2017

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 · Accountability

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 the essential role that science and technology have in the production of U.S. currency notes. This includes (clockwise from top left) the Quality Assurance Laboratories materials application testing; the manufacturing of polyvinyl chloride wiping rollers for intaglio presses; and the Single Note Inspection (SNI) process. The skills and knowledge of our manufacturing and technical staff are supported by rigorous scientific and technological applications that together provide the foundation for the production of consistently high-quality U.S. currency notes.

U.S. Secretary of the Treasury, Steven T. Mnuchin, provides his signature for Series 2017 currency.

BEP Director, Leonard R. Olijar, helps Treasurer of the Untied States, Jovita Carranza, select her official signature for the Series 2017 currency.

Secretary of the Treasury, Steven T. Mnuchin, and Treasurer of the United States, Jovita Carranza, each hold a 50-subject, Series 2017 $1 sheet bearing their signatures.

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Message from the Director

The mission of the Bureau of Engraving and Printing (BEP/Bureau) is to develop and produce United States currency notes trusted worldwide. The BEP is committed to setting the global standard for the production of distinct and technologically sophisticated currency notes. The foundation of our success rests in the unique skills, craftsmanship, determination, and dedication of our employees.

During 2017, the Bureau delivered 7.1 billion Federal Reserve notes to the Federal Reserve Board and is scheduled to produce 7.4 billion in 2018. In addition to producing the annual currency order, the BEP is in the process of designing the next generation of currency notes and developing cutting edge counterfeit deterrence features.

In 2017, the BEP continued to deploy Single Note Inspection (SNI) technology for the $100 denomination. Since initiating the SNI process in 2015, the BEP has reached one billion $100 notes processed through SNI. Recovery of these notes, that would have otherwise been scrapped, resulted in a cost savings of more than $70 million. This also provided economic and environmental benefits through reduced spoilage. In 2018, the SNI process will be expanded to include the $20 note.

The BEP's Human Capital Strategic Plan includes goals and initiatives that seek to foster a positive and engaging work environment that results in employee development and job satisfaction. Fiscal year 2017 was the second year in our five-year journey focused on enhancing the work experience by improving employee programs and policies. The Human Capital Strategic Plan establishes human capital strategic goals and initiatives for the next five years. The key initiatives of our Human Capital Strategic Plan include Apprenticeship/Upward Mobility; Science, Technology, Engineering and Mathematics (STEM); Leadership Development; Workforce Planning; Competency Models; and Knowledge Management.

The BEP must operate with the highest environmental, health and safety standards by integrating sustainability into our day-to-day operations using resources that reduce workplace injuries and regulate energy consumption and waste by eliminating hazardous materials. The Bureau has seen a significant decline over the last 15 years in all three of the BEP's major waste streams – regulated air emissions, solid wastes, and wastewater. The BEP has placed a consistent emphasis on improving the efficiency of its operations by completing a variety of projects that save energy and reduce greenhouse gas emissions. Our dedication to EHS is evident throughout the organization as we continue to refine our processing methods, technology, and business practices to minimize our environmental footprint.

Moving forward, the Bureau will continue to work with our partners, the Federal Reserve Board and U.S. Secret Service, to develop robust strategies and technologies to protect the security of the Nation's currency and enhance its accessibility for all users worldwide. The path forward is challenging but the Bureau's innovative and resilient workforce is customer-focused and success driven. This is why I remain grateful for the opportunity to lead this organization of highly focused and dedicated professionals. An unwavering commitment to our core values provides the framework and foundation for continued excellence as we strive to be world-class in all that we do.

Leonard R. Olijar

Message from the CFO

I am pleased and privileged to present the Bureau of Engraving and Printing's Performance and Accountability Report for 2017. 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 2018.

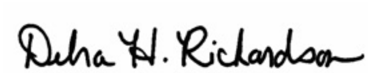
In 2017, we continued a commitment to excellent and strong financial management, timely and accurate financial reporting, and continual improvement at the Bureau. This tradition of quality financial management resulted in an unmodified audit opinion on the Bureau's financial statements for the 33rd consecutive 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 2017, the Bureau delivered 7.1 billion currency notes to the Federal Reserve Board, resulting in revenue of $706.5 million and an excess of revenue over expenses of $13.4 million. The excess of revenue over expenses was a result of material savings achieved through the reclamation of $100 notes using the SNI process.

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 the BEP's LSS program is the 5S methodology that organizes and optimizes work areas to improve efficiency and enhance the work environment. The LSS program led to the completion of 11 high-impact 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. The 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.



Highlights of the Year

In 2017, the Bureau received an unmodified opinion on its financial statements for the 33rd consecutive year and an unqualified opinion on its internal controls over financial reporting. The Bureau continued to develop strategies for meaningful access to currency for the blind and visually impaired, while developing innovative designs containing effective counterfeit deterrent security features.

Single Note Inspection (SNI)

SNI is a reclamation process that has provided significant cost savings and waste reduction to the BEP for the last three fiscal years. SNI inspects and sorts out notes that are fit for circulation that would have otherwise been destroyed.

Deployment of SNI began in 2015, and by 2017 BEP delivered one billion fit $100 notes processed through SNI. Cost savings of more than $70 million were realized by eliminating the need to print additional new notes and purchase raw materials. This also provided economic and environmental benefits through reduced spoilage.

Single Note Inspection team members (from left to right) Rob Chapman, Jarwin Scott, Kristie Peyton, and Marco Cepeda work together preparing single notes for processing.

Environmental Awards

The Western Currency Facility received the ***Pretreatment Partnership Award*** which recognized eight consecutive years of 100 percent compliance with local, state, and federal pretreatment regulations. The WCF was one of four recipients of the ***Pollution Prevention Award*** for its 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 two environmental initiatives in safeguarding the BEP and the environment:

- Cope-Pak Waste Minimization – An 83 percent waste reduction was realized in waste ink solids and debris by segregating metal cans from the ink so that only ink and debris are in the waste drum. In addition, all waste was centralized into one location as part of this effort and in support of the 5S initiative.
- Facility Compressed Air System Upgrade – This initiative resulted in a 16 percent reduction in energy use.

City of Fort Worth officials present the Pretreatment Partnership Award and Pollution Prevention Award to WCF representatives.

(from left to right) Acting Associate Director of Manufacturing Ronald Voelker, City of Fort Worth Environmental Program Manager Laly Joseph, Acting Manager Cope-Pak Operations Cynthia Leach, Environmental, Health & Safety Branch Manager Virginia Baldwin, City of Fort Worth Interim Water Director Kara Shuror, City of Fort Worth Interim Assistant Water Director Jerry Pressley, Environmental Engineer Davin Greenly, and Stationary Engineer Richard Bonner.

Human Capital Strategic Plan

The BEP's Human Capital Strategic Plan includes goals and initiatives that seek to foster a positive and engaging work environment that results in employee development and job satisfaction. Significant progress was made in 2017 as the BEP implemented several priority initiatives. Notable among these, the BEP Integrated Talent Management Initiative, brings together a broad range of human capital programs aimed at enhancing career development opportunities, leadership development, knowledge management, performance management, and strategic workforce planning.

Best Place to Work Initiative

For the fifth consecutive year, the BEP placed in the top 30 percent among federal agencies as a best place to work based on the results of the annual Federal Employees Viewpoint Survey (FEVS). The BEP was also in the Department of the Treasury's top three bureaus for FEVS response rates at 73.5 percent, which was an all-time high for the Bureau. The Bureau has a long-term plan in place to continually engage its employees in cross-functional efforts and identify opportunities for improvement throughout the organization.

Bring Our Children to Work Day

The BEP's 2017 theme was *I Put My Money on the Superhero,* and children of BEP employees learned about the historical evolution and current currency manufacturing innovations. The newly appointed Treasurer of the United States, Jovita Carranza, was the guest speaker. More than 170 children, ages 8-18 years old, registered for the event. The children participated in *Superhero Festival,* an activity that included interactive games, music, cotton candy, popcorn, and dance competitions.

Combined Federal Campaign (CFC) Awards

The BEP received the Department of the Treasury's prestigious Secretary's Cup in recognition of its 2016 CFC organizational efforts, which is bestowed upon a Treasury bureau or office that exhibits outstanding achievement in the overall management of its CFC campaign. The BEP also received a Special Service Certificate for the dedication it demonstrated in support of CFC events, the 100 Percent Goal Award for meeting the overall campaign goal, and the Summit Award for achieving a three percent increase in total dollars raised.

Members of the Washington DC Facility CFC Committee from left to right: Angela Anderson, David Lockhart, Rene McNeill Dupree, Mary Warren, and Sheldon Turner. Not pictured: Tawanda Williams and Rachelle Wright.

The Western Currency Facility CFC Committee from left to right: Patience Harris, Kimberly Simpson, Tita Charleston, Alex Sanchez, Karen Six, and Sain Chan. Not pictured: Micaela Scott, Ron Voelker, and Roger Finley.

The Department of the Treasury's Secretary's Cup.

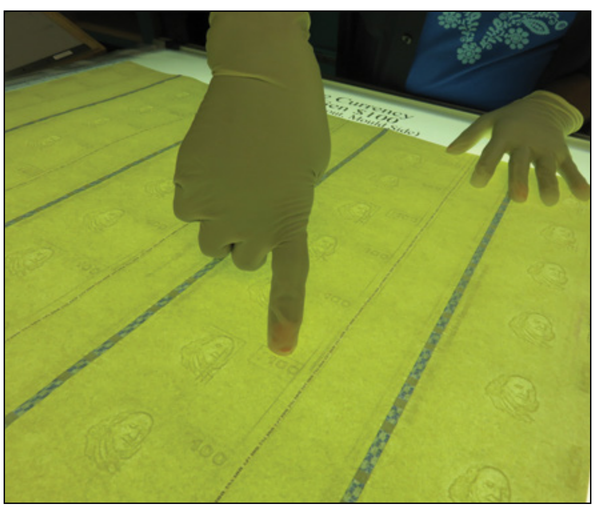
Profile of the Bureau of Engraving and Printing

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 U.S. currency and many other security documents issued by the federal government. Other activities at the Bureau include engraving plates and dies; manufacturing certain inks used to print security products; purchasing materials, supplies and equipment; and storing and delivering products in accordance with 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, the BEP is responsible for the accountability and destruction of internally generated security waste products. As a service to the public, the Bureau also processes claims for the redemption of mutilated paper currency.

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



BEP employees in the Quality Assurance Laboratories check paper properties from strength to spectral (color at specific wavelengths). This is an essential role in banknote manufacturing and the contributions of BEP scientists and engineers are crucial in ensuring the security, quality, and durability of U.S. currency notes. Scientists at BEP work in many areas such as materials applications, security features, quality, and contracting.

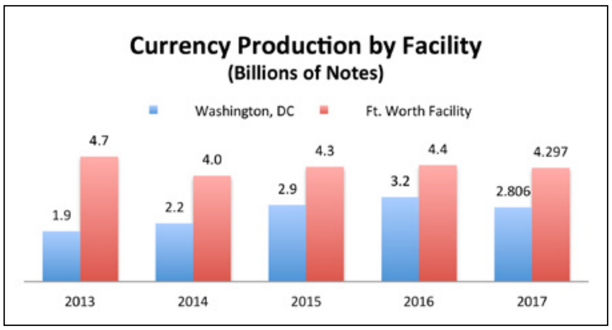
In addition to housing production facilities, free tours of currency operations are available to the public in both Washington, DC and Fort Worth, Texas. The tours include Visitor Centers with currency manufacturing displays, interactive kiosks and other information about the history of our Nation's 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: moneyfactory.gov.

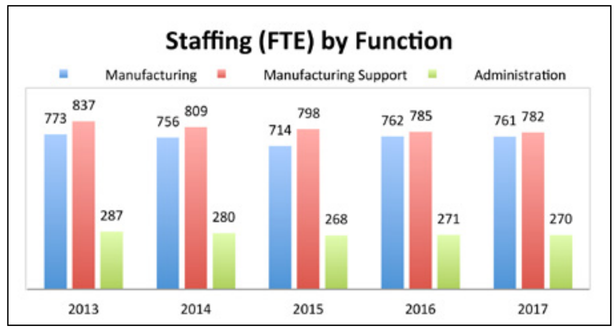
Manufacturing

During 2017, the Bureau delivered 7.1 billion Federal Reserve notes to the Federal Reserve System. The Washington, DC (DCF) and Fort Worth, Texas (WCF) facilities delivered 2.8 billion and 4.3 billion notes, respectively. For 2018, the Federal Reserve Board has ordered 7.4 billion Federal Reserve notes.

The Bureau's quality management system for the production of U.S. currency has been registered as ISO 9001 compliant for the past 16 years. The BEP is moving quickly with its partners, the Federal Reserve Board and the U.S. 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 support a quality-driven organization that will sustain quality excellence through future currency generations.

The BEP has been ISO 9001 certified since 2001. Maintaining certification supports our Strategic Goal of Organizational Excellence. The ISO standard has been revised and a project team made great strides in 2017 towards meeting the new requirements. An important benefit of this project is enhancing our ability to meet increasing stringent currency quality requirements.





Information Technology

In 2017, 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.

All of the Bureau's Major Applications and General Support Systems have been accredited in compliance with Federal Information Security Management Act (FISMA) requirements. Additionally, the BEP remains committed to the full implementation of the National Institute of Standards and Technology (NIST) guidelines for management, operational, and technical controls for IT systems and NIST approved configuration baselines.

The Bureau's enterprise management system (BEN) includes the financial application, Manufacturing Support Suite (MSS) uses the Oracle E-Business Suite. The system is hosted in the cloud at the Oracle Managed Cloud Services Data Center. MSS is a fully integrated business solution that has reduced manual processes, increased efficiency, improved data quality, and provided real-time enterprise data and information for improved decision-making. As part of its commitment to ongoing monitoring of IT security controls, the BEN Program Management Office within the CIO Directorate executes quarterly 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.

The BEP continues to maintain an effective defense-in-depth enterprise architecture integrated with Treasury Network (TNET), the Enterprise Trusted Internet Connection (TIC) and Government Security Operation Center (GSOC). This integrated architecture has proven flexible and resilient to the threat of malicious acts. Over the past year, we have made numerous enhancements including:

- Enhanced our email defenses by:
    - Deployed Barracuda appliances into the flow of e-mail traffic. These appliances have successfully intercepted and quarantined >95 percent of emails that GSOC later notified us contained malicious links or attachments.
    - Deployed the PhishMe client to allow users to report potential phishing emails with a single mouse click.
- Enhanced network isolation, segmentation, and monitoring utilizing both Virtual Local Area Network (VLAN) and new CISCO Adaptive Security Appliances (ASA) internal firewalls.
- Enhanced integration and support for security monitoring and response with the Treasury GSOC.
- Successfully deployed DHS CDM Phase 1 components and coordinated data integration and sharing while also working with Departmental Offices on the Phase 2 deployment and integration strategy.

During the 2017 fiscal year, the CIO Directorate participated in a number of audits and reviews of financial and support IT systems, and FISMA implementation. The 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 quarterly critical security patch updates, monthly maintenance releases, and testing of Continuity of Operation Planning (COOP) responses through government and Treasury-wide exercises. The Directorate also tests and executes Disaster Recovery plans for the Bureau's major systems that support financial operations such as MSS and the Local Area Network/Wide Area Network on, at least, an annual basis.

In 2018, the Bi-Directional Communication Initiative between BEN and FlowSys will be deployed, enabling enhanced integrated accountability and login/logout data from FlowSys in MEC (Manufacturing Execution Console) along with the retirement of the Axeda ServiceLink application. This integration eliminates the need for dual entry of new LEPE (Large Examining Printing Equipment) accountability data in FlowSys and MEC and enhances the data flow between FlowSys and MEC by allowing near real-time communication via the Enterprise Service Bus. Additionally, the retirement of ServiceLink will result in significant cost savings to the Bureau.

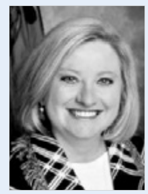
Organization

The Bureau's executive structure consists of the Bureau Director; a Deputy Director, Chief Administrative Officer; a Deputy Director, Chief Operating Officer; and six Associate Directors and Chief Counsel. Various planning committees and subcommittees report to the Senior Executive team. The planning committees and subcommittees are composed of a cross-section of Bureau senior and mid-level managers that represent diverse organizational units. By cutting across organizational lines, these groups serve to promote effective communication, increased collaboration, and participative, proactive management.

Executive Organizational Structure

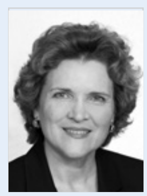
LEONARD R. OLIJAR
DIRECTOR

CHARLENE E. WILLIAMS
DEPUTY DIRECTOR
(CHIEF OPERATING OFFICER)



MARTY GREINER
DEPUTY DIRECTOR
(CHIEF ADMINISTRATIVE OFFICER)

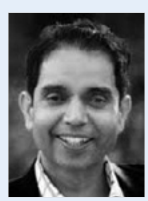
RON VOELKER
ASSOCIATE DIRECTOR
(MANUFACTURING)
(ACTING)



DEBRA H. RICHARDSON
ASSOCIATE DIRECTOR
(CHIEF FINANCIAL OFFICER)

STEPHEN SURKO
ASSOCIATE DIRECTOR
(CHIEF TECHNOLOGY OFFICER)
(ACTING)

WILL P. LEVY III
ASSOCIATE DIRECTOR
(MANAGEMENT)



HARRY SINGH
ASSOCIATE DIRECTOR
(CHIEF INFORMATION OFFICER)

SIDNEY ROCKE
CHIEF COUNSEL

BRIAN LAWLER
ASSOCIATE DIRECTOR
(QUALITY)

As of September 2017

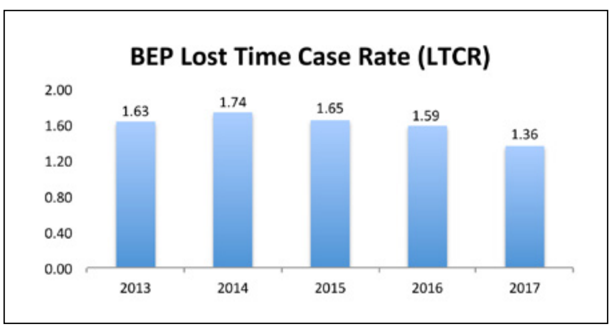
Safety, Health and Environmental Management

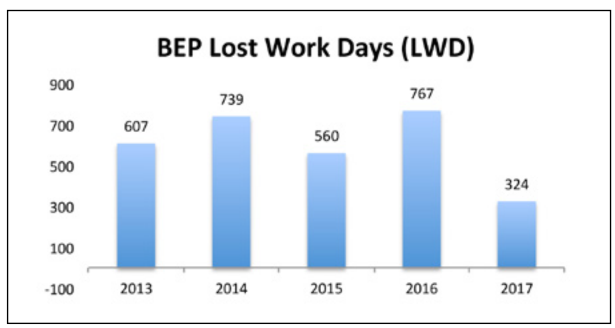
The BEP's Office of Environment, Health, and Safety (OEHS) at the Washington, DC Facility (DCF) and the Environment, Health and Safety Branch (EHSB) at the Western Currency Facility (WCF) manage programs that minimize the Bureau's impact on the environment and protect workers from injuries, illnesses, and disabilities. The Bureau uses an ISO 14001 registered environmental management system (EMS) to focus and improve its environmental, health and safety programs. The continued improvement and effectiveness of this management system is demonstrated by the positive results of the ISO 14001 third-party audits and long-term improvements in our key operating metrics. The Bureau's goals are to maintain a downward trend in occupational injury and illness rates, and to minimize the environmental impact of our operations on air emissions, wastewater discharge, and solid waste. Engagement of personnel at all levels is 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 ISO 14001 compliant for the past 12 years at the WCF and 10 years at the DCF.

Improving Worker Health and Safety

The BEP's Occupational Health Division (OHD) and EHSB will remain focused on injury awareness, accident prevention, comprehensive case management, and returning employees to work.

The BEP uses the Occupational Safety and Health Administration's (OSHA) recordable Lost Time Case Rate (LTCR) and the number of days away from work attributable to OSHA recordable cases as key performance indicators. In 2017, both the LTCR and Lost Work Days (LWD) decreased significantly. The Bureau's LTCR in 2017 was 1.36 lost time cases per 100 employees. This represents a 14 percent decrease from last year's rate of 1.59. This decrease is attributable to the consolidation of injury and illness management in the OHD, implementation of injury reduction incentives, increased visibility to injuries, and targeted safety articles in the safety newsletters. The OEHS and EHSB continue to work diligently to prevent injuries and illnesses through training, employee awareness, and job safety analysis. The BEP will continue to manage LTCR cases by focusing on returning employees to work and job safety/process analyses.





With regard to the number of lost workdays, there were 324 lost workdays accrued in 2017, which is a 57 percent decrease from 2016 with 767 lost workdays. This decrease is largely attributable to a renewed focus on returning injured employees to work.

Protecting the Environment

In 2017, the Bureau reduced the generation of regulated wastes by 6.3 percent from the prior year. This change is primarily a result of the Bureau's efforts to reduce wastewater generation from our production activities.

The BEP anticipates the reduction of waste generation rates through the successful commissioning of the wiping solution recycling plant at the DCF during fiscal year 2018. Production efficiencies gained when printing large format (50-subject) sheets on BEP's newer presses will reduce waste generation. Additionally, the BEP has reduced its greenhouse gas (GHG) emissions, overall energy intensity, and increased its purchases of renewable energy to 12.3 percent 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 cleans the used water-based solution, and prepares it for re-use on currency presses. The WSRP was commissioned at the Washington, DC Facility and began operation trials in 2017. The BEP achieved a recycling rate of 90 percent during system performance testing. The WSRP will save approximately 10 million gallons of water annually, while reducing energy and chemical use.

- Eliminating Harmful Substances – The BEP has installed new chillers at the Central Power Plant in Fort Worth, Texas. The new chillers do not use ozone-depleting refrigerant and provide a significant reduction in electrical consumption.

- High Efficiency Lighting Systems – The DCF is commissioning an upgraded interior lighting system with LED lighting. This project will reduce lighting energy consumption by 53 percent and save 2,000-megawatt hours/year while reducing waste generation and facility maintenance requirements.

In fiscal year 2018, the Bureau will continue to strive to reduce its environmental impact and improve the safety of its employees with projects at BEP's higher risk processes and higher volume waste streams. The DCF will focus on stabilizing and optimizing operation of the WSRP. The BEP will also evaluate disposal options for wiping solution pretreatment plant solid wastes. To address higher risk processes, the BEP will study alternative formulations for its wiper roller recovery process, alternatives to electrolytic hard chrome plating, and hazardous waste reduction projects. To reduce energy consumption and GHG emissions, the BEP will commence the high efficiency lighting project at the DCF. Execution of these planned projects will facilitate continued reductions in the BEP's environmental impacts and improvements in employee health and safety, in line with our long-standing commitment to proactive and responsible environmental stewardship.

In 2017, the DCF and the WCF passed the annual EMS surveillance audit against the ISO 14001:2004 standard with zero nonconformances. The ISO 14001:2015 standard, which the BEP will adopt in 2018, lays out a framework for ensuring that we manage our efforts to prevent pollution and meet or exceed our compliance obligations. BEP's EMS Policy supports the production of high-quality bank notes that meet customer's requirements, while minimizing our environmental impacts, exceeding our compliance expectations, and providing a safe workplace.

Strategic Plan

The Bureau continues to implement its five-year strategic plan (2014 through 2018). Also, the Bureau supports the Department of the Treasury's Strategic Plan by providing trusted and secure U.S. 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 eight objectives:

(1) **Retool Production Facilities:** Create state-of-the-art manufacturing systems, including leveraging the 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) **Improve Quality:** Enhance quality assurance system practices to ensure efficient and effective note production.

(5) **Increase Employee Engagement:** Create a work environment that fosters high levels of collaboration, job satisfaction, performance, and pride in accomplishment.

(6) **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.

(7) **Train and Develop the BEP Workforce and Leadership:** Attract, hire, develop, and retain the most adaptive workforce and leaders possible.

(8) **Be A Reliable Partner:** Consistently deliver high quality products and services to our customers.

The BEP Human Capital Strategic Plan includes goals and initiatives that seek to foster a positive and engaging work environment that results in employee development and job satisfaction. 2017 was the second year in our five-year journey focused on enhancing the BEP work experience by improving employee programs and policies. In 2017, the BEP implemented the following priority initiatives:

- Relaunched the Career Development Program (CADE) including identifying a list of positions for the CADE Program, training CADE supervisors on plan development, and updating the policy.

- Relaunched the Science, Technology, Engineering & Mathematics (STEM) Developmental Program designed to provide training and work assignments of increasing complexity and responsibility to STEM professionals. Key accomplishments included finalizing the list of STEM positions, creating position descriptions, developing training rotations, and updating the policy.

- Continued implementation on the Leadership Development Program to develop and improve leadership competencies for all BEP employees by completing a comprehensive leadership competency model, mapping online courses to the competencies, and submitting a revised policy draft for vetting.

- Continued implementation of the Workforce Planning initiative to include identifying the BEP's short and long-term goals, trends and milestones to enable managers to better define future staffing requirements needed to achieve those goals, and develop division-level workforce staffing plans.

- Began implementation of the Knowledge Management initiative to systemically share and capture existing knowledge and skills across the Bureau by developing an outline for a SharePoint governance site and drafting a formal policy for vetting.

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 maintaining a balanced and talented workforce, enhancing product quality, furthering counterfeit deterrence, and streamlining the manufacturing process.

Feds Feed Families

Deputy Director, Chief Operating Officer Charlene Williams presents the WCF Electro-Machinist Shop with the Group Platinum Hall of Fame plaque in recognition of their exceptional contributions to the 2017 Feds Feed Families campaign.

BEP Police Officers (left to right) Lincoln Ashe, Renee Dupree, Alonzo Tate, Willie Marks, and Susan Vandigriff (not pictured) receive appreciation certificates for their support of the 2017 Feds Feed Families campaign.

The BEP had one of the largest food drive collections ever, with donations totaling 12,422 pounds of food and other non-perishable items to the 2017 Feds Feed Families campaign! The Office of Security's police officers continued their proud tradition of giving by being the top contributors to the food drive with 4,061 pounds of donated goods. The WCF's E/M Shop also helped make this initiative a great success by donating 2,300 pounds. They worked closely with key workers to gather food, load trucks, and execute deliveries to the Tarrant County Food Bank.

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. The BEP has 39 active LSS and 5S projects in progress, the most BEP has ever had at one time; and many more are planned for future completion. The 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.

Currency Inspection (CI) – The Office of Quality Engineering Management completed a LSS project in Currency Inspection to design a process for risk-based event random sampling of Work In Process (WIP) to advance immediately to Currency Inspection or quick feedback to management and the respective sections for possible adjustments needed on the presses. The teams work included determining the sampling function of the WIP designing a systematic process to advance a sampled load to CI and provide feedback to all appropriate stakeholders either for immediate corrective action or for accountability of the confidence levels for good product.

Critical Materials Acquisition – The project team developed a system to identify and prioritize critical materials and equipment and developed solutions to change acquisition methods where appropriate in order to reduce the risk to the Bureau in terms of providing a reliable supply of critical production materials. The project will result in significant savings in order processing costs, by switching 257 essential items (excluding spare parts) to blanket purchase agreements instead of purchasing with credit cards; which will reduce the risk of critical item stock outs.

DCF Currency Overprinting and Processing Equipment (COPE) Installation and 5S – This was a critical project that required all hands to accomplish. At the WCF, the COPE press was upgraded with a third fountain unit as

DCF COPE Installation

The press as it enters through the window of the Main building.

The staging of equipment parts.

Sheets of currency notes are processed through the press.

The assembly team includes Electro-Machinists Eric Pulliam, James Elkins, Paul Anderson, and Tony Cook.

well as updates to the programmable logic controllers. Extensive Bureau acceptance testing was performed to ensure its suitability to run currency. The machine was dismantled and sent to the DCF in January 2017. During a four-month period the machine was re-assembled. An unmanned palletizer unit was added to enhance capabilities. The installation presented a golden opportunity to integrate the principals of 5S into the COPE process. Working with a clean slate the COPE 5S team was able to establish a 100 percent visual work environment. The entire area is free of non-necessary items, ensuring employees have what they need, when they need it, and in the exact quantity.

The 5S deployment at the WCF also included projects in COPE, Plate Printing, and the Offset WIP area. Likewise, at the DCF, projects included Mechanical Exam, COPE, COPE-PAK Numbering Blocks and Roller Recovery.

LSS Excellence Award

The LSS Excellence award is presented at the BEP annual ceremony to recognize the BEP employees or teams that have utilized the LSS methodology to implement and sustain significant improvements to essential processes. Eleven people received this year's award for their work on several essential processes and production areas.

Director's Award for Excellence

Truc-Chi Tran from the Office of Technical Development receives the Director's Award for Excellence.

Currency Quality Assurance Program

U.S. currency notes are rapidly increasing in complexity as the BEP incorporates 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. The BEP continues to implement the Currency Quality Assurance (CQA) program designed to integrate our ISO 9001 certified Quality Management System (QMS), new technologically advanced design features, new equipment, new processes, and ever higher quality and environmental demands to produce U.S. currency at high volume and exceptional value.

The BEP determined that a robust CQA program is necessary to address every aspect of the U.S. currency life cycle: from product development, to acquisition of material, through process and production control, to final release and delivery. The CQA Program will help us move away from a legacy model of quality control, and move toward a model of quality assurance – building quality in, not inspecting it in.

Quality Policy

Everything we do supports producing secure, high quality banknotes that meet customer requirements. We are committed to continually improving our products and processes and investing in our employees and equipment to enable that improvement.

Management Controls

The Quality Management System Review (QMSR) is an initiative by the Quality Directorate that provides a regular forum for the BEP Senior Executive Team (SET) to assess the effectiveness of the ISO 9001 certified QMS and to identify quality improvement activities, issues, and risks. The SET assigns solutions, owners, and due dates to process improvements. Activities focus on sustaining the cross-functional review, decision-making, and proactive management of the QMS within the BEP. The Internal Quality Audit program is a key program driving continuous improvement of the QMS and assuring conformance to the ISO 9001:2015 requirements. The Senior Executive Leadership team is developing additional policies and procedures to support the new standard and have engaged the workforce in these efforts.

Supplier Management

The Technology Directorate augments Supplier Management by rotating quarterly Materials Performance Reviews among BEP facilities and the suppliers' headquarters. The BEP works jointly with suppliers to lead continuous improvement projects that will enhance supplier performance.

Material Controls

The Material Controls project continues to focus on raw material key characteristics, material traceability, final quality release process improvement, and supply chain activities. The Materials Control project focus area goal is to improve raw material performance, reduce costs, and improve material quality.

Document and Data Controls

The Document and Data Controls team continues to mature the document life-cycle process, by improving the accessibility of QMS documents and data, identifying and standardizing key meta-data associated with these documents and implementing continual improvement in the life cycle. The team is focused on identifying gaps, interdependencies, and opportunities to consolidate QMS processes/procedures. The Quality Directorate is implementing a more user-friendly intranet landing page to aid employee navigation of the QMS documents. Areas targeted for improvement in 2018 include document change control, retention, distribution, and obsolescence.

Design Controls

Significant progress has been made in the banknote design and development area. In the critical area of security feature development, the BEP successfully added four projects to the concept phase, advanced one project to the feasibility phase, two projects to the test & optimize phase, and one project through the technology integration to completion phase within the Technology Development Process (TDP). Technologies are transitioned to the Banknote Development Process (BDP) during the latter two phases of the TDP. To facilitate pre-production testing of security features, the BEP awarded contracts for a hot foil and die cut machine and a multifarious press. Additionally, the first note of the family of notes, currently known as the Catalyst $10, entered the BDP concept phase while the test note completed the BDP development phase. Family design activities, Project Salt, commenced by defining low-fidelity and exploring Catalyst family sub-themes based on the overarching Democracy theme.

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 U.S. currency. These non-conformances are identified during day-to-day operations, customer complaints, internal and external quality audits. Continually improving CAPA centers around more rigorous root cause investigations and thorough documentation of the corrective action plans.

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

2017 Key Quality Assurance Accomplishments

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

The BEP quality assurance specialists worked with the Office of Currency Manufacturing to assure product quality using the SNI equipment.

The BEP ISO 9001:2015 transition team ensured the SET, Office Chiefs, and key internal stakeholders were trained on ISO 9001:2015 requirements. The SET developed additional policies and procedures to support this new standard, e.g. a Risk, Issues and Opportunity Circular and an updated Quality Policy. The transition team has engaged with each office and directorate to identify and document key business processes and their associated metrics for inclusion into the QMS.

Both the Internal Quality Audit and the CAPA processes have matured through the use of risk-based tools to determine priorities. Performance metrics were used to evaluate the effectiveness of these processes and reported on a routine basis at the QMSR meetings.

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 2017 are as follows:

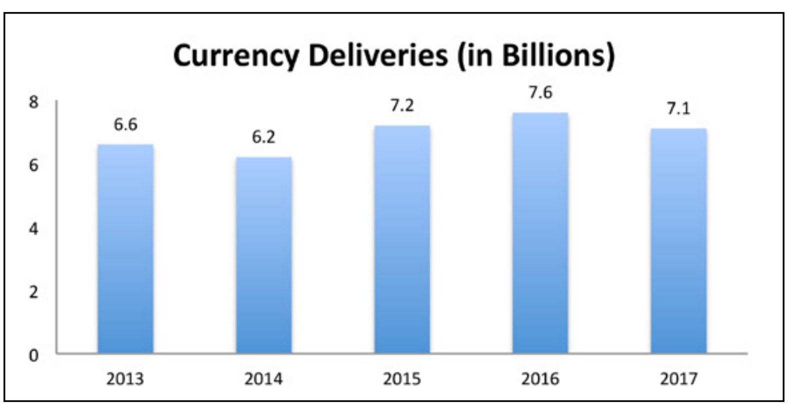
	2017 Standard	2017 Actual
1. Federal Reserve Notes (Cost per Thousand Notes)	$47.69	$43.58
2. Federal Reserve Notes Delivered (Billions)	7.1	7.1
3. Productivity Change 2016 to 2017	0.3%	4.0%
4. Currency Spoilage	8.0%	6.1%

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

Currency – Cost per Thousand Notes	2017 Standard	2017 Actual
Federal Reserve Notes	$47.69	$43.58

The actual production cost per thousand currency notes, which includes direct labor, materials, and applied manufacturing overhead, was below standard in 2017. This was due to material savings achieved by improved ink mileage and reduced spoilage.

Currency Deliveries	2017 Standard	2017 Actual
Federal Reserve Notes (Billions)	7.1	7.1

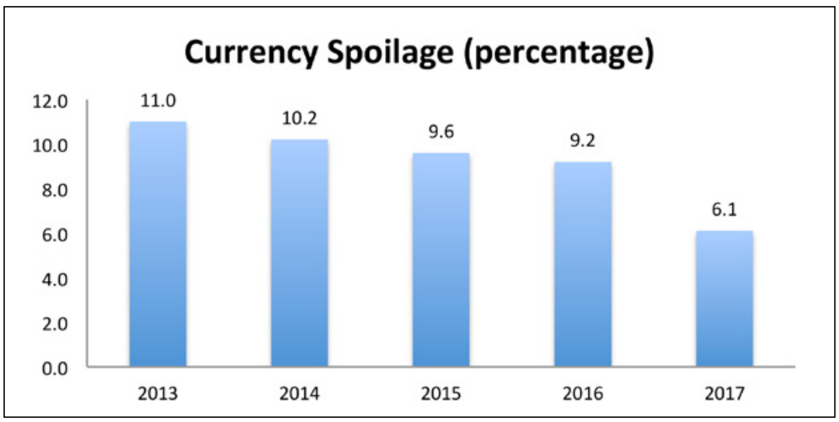


In 2017, the Bureau produced and delivered 7.1 billion Federal Reserve notes to the Federal Reserve Board. Deliveries and billings are based on orders received from the customer. The Federal Reserve Board submits their requirements for currency deliveries to the Bureau on an annual basis. For 2018, the Federal Reserve has ordered 7.4 billion notes.

	2017 Standard	2017 Actual
Productivity Change 2016 to 2017	0.3%	4.0%

Productivity is calculated based on units of output per labor hour. In 2017, overall productivity increased by 4.0 percent. The BEP's successful efforts to reduce spoilage and reclamation of notes through the SNI process allowed the Bureau to gain production efficiencies.

Currency Spoilage	2017 Standard	2017 Actual
Federal Reserve Notes	8.0%	6.1%



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 2017, overall currency spoilage continued to decline, which was led by the development of the $100 note reclamation process. The BEP Quality system continued to mature to self-sustaining status; spoilage was well below standard; and the Bureau began reclamation of $100 notes resulting in record levels of recovery.

	2015	2016	2017
1. Federal Reserve Notes (Cost per Thousand Notes)	$42.35	$44.25	$43.58
2. Federal Reserve Notes Delivered (Billions)	7.2	7.6	7.1
3. Productivity Change	6.4 %	0.2 %	4.0 %
4. Currency Spoilage	9.6 %	9.2 %	6.1 %

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 costs 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 percent of the invoices subject to prompt payment shall be paid late (at least 98 percent paid within 30 days).

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

	2015	2016	2017
Number of invoices paid late	39	69	25
Interest paid	$1,523	$3,317	$830
Percent of invoices paid late	0.89%	1.54%	0.56%

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 $17.2 million in 2017. The increase is attributed to the timing for cash disbursements for capital equipment and infrastructure improvements. Cash flows provided by operations for the years ended September 30, 2017 and 2016 were $57.6 million and $68.7 million, respectively.

Accounts Receivable

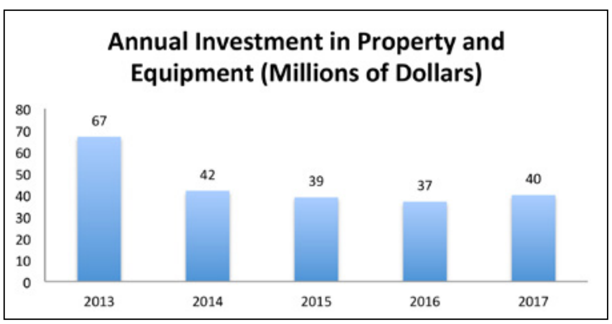
Accounts receivable decreased by $12.1 million in 2017. This was due to the early completion of the 2017 currency order resulting in less currency delivered to the Federal Reserve Board in the final month of the year.

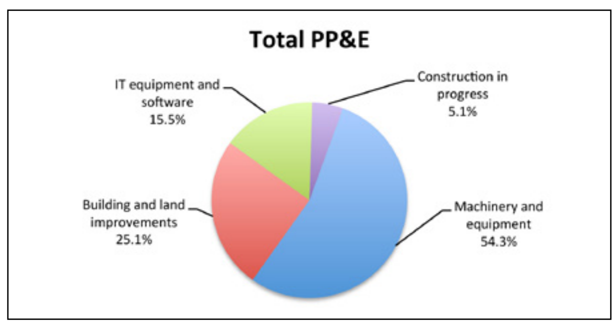
Inventories

Net inventories increased by $23.4 million in 2017. This was due to an increase in work-in-process associated with holding notes for the reclamation process. Also, finished goods increased as a result of starting the 2018 currency order early. In addition, the Bureau has invested in the U.S. Currency Reader Program holding a valuation of $6.5 million in inventory at year-end.

Property and Equipment

Net property and equipment decreased $14.2 million in 2017 to $351.7 million. The decrease can be attributed to depreciation in excess of spending on currency manufacturing equipment during the year.



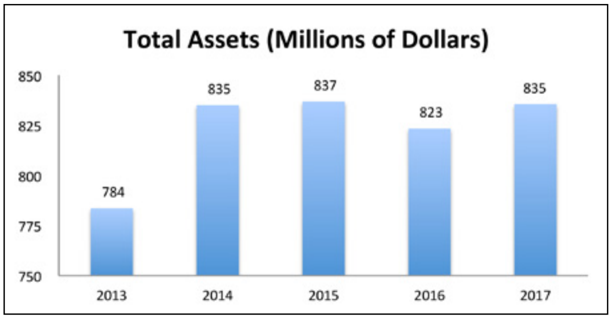


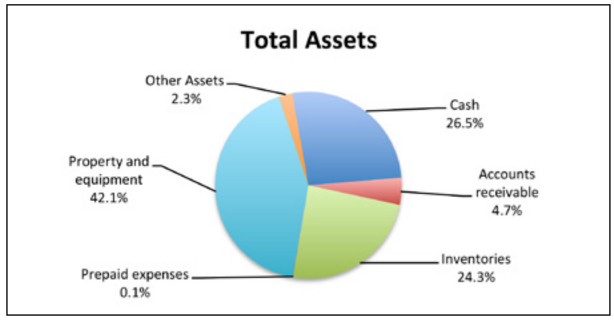
Prepaid Expenses

Prepaid expenses remained comparable to the prior year, which includes business activity with the Library of Congress partnership for the distribution of currency readers.

Other Assets

Other assets decreased by $2.2 million in 2017. The decrease was related to the increase in reserve for spare parts resulting from the continued aging of repair parts necessary for the servicing of currency manufacturing equipment.





Accounts Payable

Accounts payable increased from $20.2 million in 2016 to $20.8 million in 2017. The principal cause was the decrease in outstanding invoices related to technology and equipment investments.

Accrued Current Liabilities

Accrued current liabilities increased from $29.2 million in 2016 to $29.4 million in 2017, due to an increase in the year-end payroll accrual.

Advances

Advances decreased from $7.3 million in 2016 to $5.8 million in 2017, due to fewer mutilated currency cases open at the end of the fiscal year.

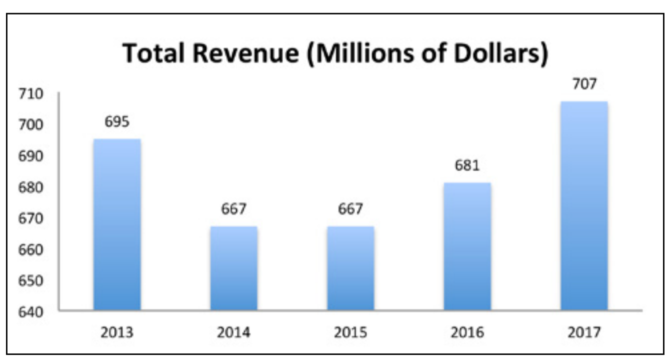
Workers' Compensation Liabilities

The actuarial workers' compensation liability decreased $0.7 million in 2017. The decrease 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 $680.8 million in 2016 to $706.5 million in 2017. The increased revenue was planned to accumulate additional working capital to fund future investments in equipment and facilities.

Year	Rate per Thousand Notes	Single Note
2013	$102.12	$0.102
2014	$101.97	$0.102
2015	$89.64	$0.090
2016	$87.54	$0.088
2017	$96.77	$0.097

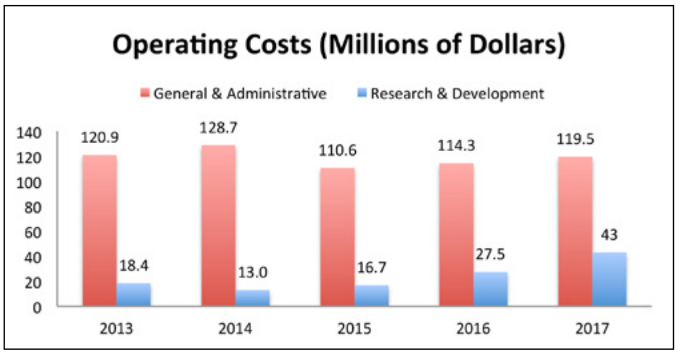


Cost of Goods Sold

Cost of goods sold decreased from $560.3 million in 2016 to $530.6 million in 2017. The $29.8 million decrease is due to the delivery of notes produced and placed on hold in a prior period that were processed through reclamation, which reduced the amount of notes required to be produced in the current fiscal year. The gross margin as a percentage of revenue increased from 17.7 percent in 2016 to 24.9 percent in 2017. The gross margin increased as the higher currency production costs were offset by comparable billing rate increases and better than anticipated manufacturing cost performance.

Operating Costs

Operating costs increased by $20.7 million in 2017. The change is primarily attributed to increased investment in the Bureau's technology infrastructure related to currency redesign efforts and reclamation.



Legal Compliance

The Bureau of Engraving and Printing is committed to ensuring its financial activities are carried out in full compliance with applicable laws and regulations. To ensure this responsibility is met, financial managers direct annual reviews of financial operations and programs compliance with applicable laws and regulations. For 2017, the Bureau of Engraving and Printing complied substantially with all laws and regulations considered material to internal control over financial reporting.

Federal Managers' Financial Integrity Act Plans and Accomplishments

The Federal Managers' Financial Integrity Act (FMFIA), which was passed in 1982, requires agencies to perform regular evaluations of internal controls and financial management systems to protect against 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 2017, the CRTs performed 1,095 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 QMS for the production of U.S. currency, and the EMS are ISO 9001 and 14001 registered, respectively. The Bureau's ISO Lead Auditor trained staff to 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 provides overall guidance and coordinates the internal control program that fosters a management environment in which accountability and cost effective controls are maintained to ensure the reliability of financial reporting, effectiveness of operations, and compliance with applicable laws and regulations. The committee is comprised of senior level executives and is chaired by the Chief Financial Officer.

The accompanying financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 33rd consecutive year, the Bureau has received an unmodified opinion on its financial statements from an independent, certified public accounting firm. Additionally, the Bureau received an 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 2017, the Bureau’s Chief Information Officer (CIO) continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and IT related processes and enhanced governance of the IT program and resources. In IT security, 100 percent of the Bureau’s Major Applications 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 NIST SP800-53 and SP800-53A management, operational, and technical controls for IT systems as well as 100 percent 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 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 the 2017 fiscal year, the CIO Directorate participated in a number of audits and reviews of financial and support IT systems, and FISMA implementation. BEP continues to design and implement controls to comply with the 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 on, at least, an annual basis.

At the end of the 2017 fiscal year, the CIO Directorate planned and executed an assessment of IT security controls for the Treasury 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 second consecutive year this assessment was conducted by the BEP CIO Directorate. Testers interviewed the Treasury 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, 2017. 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 currency production, the Bureau engages in other endeavors, 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 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, 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.

Completed notes are transferred and securely stored in the Federal Reserve Vault for future pickup and distribution by the Federal Reserve Banks.

Assurance Statement

The Bureau of Engraving and Printing, made a conscientious effort during 2017 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Federal Financial Management Improvement Act (FFMIA) of 1996, Office of Management and Budget (OMB) Circular A-123, and the Reports Consolidation Act of 2000. The Bureau, taken as whole, is operating in accordance with the procedures and standards prescribed by the Comptroller General of the United States and OMB guidelines.

As required by the FMFIA, the Bureau evaluated both its internal controls and financial management systems for fiscal year 2017. The results of these evaluations provided reasonable assurances that the internal control (Section 2) and the financial management system (Section 4) are in overall compliance with standards prescribed by the Comptroller General of the United States and guidance issued by the OMB. In addition, the Bureau had no instances of material internal control weaknesses and no material non-conformances outstanding as of September 30, 2017.

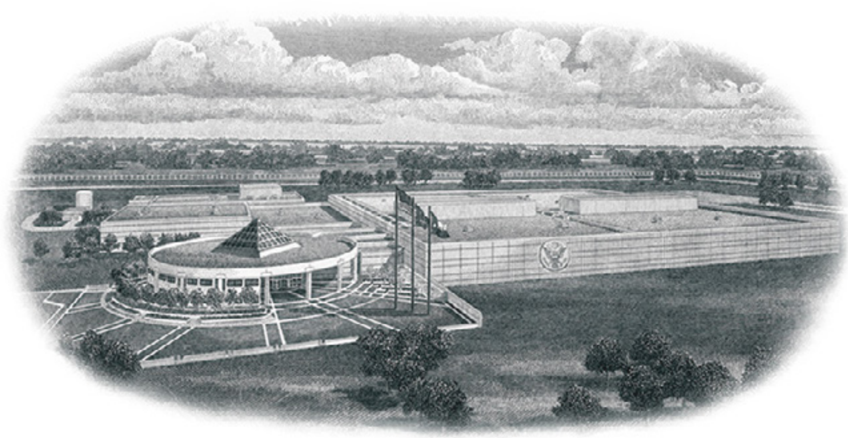
The Bureau evaluated its internal control over financial reporting in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control" and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 "Internal Control—Integrated Framework." Based on the results of this evaluation, the Bureau can provide reasonable assurance that internal control over financial reporting as of September 30, 2017, 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 Audits

The Bureau began 2017 with no open corrective actions. The Office of Inspector General issued seven new ones. These pertained to training, policy and/or procedure adherence, and internal controls. The Bureau implemented corrective action on all seven 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 U.S. Government, a sovereign entity. The principal financial statements have been prepared to report the financial position, results of operations and cash flows of the Bureau. They have been prepared from the Bureau's financial books and records maintained in accordance with private sector generally accepted accounting principles. These statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.



THE DEPARTMENT OF THE TREASURY

BUREAU OF ENGRAVING AND PRINTING

Financial Statements

Years Ended September 30, 2017 and 2016

(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, 2017 and 2016, 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. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 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 as of September 30, 2017 and 2016, 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 audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Bureau's internal control over financial reporting as of September 30, 2017, 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 18, 2017 expressed an unqualified opinion.

Report on Compliance and Other Matters

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2017 on our tests of the Bureau's compliance with certain provisions of laws, regulations, and contracts, and other matters. The purpose of this report is to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on compliance. This 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

Washington, DC
December 18, 2017

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Balance Sheets

As of September 30, 2017 and 2016

	2017	2016
	(In Thousands)	
ASSETS		
Current assets		
Cash (Note 3)	$ 221,228	$ 203,998
Accounts receivable (Note 10)	39,162	51,247
Inventories, net (Note 4)	202,977	179,611
Prepaid expenses	618	670
Total current assets	463,985	435,526
Property and equipment, net (Note 5)	351,716	365,869
Other assets, net (Note 6)	19,773	21,987
Total assets	$ 835,474	$ 823,382
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities (Notes 7 and 8)		
Accounts payable	$ 20,828	$ 20,184
Accrued liabilities	29,390	29,177
Advances	5,785	7,312
Total current liabilities	56,003	56,673
Workers' compensation liability (Note 8)	64,302	64,973
Total liabilities	120,305	121,646
Contingencies and commitments (Notes 12 and 13)		
Equity		
Invested capital	32,435	32,435
Cumulative results of operations	682,734	669,301
Total equity	715,169	701,736
Total liabilities and equity	$ 835,474	$ 823,382

See accompanying notes to the financial statements.

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THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Statements of Operations and
Cumulative Results of Operations

For the Years Ended September 30, 2017 and 2016

	2017	2016
	(In Thousands)	
Revenue from sales (Note 10)	$ 706,530	$ 680,818
Cost of goods sold	530,575	560,329
Gross margin	175,955	120,489
Operating costs:		
General and administrative expenses	119,496	114,338
Research and development	43,026	27,464
	162,522	141,802
Excess of revenues over expenses	13,433	(21,313)
Cumulative results of operations at beginning of year	669,301	690,614
Cumulative results of operations at end of year	$ 682,734	$ 669,301

See accompanying notes to the financial statements.

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THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Statements of Cash Flows

For the Years Ended September 30, 2017 and 2016

	2017	2016
	(In Thousands)	
Cash flows from operating activities		
Excess of revenues over expenses (expenses over revenues)	$ 13,433	$ (21,313)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	54,159	59,466
Loss from obsolescence	1,587	1,519
Loss from disposal of property and equipment	342	-
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	12,085	(8,937)
Decrease (increase) in inventories	(23,366)	29,806
Decrease (increase) in prepaid expenses	52	(240)
Decrease in other assets	627	1,306
Increase in accounts payable	644	2,084
Increase in accrued liabilities	213	1,747
(Decrease) increase in advances	(1,527)	2,421
(Decrease) increase in workers' compensation liability	(671)	856
Net cash provided by operating activities	57,578	68,715
Cash flows from investing activities		
Purchases of property and equipment	(40,348)	(37,030)
Net cash used in investing activities	(40,348)	(37,030)
Net increase in cash	17,230	31,685
Cash at beginning of year	203,998	172,313
Cash at end of year	$ 221,228	$ 203,998

See accompanying notes to the financial statements.

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Notes to the Financial Statements

September 30, 2017 and 2016

1. Reporting Entity

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

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

Estimates

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

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).

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

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

Other Assets

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

Employee Retirement Plans

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

Postretirement Benefits Other than Pensions

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

Workers' Compensation Costs

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

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

The 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, 2017 were 2.683% and 2.218% for wages and medical in year one and subsequent years, respectively. Discount rates as of September 30, 2016 were 2.871% and 2.261% 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.

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, 2017 and 2016, 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, 2017 or 2016.

3. Cash

The year-end cash balances by fund are as follows as of September 30, 2017 and 2016:

	(In Thousands)	
	2017	**2016**
Bureau of Engraving and Printing Revolving Fund	$ 215,708	$ 197,310
Mutilated Currency Revolving Fund	5,520	6,688
Total	$ 221,228	$ 203,998

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, 2017 and 2016, respectively (See Note 7).

4. Inventories, net

Inventories consist of the following as of September 30, 2017 and 2016:

	(In Thousands)	
	2017	**2016**
Raw material and supplies	$ 63,686	$ 59,961
Work-in-process	51,689	51,354
Finished goods - currency	56,660	37,691
Finished goods - uncut currency	24,464	27,910
E-Reader inventory	6,478	2,695
Total	$202,977	$179,611

In 2017, the Bureau began a reclamation process to recover quality $20 and $100 notes from sheets that would have previously been destroyed. As of September 30, 2017, these sheets were included in work-in-process inventories with a value of $4.2 million, and will be processed through the Bureau's Single Note Inspection (SNI) equipment in 2018 with an expected yield of approximately 68% for the $100 notes and 50% for the $20 notes. The allowance for obsolescence for this inventory for the year ended September 30, 2017 was $3.0 million.

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Notes to the Financial Statements

September 30, 2017 and 2016

5. Property and Equipment, net

Property and equipment consist of the following as of September 30, 2017 and 2016:

	(In Thousands) 2017	2016
Machinery and equipment	$ 593,110	$ 587,974
Building and land improvements	275,307	268,517
IT equipment and software	170,756	165,875
Office machines	1,685	1,685
Furniture and fixtures	1,339	1,249
Donated assets - art work	125	125
Motor vehicles	212	212
Leasehold improvements	230	230
	1,042,764	1,025,867
Less accumulated depreciation	747,164	699,991
	295,600	325,876
Construction-in-progress	56,116	39,993
Net property and equipment	$ 351,716	$ 365,869

Depreciation expense for the years ended September 30, 2017 and 2016 was $54.2 million and $59.5 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, 2017 and 2016 was $14.3 million and $12.7 million, respectively.

7. Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2017 and 2016:

	(In Thousands) 2017	2016
Intragovernmental	$ 5,657	$ 5,901
With the public	50,346	50,772
Total	$56,003	$56,673

Accrued current liabilities consist of the following as of September 30, 2017 and 2016:

	(In Thousands) 2017	2016
Payroll	$11,973	$11,012
Annual leave	11,796	11,432
Workers' compensation	5,219	5,068
Other	401	1,665
Total	$29,389	$29,177

Advances consist of the following as of September 30, 2017 and 2016:

	(In Thousands) 2017	2016
Other Federal Agencies	$ 243	$ 622
Mutilated Currency	5,520	6,688
Public sales	22	2
Total	$ 5,785	$ 7,312

8. Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2017 and 2016, but not yet reimbursed to DOL by the Bureau, are approximately $10.9 million and $11.5 million, respectively, of which approximately $5.2 million and $5.1 million represent a current liability, as of September 30, 2017 and 2016, 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 $58.6 million and $58.5 million as of September 30, 2017 and 2016, respectively. The Bureau's estimated, undiscounted, non-current, actuarially derived future workers' compensation liability was approximately $79.7 million and $79.8 million as of September 30, 2017 and 2016, respectively.

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Notes to the Financial Statements

September 30, 2017 and 2016

9. Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were $22.5 million and $21.7 million for fiscal years 2017 and 2016, respectively. The CSRS employer contribution rate for fiscal years 2017 and 2016 was 7.0%. The FERS agency contribution rate was 13.7% and 13.7% for fiscal years 2017 and 2016, 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 in 2017 and 2016, respectively.

OPM paid costs totaling $10.0 million and $11.5 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2017 and 2016, respectively. These costs are not included in the Bureau's Statements of Operations. The Bureau paid costs totaling $16.9 million and $16.2 million for the FEHBP and FEGLI programs in 2017 and 2016, 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 2017 and 2016, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2017 and 2016, are reflected in the following table:

	Revenue (In Thousands)		**Accounts Receivable** (In Thousands)	
	2017	**2016**	**2017**	**2016**
Federal Reserve Board:				
Currency Production	$ 687,471	$663,907	$ 36,886	$ 49,177
Mutilated Currency	3,560	3,946	882	932
Meaningful Access	1,472	1,815	483	457
New Facility	727	-	231	-
Other Federal Agencies	3,696	3,999	7	14
	696,926	673,667	38,489	50,580
Public sales	9,604	7,151	-	-
Other	-	1	673	667
	9,604	7,152	673	667
Total	$ 706,530	$680,819	$ 39,162	$ 51,247

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

11. Principal Suppliers

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

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 $0.00 and $300 thousand as of September 30, 2017 and 2016, respectively. Contingencies, where the risk of loss is reasonably possible, are approximately $4.7 million and $6.8 million as of September 30, 2017 and 2016, 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, 2017 and 2016. As an interim measure, the Bureau is providing currency readers, free of charge, to eligible blind and visually impaired individuals.

The Bureau has contracted to purchase printing equipment costing approximately $158.5 million. As of September 30, 2017, the Bureau has made cumulative payments of $16.9 million and the remaining commitment outstanding is $141.6 million. Delivery of the printing equipment will be determined upon successful completion of final factory inspection tests. The Bureau has also contracted with the United States Army Corps of Engineers for the design review and contract administration of the Western Currency Facility expansion project costing approximately $10.2 million. As of September 30, 2017, the Bureau has made cumulative payments of $1.7 million and the remaining commitment outstanding is $8.5 million. Progress payments related to the above contracts are included in construction-in-progress within Property and Equipment on the balance sheets as of September 30, 2017.

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

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Notes to the Financial Statements

September 30, 2017 and 2016

13. Operating Lease

Rental expense for the years ended September 30, 2017 and 2016 was $3.1, respectively.

Future minimum payments under the cancelable lease as of September 30, 2017, are (in thousands):

For the years ending September 30:	Amount
2018	$ 3,106
2019	3,121
2020	3,135
2021	3,150
Thereafter	1,591
Total	$ 14,104

14. Subsequent Events

The Bureau has evaluated subsequent events through December 18, 2017, 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, 2017. 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, 2017.

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 18, 2017

KPMG

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:

Report on Internal Control Over Financial Reporting

We have audited Bureau of Engraving and Printing’s (the Bureau) internal control over financial reporting as of September 30, 2017, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management’s Responsibility for Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying “Management’s Report on Internal Control Over Financial Reporting.”

Auditors’ Responsibility

Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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

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

Definition and Inherent Limitations of Internal Control Over Financial Reporting

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

KPMG

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

Opinion

In our opinion, the Bureau maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Report on Financial Statements

We also 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. 17-03, *Audit Requirements for Federal Financial Statements,* the balance sheets as of September 30, 2017 and 2016, and the related statements of operations and cumulative results of operations, and cash flows, of the Bureau, and our report dated December 18, 2017 expressed an unmodified opinion.

KPMG LLP

Washington, DC
December 18, 2017

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

Independent Auditors' Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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. 17-03, *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, 2017 and 2016, 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 18, 2017.

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 disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 17-03.

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

Washington, DC
December 18, 2017