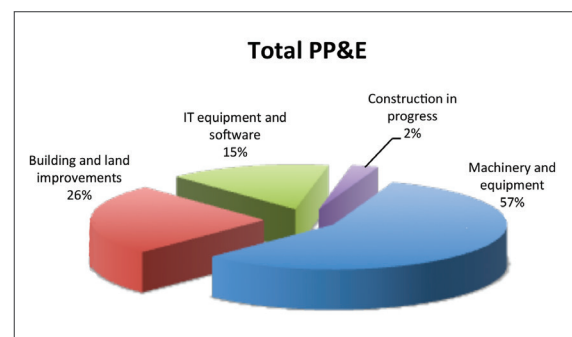
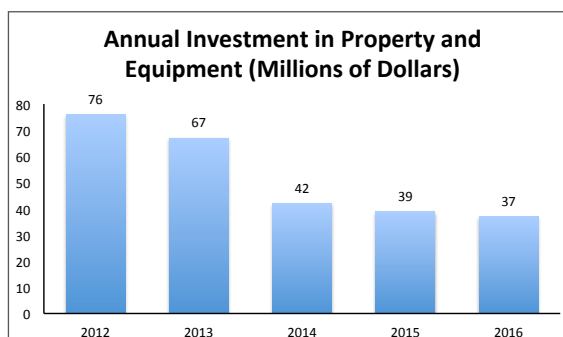
Accounts receivable increased by \$8.9 million in 2016. This was due to an increased amount of currency delivered in the final month of the year as compared to the final month of 2015.

Inventories

Net inventories decreased by \$29.8 million in 2016. This was due primarily to a build-up of finished goods inventories in the last quarter of 2015 to meet an increased order for currency in the 2016 program. A similar build-up of finished goods inventory was not necessary at the end of fiscal year 2016.

Property and Equipment

Net property and equipment decreased \$21.7 million in 2016 to \$365.9 million. The decrease can be attributed to depreciation in excess of spending on currency manufacturing equipment during the year.

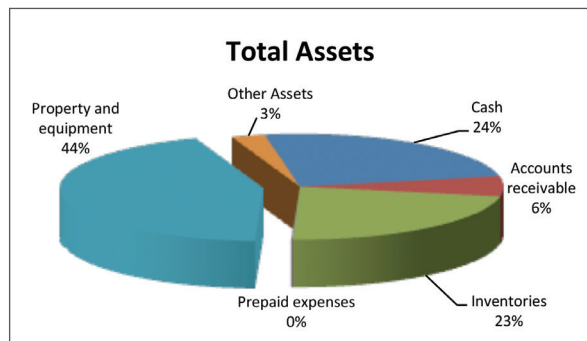
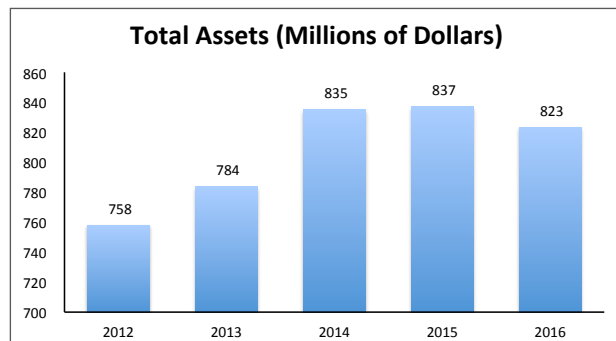


Prepaid Expenses

Prepaid expenses increased by \$0.2 million; this is primarily the result of business activity with the Library of Congress partnership for the distribution of the currency reader program.

Other Assets

Other assets decreased by \$2.8 million in 2016. The decrease was related to the increase in the reserve for spare parts.



Accounts Payable

Accounts payable increased from \$17.4 million in 2015 to \$20.1 million in 2016. The principal cause for the increase was an unbilled liability with a material supplier.

Accrued Current Liabilities

Accrued current liabilities increased from \$27.4 million in 2015 to \$29.2 million in 2016, due to an increase in the year-end payroll accrual.

Advances

Advances increased from \$4.9 million in 2015 to \$7.3 million in 2016, due to increased mutilated currency cases during the year.

Workers' Compensation Liabilities

The actuarial workers' compensation liability increased \$0.9 million in 2016. The increase in the actuarial liability primarily resulted from a change in the Department of Labor methodology used to determine the liability.

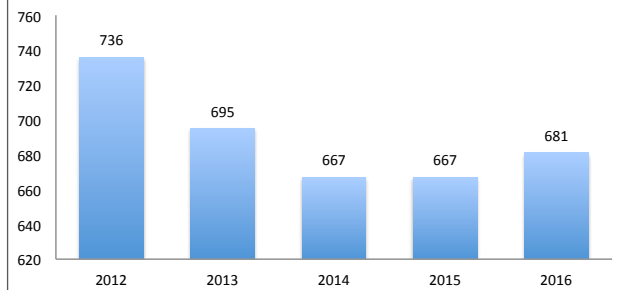
Revenue from Sales

Overall, revenue from sales increased from \$667.1 million in 2015 to \$680.8 million in 2016. This \$13.7 million increase is attributable to the increase in the currency program for the year.

Average Billing Rate for Currency

Year	Rate per Thousand Notes	Single Note
2012	\$86.22	\$0.086
2013	\$102.12	\$0.102
2014	\$101.97	\$0.102
2015	\$89.64	\$0.090
2016	\$87.54	\$0.088

Total Revenue (Millions of Dollars)



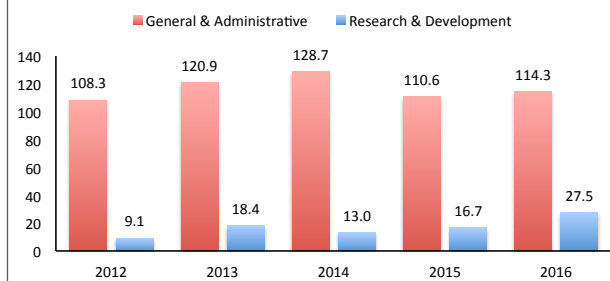
Cost of Goods Sold

Cost of goods sold increased from \$541.1 million in 2015 to \$560.3 million in 2016. The \$19.2 million increase is due to the increased costs associated with the redesigned \$100 note. The gross margin as a percentage of revenue decreased from 18.9 percent in 2015 to 17.7 percent in 2016. The gross margin decreased as the higher currency production costs were not offset by comparable billing rate increases.

Operating Costs

Operating costs increased by \$14.4 million in 2016. The change is primarily attributed to increased investment in the Bureau's technology infrastructure related to currency redesign efforts and reclamation.

Operating Costs (Millions of Dollars)



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 2016, 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 waste, fraud, and abuse. The subsequent passage of the Chief Financial Officers Act, the Federal Financial Management Improvement Act, and the Sarbanes-Oxley Act of 2002 further increased the internal control requirements.

The Bureau has a history of strong internal controls and an aggressive monitoring program. Key elements of this program include comprehensive financial management controls, personnel security controls, production and quality controls, computer security and information resources management 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 2016, the CRTs performed 955 unannounced reviews. The results of the reviews were reported to office chiefs, supervisors and managers responsible for enforcing policies and procedures, and implementing corrective actions. The Internal Control Awareness Program is used to promote the visibility and understanding of internal control issues, objectives and requirements. Internal review personnel conduct management and organizational reviews at both facilities to strengthen the Bureau's internal controls, ensure compliance with existing policies and procedures, and safeguard Bureau assets. The Bureau's quality management system for the production of US currency, and the environmental management system are ISO 9001 and 14001 registered, respectively. The Bureau's ISO Lead Auditor trained staff support the maintenance and continuous improvement of the Bureau's quality and environmental management systems by conducting regular audits throughout the Bureau.

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

The accompanying financial statements and annual external audit are important elements in the stewardship of the Bureau's revolving fund. For the 32nd consecutive year, the Bureau has received an unmodified opinion on its financial statements from an independent, certified public accounting firm. Additionally, for the eighth consecutive year, the Bureau received an unmodified opinion from the auditors on management's assertion that the Bureau maintained effective internal control over financial reporting based on criteria 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 unmodified audit opinion on the financial statements, the unmodified opinion on the internal control over financial reporting, and the FMFIA review process, ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making.

In 2016, the Bureau’s Chief Information Officer (CIO) continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and information technology (IT) related processes and enhanced governance of the IT program and resources. In IT security, 100% of the Bureau’s Major Applications (MA) and General Support Systems (GSS) have been accredited in order to meet the requirement for certification and accreditation at least every three years. Additionally, the BEP remains committed to full implementation of the National Institute of Standards and Technology (NIST) SP800-53 and SP800-53A management, operational, and technical controls for IT systems as well as 100% implementation of the United States Government Configuration Baseline for Microsoft software and NIST approved configurations for other operating systems and databases.

Manufacturing Support Suite (MSS) is the Bureau’s enterprise-wide financial 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 monthly Separation 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 2016, the CIO Directorate participated in a number of audits and reviews of financial and support IT systems, and FISMA implementation. BEP continues to design and implement controls to comply with the OMB Circular A-123, Management’s Responsibility for Internal Control, and the Government Accountability Office’s Federal Information System Controls Audit Manual audit standards in order to support the annual audited financial statements. The CIO Directorate is an active participant in Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises. 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 2016, the CIO Directorate planned and executed an assessment of IT security controls for the Treasury Departmental Office (DO) system known as HRConnect. This onsite assessment tested security controls across a number of IT security control families to determine if these controls were designed and operating effectively. This was the third consecutive year this assessment was conducted by BEP CIO Directorate. Testers interviewed DO staff, reviewed all available system specific security documents, gathered test evidence and observed IT security controls in place at HRConnect. Tested security controls were determined to be operating effectively as of September 30, 2016. The CIO Directorate is issuing a report outlining any assessment findings and recommendations for use by the BEP CFO.

Custody of Assets

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

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

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

In order to effectively manage its fiduciary and custodial responsibilities, the Bureau has implemented effective internal control and security systems. To ensure that these systems are functioning properly, management has institutionalized an organizational focus on the safeguarding and accountability of all assets. This focus is reflected in the Bureau's organizational structure. Reporting to the CFO, who has oversight responsibility with respect to internal controls, is the Office of Compliance. This office evaluates and monitors internal control systems and maintains a comprehensive product accountability system. The Office of Security, which reports to the Associate Director Management & Chief Information Officer, plans, administers and monitors the Bureau's security programs. These programs include personnel, physical and operational security and securities destruction. Through this structure, individual unit managers are held accountable and responsible for maintaining proper custody and safeguarding of all assets under their control. To further reinforce the internal control and security structure, a security and internal control element is included in each employee's performance plan. Employees are rated annually regarding their performance with respect to this element.



Corporal Curtiss Toliaferro standing at the currency vault in Washington, DC.

Assurance Statement

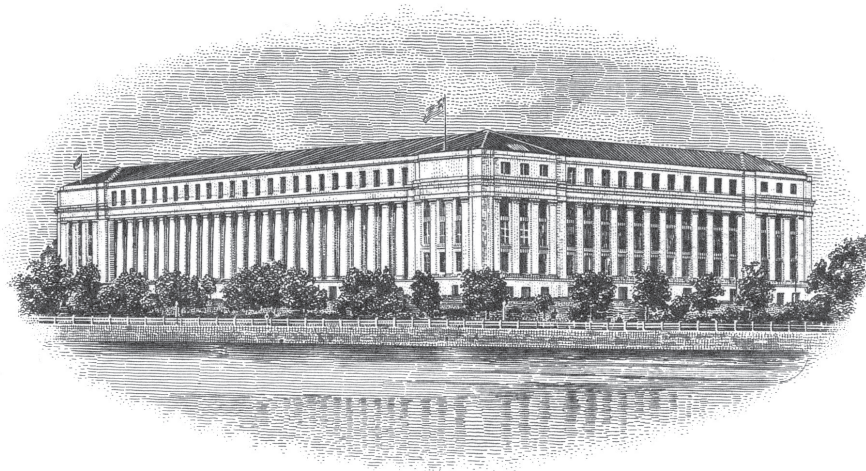
The Bureau of Engraving and Printing (Bureau), made a conscientious effort during 2016 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Federal Financial Management Improvement Act (FFMIA) of 1996, Office of Management and Budget (OMB) Circular 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 2016. 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, 2016.

The Bureau evaluated its internal control over financial reporting in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control" and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 "Internal Control—Integrated Framework." Based on the results of this evaluation, the Bureau can provide reasonable assurance that internal control over financial reporting as of September 30, 2016, 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.

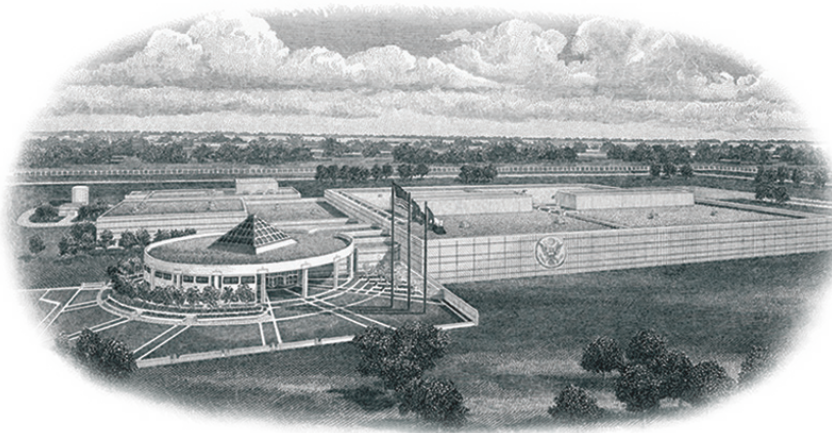
Summary of Office of Inspector General and Government Accountability Office Audits

The Bureau began 2016 with six (6) open corrective actions; and the Office of Inspector General (OIG) and Government Accountability Office (GAO) issued three (3) new ones. These pertained to training, policy and/or procedure adherence, and internal controls. The Bureau implemented corrective action on all nine (9) items during the year. There are no open issues outstanding.



Limitations of the Financial Statements

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

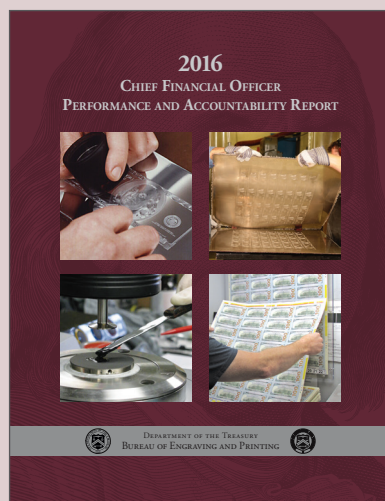




**THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING**

Financial Statements

Years Ended September 30, 2016 and 2015
(With Independent Auditors' Reports Thereon)





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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Bureau of Engraving and Printing (the Bureau), which comprise the balance sheets as of September 30, 2016 and 2015, 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, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit 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, 2016 and 2015, and the results of its operations, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Reporting Required by Government Auditing Standards

Report on Internal Control over Financial Reporting

We also have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2016, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 15, 2016 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 15, 2016, 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 15, 2016

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

Balance Sheets

As of September 30, 2016 and 2015

	2016	2015
	(In Thousands)	
ASSETS		
Current assets		
Cash (Note 3)	\$203,998	\$172,313
Accounts receivable (Note 10)	51,247	42,310
Inventories, net (Note 4)	179,611	209,417
Prepaid expenses	670	430
Total current assets	435,526	424,470
Property and equipment, net (Note 5)	365,869	387,574
Other assets, net (Note 6)	21,987	24,812
Total assets	<u>\$823,382</u>	<u>\$836,856</u>
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities (Notes 7 and 8)		
Accounts payable	\$20,184	\$17,369
Accrued liabilities	29,177	27,430
Advances	7,312	4,891
Total current liabilities	56,673	49,690
Workers' compensation liability (Note 8)	64,973	64,117
Total liabilities	<u>121,646</u>	<u>113,807</u>
Contingencies and commitments (Notes 12 and 13)		
Equity		
Invested capital	32,435	32,435
Cumulative results of operations	669,301	690,614
Total equity	<u>701,736</u>	<u>723,049</u>
Total liabilities and equity	<u>\$823,382</u>	<u>\$836,856</u>

See accompanying notes to the financial statements.

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

Statements of Operations and
Cumulative Results of Operations

For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
	(In Thousands)	
Revenue from sales (Note 10)	\$680,818	\$667,086
Cost of goods sold	<u>560,329</u>	<u>541,125</u>
Gross margin	<u>120,489</u>	<u>125,961</u>
Operating costs:		
General and administrative expenses	114,338	110,646
Research and development	<u>27,464</u>	<u>16,707</u>
	<u>141,802</u>	<u>127,353</u>
Excess of expenses over revenues	(21,313)	(1,392)
Cumulative results of operations at beginning of year	<u>690,614</u>	<u>692,006</u>
Cumulative results of operations at end of year	<u>\$669,301</u>	<u>\$690,614</u>

See accompanying notes to the financial statements

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

Statements of Cash Flows

For the Years Ended September 30, 2016 and 2015

	2016	2015
	(In Thousands)	
Cash flows from operating activities		
Excess of revenues over expenses (expenses over revenues)	(21,313)	(1,392)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	59,466	61,796
Loss from obsolescence	1,519	654
Loss from disposal of property and equipment	-	240
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	(8,937)	4,347
Decrease in inventories	29,806	9,247
Increase in prepaid expenses	(240)	(136)
Decrease in other assets	1,306	67
Increase (decrease) in accounts payable	2,084	4,115
Increase (decrease) in accrued liabilities	1,747	2,173
Increase (decrease) in advances	2,421	704
(Decrease) increase in workers' compensation liability	856	(3,919)
Net cash provided by operating activities	<u>68,715</u>	<u>77,896</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(37,030)</u>	<u>(38,909)</u>
Net cash used in investing activities	<u>(37,030)</u>	<u>(38,909)</u>
Net increase in cash	31,685	38,987
Cash at beginning of year	<u>172,313</u>	<u>133,326</u>
Cash at end of year	<u><u>\$203,998</u></u>	<u><u>\$172,313</u></u>

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

September 30, 2016 and 2015

1. Reporting Entity

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

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

Notes to the Financial Statements

September 30, 2016 and 2015

Estimates

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

Cash

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

Inventories

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

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

Property and Equipment

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

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

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

Notes to the Financial Statements

September 30, 2016 and 2015

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

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

Other Assets

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

Employee Retirement Plans

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

Postretirement Benefits Other than Pensions

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

Workers' Compensation Costs

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

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

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

Notes to the Financial Statements

September 30, 2016 and 2015

The second component, the actuarial FECA liability, is the estimated liability for future benefit payments. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for future FECA benefits. The actuarial liability for future worker's compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues to reflect the average duration in years for income payment and medical payments. Discount rates as of September 30, 2016 were 2.871% and 2.261% for wages and medical in year one and subsequent years, respectively. Discount rates as of September 30, 2015 were 3.134% and 2.496% for wages and medical in year one and subsequent years, respectively. The Department of the Treasury allocated the overall liability to Treasury components based on past claims paid information provided by DOL.

Annual, Sick, and Other Leave

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

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

Revenue Recognition

Revenue from sales to the Federal Reserve Board is recognized when finished goods satisfactorily pass all Bureau quality control standards and are delivered to the on-site depository vaults designated for the Federal Reserve Board and are available for immediate shipping by the Federal Reserve Board. Finished goods are released for shipment in accordance with customer requirements. Revenue from the sale of uncut currency to the public is recognized at the time the product is shipped. The Bureau does not record an allowance for returns because of a historically negligible return rate.

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.

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

Notes to the Financial Statements

September 30, 2016 and 2015

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, 2016 and 2015, 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, 2016 or 2015.

3. Cash

The year-end cash balances by fund are as follows as of September 30, 2016 and 2015:

	(In Thousands)	
	2016	2015
Bureau of Engraving and Printing		
Revolving Fund	\$ 197,310	\$ 167,628
Mutilated Currency Revolving Fund	6,688	4,685
Total	<u>\$ 203,998</u>	<u>\$ 172,313</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, 2016 and 2015, respectively (See Note 7).

4. Inventories, net

Inventories consist of the following as of September 30, 2016 and 2015:

	(In Thousands)	
	2016	2015
Raw material and supplies	\$ 59,961	\$ 67,553
Work-in-process	51,354	56,786
Finished goods - currency	37,691	55,780
Finished goods - uncut currency	27,910	26,425
E-Reader inventory	2,695	2,873
Total	<u>\$179,611</u>	<u>\$ 209,417</u>

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

Notes to the Financial Statements

September 30, 2016 and 2015

5. Property and Equipment, net

Property and equipment consist of the following as of September 30, 2016 and 2015:

	(In Thousands)	
	<u>2016</u>	<u>2015</u>
Machinery and equipment	\$ 587,974	\$ 582,176
Building and land improvements	268,517	262,734
IT equipment and software	165,875	154,494
Office machines	1,685	1,685
Furniture and fixtures	1,249	838
Donated assets - art work	125	125
Motor vehicles	212	212
Leasehold improvements	230	130
	<u>1,025,867</u>	<u>1,002,394</u>
Less accumulated depreciation	<u>699,991</u>	<u>640,388</u>
	325,876	362,006
Construction-in-progress	<u>39,993</u>	<u>25,568</u>
Net property and equipment	<u>\$ 365,869</u>	<u>\$ 387,574</u>

Depreciation expense for the years ended September 30, 2016 and 2015 was \$59.5 million and \$61.8 million, respectively.

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

6. Other Assets, net

Other assets consist principally of machine repair parts and tools. The allowance for obsolescence for these parts and tools for the years ended September 30, 2016 and 2015 was \$12.7 million and \$11.2 million, respectively.

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

Notes to the Financial Statements

September 30, 2016 and 2015

7. Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2016 and 2015
(In Thousands):

	2016	2015
Intragovernmental	\$5,901	\$6,125
With the public	50,772	43,565
Total	<u>\$56,673</u>	<u>\$49,690</u>

Accrued current liabilities consist of the following as of September 30, 2016 and 2015:

	2016	2015
Payroll	\$11,012	\$8,509
Annual leave	11,432	11,403
Workers' compensation	5,068	5,793
Other	1,665	1,725
Total	<u>\$29,177</u>	<u>\$27,430</u>

Advances consist of the following as of September 30, 2016 and 2015:

	2016	2015
Other Federal Agencies	\$622	\$143
Mutilated Currency	6,688	4,685
Public sales	2	63
Total	<u>\$7,312</u>	<u>\$4,891</u>

8. Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2016 and 2015, but not yet reimbursed to DOL by the Bureau, are approximately \$11.5 million and \$12.0 million, respectively, of which approximately \$5.1 million and \$5.8 million represent a current liability, as of September 30, 2016 and 2015, 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 \$58.5 million and \$57.9 million as of September 30, 2016 and 2015, respectively. The Bureau's estimated, undiscounted, non-current, actuarially derived future workers' compensation liability was approximately \$79.8 million and \$80.9 million as of September 30, 2016 and 2015, respectively.

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

Notes to the Financial Statements

September 30, 2016 and 2015

9. Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were \$21.7 million and \$20.4 million for fiscal years 2016 and 2015, respectively. The CSRS employer contribution rate for fiscal years 2016 and 2015 was 7.0%. The FERS agency contribution rate was 13.7% and 13.2% for fiscal years 2016 and 2015, 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 \$26.8 million and \$26.3 million in 2016 and 2015, respectively.

OPM paid costs totaling \$11.5 million and \$10.1 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2016 and 2015, respectively. These costs are not included in the Bureau's Statements of Operations. The Bureau paid costs totaling \$16.2 million and \$15.2 million for the FEHBP and FEGLI programs in 2016 and 2015, 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 2016 and 2015, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2016 and 2015, are reflected in the following table:

	Revenue (In Thousands)		Accounts Receivable (In Thousands)	
	2016	2015	2016	2015
Federal Reserve Board:				
Currency Production	\$ 663,907	\$ 648,277	\$ 49,177	\$ 40,040
Mutilated Currency	3,946	3,804	932	988
Meaningful Access	1,815	2,709	457	676
Other Federal Agencies	3,999	4,062	14	85
	<u>673,667</u>	<u>658,852</u>	<u>50,580</u>	<u>41,789</u>
Public sales	7,151	8,232	-	1
Other	<u>1</u>	<u>2</u>	<u>667</u>	<u>520</u>
	<u>7,152</u>	<u>8,234</u>	<u>667</u>	<u>521</u>
Total	<u>\$ 680,819</u>	<u>\$ 667,086</u>	<u>\$ 51,247</u>	<u>\$ 42,310</u>

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

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

Notes to the Financial Statements

September 30, 2016 and 2015

11. Principal Suppliers

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

12. Commitments and Contingencies

The Bureau is a party in various administrative proceedings, legal actions, and claims brought against the Federal Government by employees, contractors, and other parties. Contingencies for litigations involving the Bureau, where the risk of loss was probable, were approximately \$300 thousand and \$600 thousand as of September 30, 2016 and 2015, respectively. Contingencies, where the risk of loss is reasonably possible, are approximately \$6.8 million and \$8.1 million as of September 30, 2016 and 2015, 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, 2016 and 2015. 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, 2016 and 2015 was \$3.1 million each.

Future minimum payments under the lease as of September 30, 2016, are (in thousands):

For the years ending September 30:	Amount
2017	\$ 3,090
2018	3,103
2019	3,117
2020	3,132
Thereafter	4,715
Total	<u>\$ 17,157</u>

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

Notes to the Financial Statements

September 30, 2016 and 2015

14. Subsequent Events

The Bureau has evaluated subsequent events through December 15, 2016, 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:

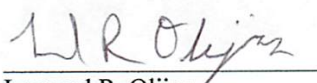
- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of the assets of the Bureau;
- Provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance 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.

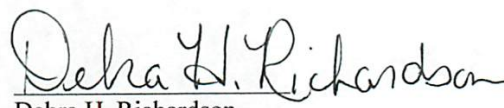
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that 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, 2016. In making this assessment, the Bureau used the criteria established in the *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment and those criteria, we conclude that the Bureau maintained effective internal control over financial reporting as of September 30, 2016.

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


Leonard R. Olijar
Director


Debra H. Richardson
Associate Director (Chief Financial Officer)

December 15, 2016



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

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have examined management's assertion, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that the Bureau of Engraving and Printing (Bureau) maintained effective internal control over financial reporting as of September 30, 2016, based on the criteria established in *Internal Control – Integrated Framework* 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 maintained effective internal control over financial reporting as of September 30, 2016 is fairly stated, in all material respects, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).



We also have audited, in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the balance sheets as of September 30, 2016 and 2015, and the related statements of operations and cumulative results of operations, and cash flows, of the Bureau and our report dated December 15, 2016 expressed an unmodified opinion.

KPMG LLP

December 15, 2016



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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, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the financial statements of Bureau of Engraving and Printing (the Bureau), which comprise the balance sheets as of September 30, 2016 and 2015, 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 15, 2016.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result 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 15, 2016