



Mission

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

Core Values

Integrity • Fairness • Performance • Respect

Vision

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

About the Cover

The cover highlights the Bureau's success in maintaining world class standards for its currency quality, environmental and safety programs. The Bureau is proud to have achieved industry leading certifications in both the ISO 9001:2015 standard for quality management systems and the ISO 14001:2015 standard for environmental management systems. The Bureau's adherence to these international standards provides currency users worldwide a high level of confidence that U.S. currency is safe and secure.





BEP Annual Service Awards Ceremony

Director Len Olijar and Deputy Director Marty Greiner (far right) pictured with Myra Jackson and Phyllis Jones, recipients of the 40 years of federal service award.



BEP hosted a Joint Agency Executive Mentoring Panel.



BEP's 2018 Employee Engagement Expo.

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Message from the Director



The mission of the Bureau of Engraving and Printing (BEP or Bureau) is to develop and produce United States currency notes, trusted worldwide. This past year, we remained focused on operational excellence and continued to develop and deliver high-quality currency notes to support domestic and international commerce.

During 2018, the Bureau delivered 7.4 billion Federal Reserve notes with a face value of \$233 billion to the Federal Reserve Board, on schedule and under budget, in accordance with customer expectations and requirements. In 2019, the Bureau is scheduled to produce 7 billion notes with a face value of \$206 billion. It is through the engagement of our highly skilled, reliable, and dedicated workforce that the BEP is able to consistently produce top quality bank notes.

During the year, the Bureau undertook a number of actions to build a stronger foundation for the future. A pivotal highlight of the year was the Bureau's achievement of International Organization for Standardization (ISO) 9001:2015 certification for its Quality Management System (QMS) and ISO 14001:2015 certification for its Environmental Management System (EMS) at both the Washington, DC and Fort Worth, Texas facilities. The Bureau's QMS for U.S. currency production has been registered as ISO 9001 compliant since 2001. In 2018, BEP successfully certified to the updated standard with 13 key business process areas added to the scope of our QMS. ISO certifications underscore the Bureau's commitment to quality, safety, sustainability, and continuous process improvement. As the government's security printer, the Bureau's customers and stakeholders expect and demand quality, in addition to secure manufacturing, handling, and storage. We are especially proud of this certification and we remain focused on continual environmental and quality improvement across the organization.

The Bureau is undergoing a multi-year effort to modernize its currency manufacturing capability, including major facility and equipment investments. Production equipment upgrades are being made at our Washington, DC and Fort Worth, Texas facilities. In addition, the Bureau is seeking to build a new production facility in the Washington, DC metropolitan area. A new facility will provide for an improved manufacturing configuration, more efficient currency production, and the ability to better control environmental factors impacting currency production. In addition, a new facility will significantly reduce annual maintenance costs. The Fort Worth facility is being expanded to support production of the next generation of U.S. currency notes. Investments in both plant and equipment will provide the necessary flexibility, productivity, and technology to support the development and manufacture of more secure and increasingly complex currency designs.

I am grateful for the continued commitment of our employees who carry on the legacy of BEP's rich history and reputation of craftsmanship, ingenuity, and innovation as a world-class banknote manufacturer. BEP's most valuable resource is its employees and we have developed a comprehensive Human Capital Strategic Plan to guide current and

future workforce development. This multi-year effort provides the framework for continual improvement and excellence at BEP.

In 2019 and beyond, the Bureau will continue to closely collaborate with our primary partners, the Federal Reserve Board and the U.S. Secret Service, to accelerate the development of cutting edge technologies and strategies to ensure U.S. currency remains secure, fit for commerce, and accessible to all while meeting growing global demand. It will take a tremendous team effort as we move forward, and I am confident that, along with our partners, BEP is prepared for the challenges ahead. To that end, I wish to thank the entire BEP family for their dedicated service and commitment to BEP's core values of integrity, fairness, performance and respect.

Leonard R. Oliver



Message from the CFO



I am pleased to present the Bureau of Engraving and Printing's (BEP or Bureau) Performance and Accountability Report for 2018. As the report indicates, the Bureau remains committed to strong financial management practices, and adheres to a robust program of internal controls to protect the integrity of the Bureau's revolving fund.

I am proud to follow the legacy of Debra Richardson, who retired as CFO of the Bureau in June 2018, with a continued emphasis on maintaining the Bureau's tradition of financial management excellence. For the 34th consecutive year, the BEP has received an unmodified audit opinion on its financial statements. Additionally, the BEP received an unqualified opinion on the effective internal control over financial reporting based on *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Both accomplishments spring from the efforts of a long, unbroken line of outstanding employees committed to excellence.

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.

During 2018, the Bureau delivered 7.4 billion currency notes to the Federal Reserve Board, resulting in revenue of \$771.5 million and an excess of revenue over expenses of \$14.9 million. The excess of revenue over expenses funds Bureau working capital requirements and future investments in plant and equipment. Favorable financial results were driven by continued investment in manufacturing process upgrades that led to greater efficiencies and material savings through reduced spoilage.

Along with a focus on improving manufacturing efficiency and effectiveness, the Bureau remained equally focused on continuous improvement of its environmental and employee safety and health programs. The Bureau's successful implementation of the ISO14001:2015 standard for its Environmental Management System provides a framework for a more effective and efficient management of the Bureau's environment and safety programs. The Bureau has identified and implemented various pragmatic solutions to reduce its environmental impact, use energy more efficiently and improve employee health and safety. BEP efforts were recognized by two environmental awards during 2018; the Pretreatment Partnership Award for WCF's 100% compliance with the wastewater pretreatment permit and the Pollution Prevention Award for WCF's energy savings re-lamping project.

Moving forward, the Bureau will continue its focus on quality manufacturing, superior customer service, and efficient stewardship of resources so we can continue to effectively meet or exceed the needs of all stakeholders. The Bureau has positioned itself to

meet these needs both from an operational and financial management perspective. BEP has the financial resources necessary to invest in its employees to maintain a talented workforce, and a well-disciplined capital investment strategy to enhance product quality, promote counterfeit deterrence, and ensure the cost effectiveness of the manufacturing process.

Allan T. Wilkemyer



Highlights of the Year

In 2018, the Bureau received an unmodified opinion on its financial statements for the 34th consecutive year and an unmodified 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 currency designs containing effective counterfeit deterrent security features.

QMS/EMS ISO Certifications

The Bureau's most notable accomplishment this year was the achievement of the ISO 9001:2015 certification for its Quality Management System (QMS) and ISO 14001:2015 certification for its Environmental Management System (EMS) at both the Washington, DC and Fort Worth, Texas facilities. By achieving these ISO certifications, BEP has demonstrated its ability to continuously improve its products, services, and processes. BEP not only demonstrated to independent auditors that the organization has implemented and maintained management systems in accordance with the applied standards, but that we have carved a path toward sustainable business success. Some of the strengths noted by the auditors include; a knowledgeable workforce – “employees demonstrated good job knowledge and support of the quality policy;” our inspection measures – “inspection measures are implemented throughout the production area to maintain integrity of the processes, paper currency products, and safety of employees;” and risk management – “effective demonstration of risk-based thinking.”

Continuous Process Improvement (CPI) Initiative

The Bureau drives efficiencies through continuous process improvement by constantly working to improve the Bureau's business performance through the execution of strategically aligned projects with measurable results. The Continuous Process Improvement (CPI) initiative, deployed through BEP's 5S and Lean Six Sigma (LSS) methodologies, works to reduce inefficiencies and waste caused by defects, and materials and information that do not produce direct value to an operation or process.

During 2018, BEP's robust LSS program conducted two Green Belt classes, resulting in 15 new Green Belt graduates and six certified LSS Green Belts. Throughout 2018, 17 LSS process improvement projects were completed that addressed issues such as establishing specifications for the purchase of critical production materials, updating and modifying durability testing standards, and optimizing currency inspection and inking systems. These projects resulted in combined savings of approximately \$1 million. The LSS program also implemented CPI designated tours at the Washington, DC Facility (DCF), in which Certified Green Belts and their team members explain their projects. These tours allowed participants to see and hear how a project is affecting BEP operations and culture first hand from the project designers.

Single Note Inspection

The Single Note Inspection (SNI) Program continues to grow and deliver significant cost savings to the U.S. currency program by reclaiming notes from rejected currency sheets,

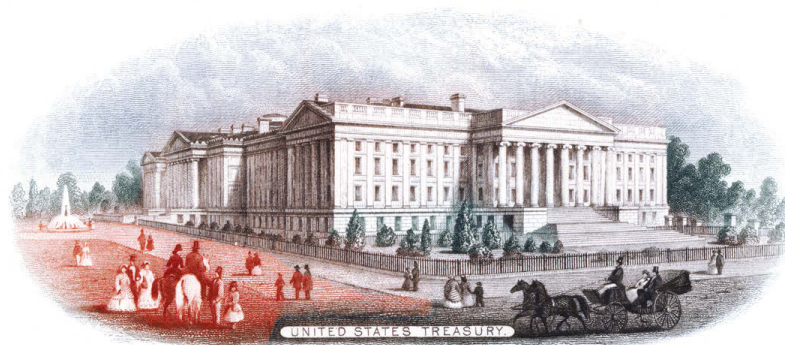
reducing spoilage, and lowering costs. Since its inception in 2015, SNI resulted in the successful reclamation of more than one billion Federal Reserve notes. During 2018, the SNI process has generated more than \$9 million in savings by reclaiming about 180 million \$100 notes and approximately 47 million \$20 notes.

Annual Employee Craftsmanship Demonstrations

Since 2006, the Western Currency Facility (WCF) in Fort Worth, Texas has hosted Employee Craftsmanship Demonstrations for three weeks each year during the spring and summer seasons, attracting more than 130,000 visitors combined. During the 2018 events, approximately 13,000 visitors witnessed craftsmanship demonstrations by BEP engravers, platemakers, photoengravers, plate printers, and mutilated currency redemption examiners. Employees proudly educated the public on the intricacies of their crafts and specialized skills as well as the unique processes of printing U.S. currency. The Kid\$ Corral offered young children an opportunity to participate in a fun and educational activity where they created their own currency note that featured an engraved, printed proof of their own banknote design. This engraver-led activity educated children about the banknote engraving process, all while fostering their artistic creativity. More than 2,000 children participated this year.

Best Place to Work Initiative

The Bureau is committed to creating a work environment that fosters high levels of collaboration, job satisfaction, engagement, performance, and pride in accomplishment. As the annual Federal Employee Viewpoint Survey (FEVS) results show, for the sixth consecutive year, the BEP proudly ranked in the top 30 percent among federal agencies as a best place to work. The 2018 Best Places to Work in the Federal Government rankings drew on responses from 598,003 civil servants to produce a detailed view of employee satisfaction and commitment across 415 federal agencies and subcomponents. In an effort to build upon its strengths, during 2018, the BEP's Best Place to Work Team developed an Employee Engagement Plan focusing on Five Key Pillars: 1) *Meaning* – work that is valued and significant; 2) *Appreciation* – a culture that encourages authentic and consistent recognition; 3) *Growth* – active creation of opportunities for both development and advancement; 4) *Innovation* – commitment to finding new or improved ways to exceeding customer demands; and, 5) *Collaboration* – practices that encourage a broad knowledge of, and partnership within, the organization.



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.

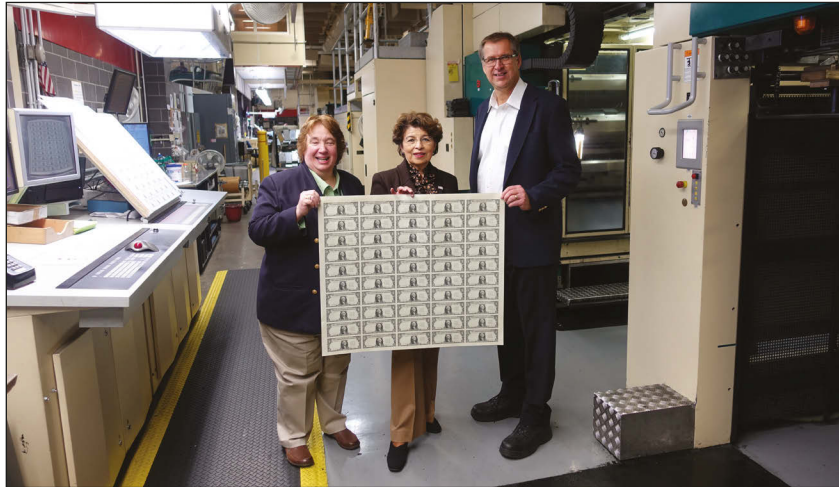
The Bureau produces U.S. currency and many other security documents issued by the Federal Government. Other activities at the Bureau include engraving plates and dies; manufacturing certain inks used to print security products; purchasing materials, supplies and equipment; and storing and delivering 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 banknotes that are no longer fit for circulation, are taken out and accounted for. Additionally, BEP is responsible for the accountability and destruction of internally generated security waste products. As a service to the public, the Bureau 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, streamline the manufacturing process, and enhance the Nation's emergency preparedness.

In addition to housing production facilities, free tours of currency operations are available to the public in both Washington, DC and Fort Worth, Texas. The tours include Visitor Centers with currency manufacturing displays, interactive kiosks and other information about the history of our Nation's currency. The Visitor Centers also sell uncut sheets of currency, engravings and other collectibles. In addition to the on-site sales centers, these items are available through mail order and the U.S. Mint's website: Catalog.USMint.gov/bureau-of-engraving.html.

Manufacturing

During 2018, the Bureau delivered 7.4 billion Federal Reserve notes to the Federal Reserve System. The Washington, DC Facility (DCF) and Western Currency Facility (WCF) in Fort Worth, Texas delivered 3.1 billion and 4.3 billion notes, respectively. For 2019, the Federal Reserve Board has ordered 7.0 billion Federal Reserve notes.

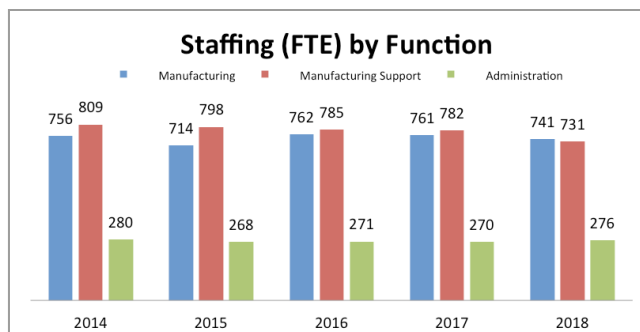
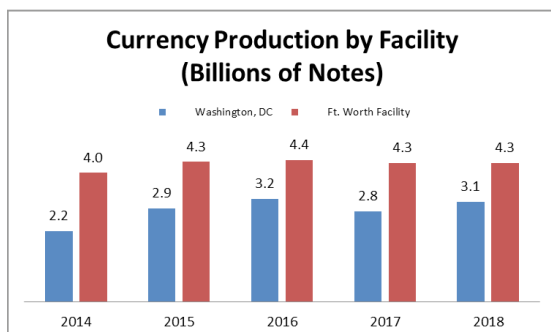


Deputy Director (Chief Operating Officer) Charlene Williams and Deputy Associate Director (Manufacturing) (WCF) Ron Voelker join the Treasurer of the United States Jovita Carranza as she holds a \$150-subject currency sheet bearing her signature.

The Bureau's Quality Management System (QMS) for the production of U.S. currency has been registered as ISO 9001 compliant for the past seventeen years. In 2018, the BEP has demonstrated its ability to effectively and efficiently maintain its QMS by receiving ISO 9001:2015 certification. The Bureau has partnered with the Federal Reserve Board to build a robust and sustainable 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.



Currency overprinting section team members from left to right Thomas Caywood, Robert Savage, Valerie Paar overseeing flow of work through the processing equipment.



Information Technology

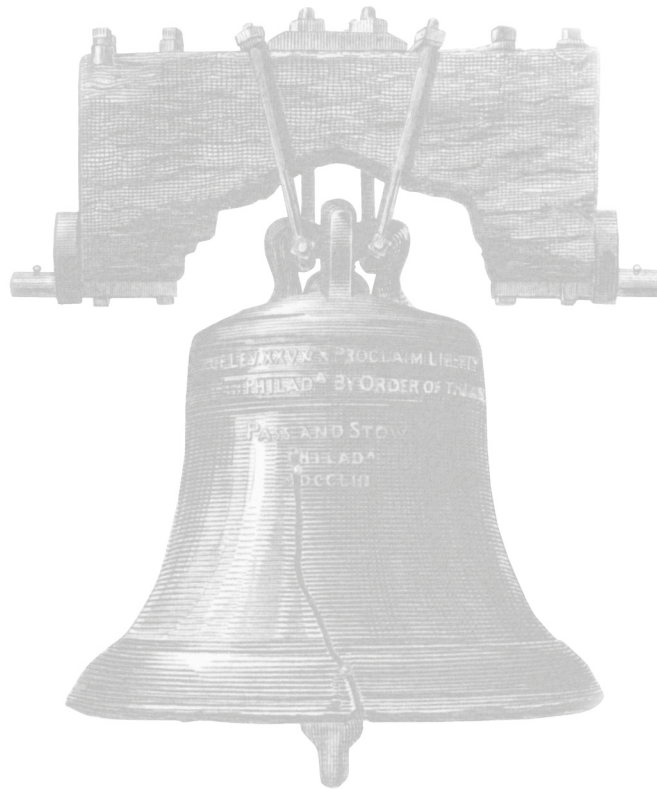
In 2018, the Bureau's Chief Information Officer (CIO) continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and information technology (IT) related processes, and enhanced governance of the IT program and resources. In IT security, 100% of the Bureau's Major Applications and General Support Systems have been accredited. Additionally, BEP remains committed to full implementation of the National Institute of Standards and Technology (NIST) SP800-53 and SP800-53A management, operational, and technical controls for IT systems as well as the Government's Configuration Baseline for Microsoft software and NIST approved configurations for other operating systems and databases.

The Manufacturing Execution System (MES) is the Bureau's enterprise-wide financial and manufacturing application that uses the Oracle E-Business Suite. The system is hosted in the cloud at the Oracle Managed Cloud Service (OMCS). MES 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. The system's security team within the Chief Information Officer (CIO) Directorate executes quarterly Separation of Duties analyses on all MES 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.

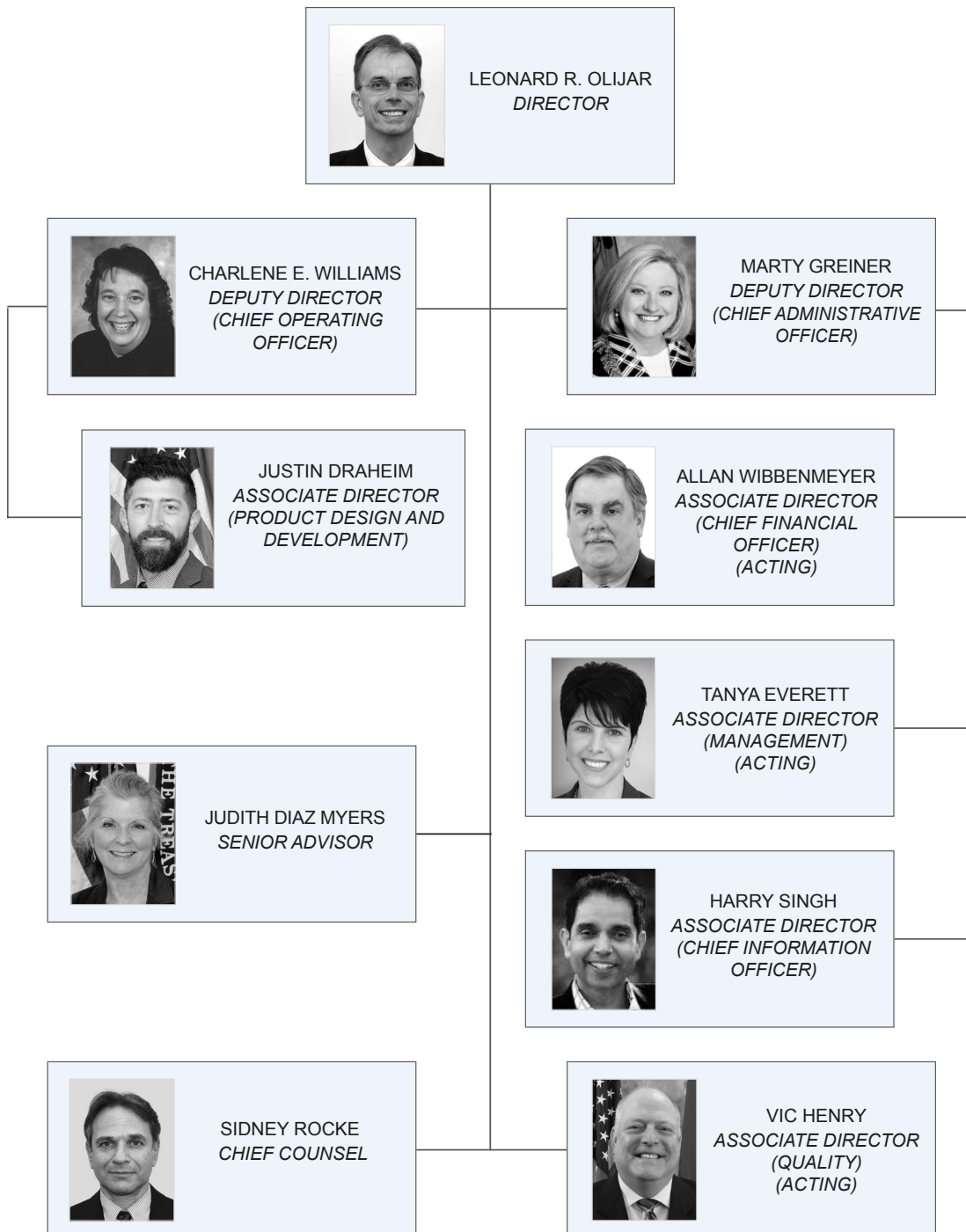
During the 2018 fiscal year, the CIO Directorate participated in a number of audits and reviews of financial and support IT systems and the Federal Management Information Management Act (FISMA) implementation. BEP continues to design and implement controls to comply with the OMB Circular No. A-123, "Management's 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 the 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 the Manufacturing Support Suite (MSS) and the Local Area Network/Wide Area Network (LAN/WAN) on a biannual basis.

Organization

The following organizational chart displays the organizational structure of the BEP. The Bureau's senior executive structure consists of the Bureau Director; a Deputy Director (Chief Operating Officer); a Deputy Director (Chief Administrative Officer); five Associate Directors; and the Chief Counsel. Various planning committees and subcommittees report to the Senior Executive Team. 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.



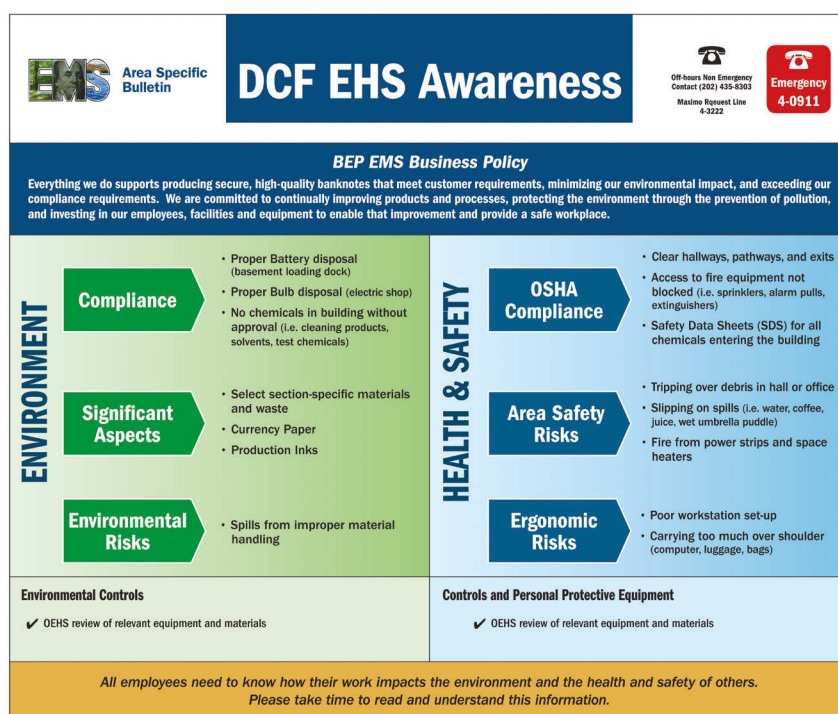
2018 Executive Organizational Structure



As of September 2018

Safety, Health and Environmental Management

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 is registered to ISO14001, a management system focused on improving our environmental, health and safety programs. Continual improvement and effectiveness of this management system are demonstrated by the positive results of the ISO14001 third-party audits, and long-term improvements in our key operating metrics. The Bureau's goals are to maintain a downward trend in occupational injury and illness rates, and to minimize the environmental impact of our operations on air emissions, wastewater discharge, and solid waste. Engagement of personnel at all levels is also a goal, and many EHS improvements have been made as a result of employee suggestions, technical work groups, and projects lead by safety and environmental professionals.



Improving Worker Health and Safety

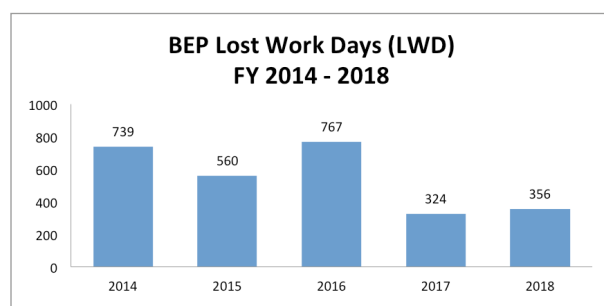
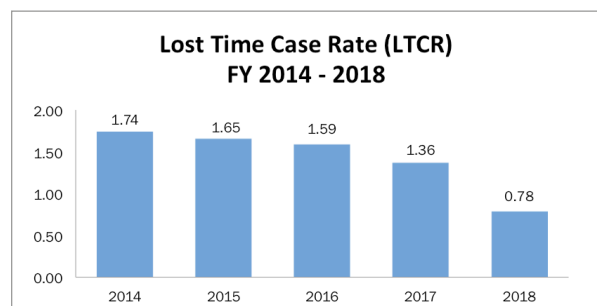
OEHS and ESHB will remain focused on injury awareness, accident prevention, comprehensive case management, and returning employees to work. In fiscal year (FY) 2018, the Bureau began using the Department of Labor's, Employee Compensation Operations

and Management Portal (ECOMP), an injury report portal that allows greater flexibility and reduced time to file and process claims.

BEP uses the Occupational Safety and Health Administration's (OSHA) recordable Long Time Case Rate (LTCR) and the number of days away from work attributable to OSHA recordable cases as key performance indicators. The OSHA Recordable lost time case rate is calculated by multiplying the number of lost time OSHA Recordable cases by 200,000, and then dividing that number by the number of labor hours. In FY 2018, the LTCR decreased significantly.

The Bureau's LTCR in FY 2018 was 0.78 lost time cases per 100 employees. This represents a 43% decrease from last year's rate of 1.36. This was the lowest rate in more than a decade. The decrease is the result of the maturity of the injury and illness management programs, increased case management through ECOMP, targeted safety initiatives, implementation of an occupational noise reduction program, and focused articles in the EHS Newsletters. The OEHS and ESHB will continue to work diligently to prevent injuries and illnesses through training, employee awareness, and job safety analysis.

With regard to the number of lost workdays, there were 356 lost workdays in FY 2018, which is a 9% increase from FY 2017 with 324 lost workdays.



OSHA Recordable Hearing Losses have dropped at the WCF by 67%. The WCF began a major overhaul of its occupational noise exposure program in 2015. Comprehensive noise surveys were conducted in 2015 and 2016 and changes were implemented starting in 2017. In calendar year 2018, the recordable hearing losses at the WCF dropped to four from a high of 12 in 2017.

Protecting the Environment

In 2018, the Bureau's generation of regulated wastes was reduced by 2.5% from the prior year. This change is primarily a result of the Bureau's efforts to reduce waste water generation from our production activities. BEP expects to continue to reduce waste generation rates as we increase operation and efficiency of the wiping solution recycling plant at the DCF. Process improvements that increase production efficiency, such as printing large format (50-subject) sheets on BEP's newer presses are also expected to reduce waste generation. Additionally, BEP has reduced its greenhouse gas (GHG) emissions from

facility energy use by 31% since FY 2008, achieved a 30% energy use reduction since FY 2003, and has increased its purchases of renewable energy to 15% of total electricity use.

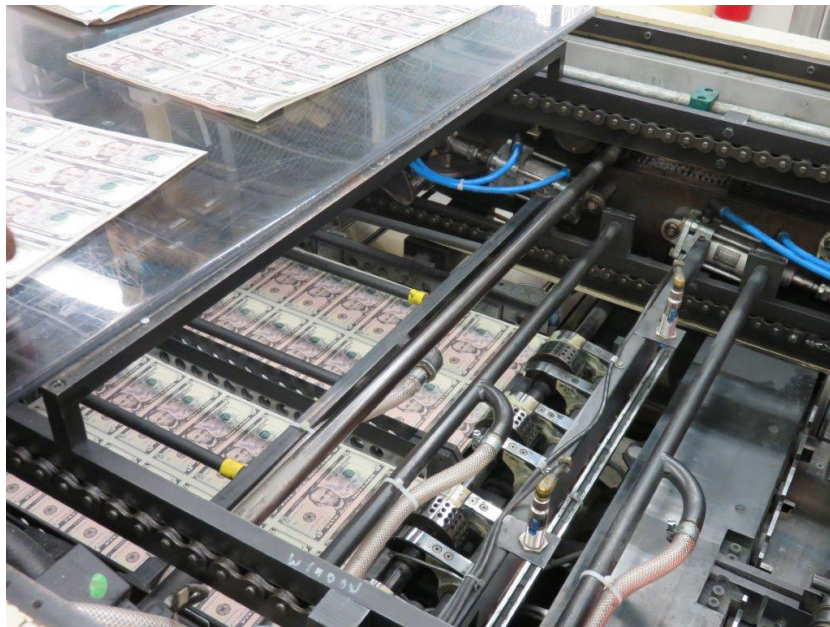
The following are specific examples of significant environmental stewardship projects:

- Wiping Solution Recycling Plant (WSRP) – Waste water generated from on-site pretreatment of wiping solution is the Bureau's largest industrial waste stream; the WSRP cleans the used water-based solution for re-use on currency presses. During FY 2018, the WSRP was operated from October through March, reducing the DCF's wastewater discharge by 3MM gallons, while reducing the use of energy and chemicals.
- Improving Environmental Management Systems (EMS) – During FY 2018, the DCF and WCF completed upgrades to their EMS and achieved registration to the ISO14001:2015 standard at both facilities.
- Reducing Industrial Solid Wastes – BEP completed an ink waste management project at the DCF that is expected to reduce waste ink landfilled by 90 drums/year, which is approximately the amount carried by a full 18-wheeler truck.
- High Efficiency Lighting Systems – The DCF and WCF commissioned lighting system upgrades that installed interior LED lighting. The DCF replaced 70% of its fluorescent lamps with LED lamps. This project is estimated to reduce lighting energy consumption by 53% and save 2,000 megawatt hours/year while reducing waste generation and facility maintenance requirements. This project is estimated to save \$216,000/year. WCF implemented a lighting control and LED re-lamping project that is estimated to save \$68,000/year.
- In November 2018, the WCF was presented with two awards at the City of Fort Worth Water Department's 20th Annual Pretreatment Awards. WCF accepted the "Pretreatment Partnership Award" for nine consecutive years of 100% compliance with local, state, and federal pretreatment regulations. Additionally, the WCF was one of a few 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.

In FY 2019, the Bureau will continue to strive to reduce its environmental impact and improve the safety of its employees with projects that are targeted at BEP's higher risk processes and higher volume waste streams. DCF will focus on stabilizing and optimizing operation of the WSRP. The Bureau learned important lessons during FY 2018 that it will implement to improve process reliability, quality, and recycling rates when the DCF plant resumes full operation in FY 2019. To address higher risk processes, BEP will continue to 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, BEP will complete the high efficiency lighting project at DCF. Execution of these planned projects will facilitate continued reductions in BEP's environmental impacts and improvements in employee health and safety, in line with our long-standing commitment to proactive and responsible environmental stewardship.



Sheets of the \$5 note move through the currency inspection process.



32-subject \$5 currency sheets are cut into 16-subject sheets in Currency Overprinting and Processing Equipment.

Strategic Plan

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. Implementation of our five-year strategic plan (2018-2022) continues. This 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." To accomplish its goals, the Bureau will rely on the ingenuity, industriousness, and commitment of every employee to meet the challenges of printing currency in the 21st century. This will require the near-perfect alignment of innovative design, advanced manufacturing technology, and a highly skilled workforce.

The Bureau has three strategic goals:

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

These goals help support 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 seven objectives:

Meet Customer Expectations: Consistently deliver high quality products and services that meets or exceeds customer's expectations and requirements.

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

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

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

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

Improve Organizational Efficiency, Effectiveness, and Sustainability: Enhance efficiency and effectiveness of Bureau business functions that sustain operations, in

order to consistently deliver timely and high quality products and services that meet customer expectations.

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

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



A \$20 engraved plate on an intaglio printing press.



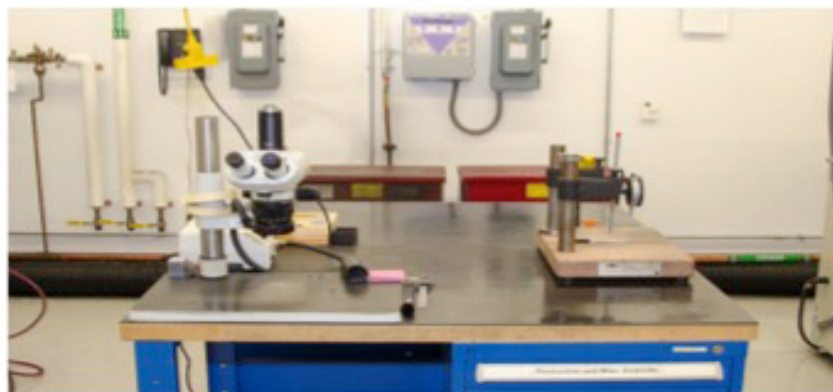
A plate maker prepares a \$5 face plate for chrome plating.

Business Transformation

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

Lean Six Sigma:

The LSS project portfolio is growing rapidly. BEP has 20 active LSS and 5S projects in progress. BEP continues to aggressively implement 5S methodology as part of the overall LSS program initiative's deployment. 5S is an LSS tool that stands for Sort, Straighten, Shine, Standardize and Sustain. 5S efforts improve work place efficiency and throughput by standardizing working practices and by removing variability from operational processes to provide improved product quality and customer service.



The above before and after photos are examples of a recently completed 5S project. This is an inspection and work table used to make seals.

DCF Currency Inspection – The Currency Inspection Division completed an LSS project in currency inspection to reduce material and personnel movements to create an efficient work flow, reduce cycle time from receipt of Rack & Stacks to Pre-Jogging of skids, increase and maximize usable square footage of floor space in A-200, and 5S the entire shop area and maintain a 5S audit score of 4.0. The improvements made during the project resulted in an increase in space utilization as well as decreases in transportation waste, possible safety incidents, and process cycle time of 75 minutes. These improvements have also made the area more organized, less cluttered, and spacious.

WCF LEPE 5S – The Office of Currency Manufacturing completed an LSS project in the WCF Large Examining and Processing Equipment (LEPE) Work-in-Process (WIP) cages. Prior to the project, the LEPE WIP cages had never gone through an official 5S process. The disorganization in the WIP cages had resulted in process inefficiencies, a lack of inventory control, and no organized process flow. The project team identified many opportunities for improvements, which resulted in the installation of control lanes, creation of signs to control product flow, implementation of new workflow maps in WIP 50 and 51, placement of “incoming work” posts at rear of cages to ensure next available lane was being used first, and creation/placement of new signs on top of the appropriate loads for the incoming and outgoing work. As a result, the area achieved a 5S score of 4.4 out of a possible score of 5.0.

Quality Laboratory – The Office of Quality Operations completed an LSS project to reduce the variation of rheometer viscosity test results for BEP production inks.

The problem identified by the project team, was that since 2014, data collected between SICPA (an ink manufacturer) and BEP reflected variations within viscosity testing results. It was noted that even when the viscosity test methods were the same between both facilities, inconsistencies in the results still occurred. The team conducted a series of experiments along with a robust measurement system analysis to determine both the capabilities of the current test methods and the best test method to use in order to minimize variation and generate repeatable/reproducible results. The improvements made as a result of this project, have greatly enhanced the Lab’s ability to perform repeatable and reproducible viscosity measurements assuring the quality of inks used in the BEP manufacturing processes. Moving forward, the project team plans to take what they have learned and apply measurement system analysis to other laboratory measurement systems to optimize measurement techniques and incorporate best practices.



Currency Quality Assurance Program

U.S. Currency notes are rapidly increasing in complexity to incorporate improved counterfeit deterrence and machine readability. The \$100 note has truly evolved into a high-tech consumer good, and so will future generations of currency designs. 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.

BEP determined that a robust CQA program is necessary to address every aspect of the U.S. currency lifecycle; from product development, to acquisition of material, through process and production control, to final release and delivery. The CQA Program has helped 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.

Priority Initiative

In fiscal year 2019, the Bureau will continue to deliver on Treasury Priority Initiatives, continue improvements to change management and corrective actions, demonstrate continually improving processes, and build for the future. The CQA Program will transition from a project based program to a program of sustainable and continual 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 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 SET developed additional policies and procedures to support the new standard and engage the workforce in these efforts.

Supplier Management

The Product Design and Development Directorate augments Supplier Management by rotating quarterly Materials Performance Reviews among BEP facilities and the suppliers'

headquarters. 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 implemented a more user-friendly intranet-landing page to aid employee navigation of the QMS documents. Areas targeted for improvement in fiscal year 2019 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, BEP successfully added four projects to Concept, advanced one project to Feasibility, two projects to Test & Optimize, and one project through Technology Integration to Completion 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, A100 awarded contracts for a hot foil and die cut machine and a multifarious press. Additionally, the \$10 note entered BDP Phase 0 (Concept) while the House Note completed BDP Phase 2 (Development). Family design activities, 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.

2018 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. BEP quality assurance specialists worked with the Manufacturing Directorate to assure product quality using the new Single Note Inspection equipment.

BEP was certified to the ISO 9001:2015 standard, and BEP awarded a contract for QMS Program and Project Management Support. This contract will leverage contractor resources to improve our Calibration Records Management, Change Control Board, Material Review Board, and QMS Documentation.

Both the Internal Quality Audit and the Corrective Action and Preventive Action (CAPA) processes have matured through the use of risk-based tools to determine priorities. Performance metrics are used to evaluate the effectiveness of these processes and reported on a routine basis at Quality Management System Review meetings.



This is part of the Currency Overprinting and Processing Equipment that contains the feeder and printing unit. Sheets of currency are being accumulated for the printing of serial numbers, as well as both Treasury and Federal Reserve seals prior to being cut into single notes.

Program Performance Measures

The Bureau measures the effectiveness and efficiency of its overall organizational performance by using program performance measures. Standards, which are reviewed annually by the SET, are based on prior years' 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 2018 are as follows:

	2018 Standard	2018 Actual
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 48.13	\$ 47.41
2. Federal Reserve Notes Delivered (Billions)	7.4	7.4
3. Productivity Change 2017 to 2018	-1.0%	-0.9%
4. Currency Spoilage	6.9%	5.9%

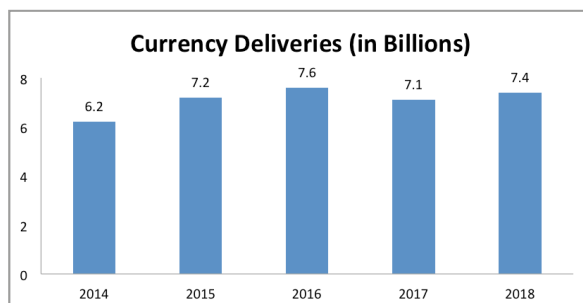
The Bureau does not receive Federal appropriations; operations of the Bureau are financed by a revolving fund that is reimbursed through product sales. Customer billings are the Bureau's only means of recovering the costs of operations and generating funds necessary for capital investment. Billing rates 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	2018 Standard	2018 Actual
Federal Reserve Notes	\$ 48.13	\$ 47.41

The actual production cost per thousand currency notes, which includes direct labor, materials, and applied manufacturing overhead, was below standard in 2018. This was due to material savings achieved by improved ink mileage and reduced spoilage.

Currency Deliveries	2018 Standard	2018 Actual
Federal Reserve Notes (Billions)	7.4	7.4

In 2018, the Bureau produced and delivered 7.4 billion Federal Reserve notes to the Federal Reserve Board. Deliveries and billings are based on orders received from the customer. The Board submits their requirements for currency deliveries to the Bureau on an annual basis. For 2019, the Board has ordered 7.0 billion notes.

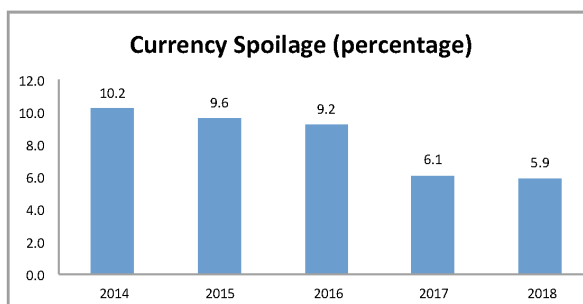


	2018 Standard	2018 Actual
Productivity Change 2017 to 2018	-1.0%	-0.9%

Productivity is calculated based on units of output per labor hour. In 2018, overall productivity decreased by less than what was projected for the year. BEP's successful efforts to reduce spoilage and reclaim notes through the SNI process allowed the BEP to gain production efficiencies.

Currency Spoilage	2018 Standard	2018 Actual
Federal Reserve Notes	6.9%	5.9%

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 2018, overall currency spoilage continued to decline, which was led by the expansion of the reclamation process to include \$20 notes along with \$100 notes. The BEP Quality system continues to mature to self-sustaining status, resulting in record levels of recovery.



	2016	2017	2018
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 44.25	\$ 43.58	\$ 47.41
2. Federal Reserve Notes Delivered (Billions)	7.6	7.1	7.4
3. Productivity Change	0.2 %	4.0 %	0.9 %
4. Currency Spoilage	9.2 %	6.1 %	5.9 %

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

Prompt Payment

To ensure that Federal agencies pay invoices in a timely manner, Congress passed the Prompt Payment Act and the Office of Management and Budget (OMB) issued Circular A-125, which is now codified as part of the Code of Federal Regulations (CFR). Generally, the CFR requires payment within 30 days from the latter of either the receipt of a proper invoice or acceptance of the goods/services. If this time frame is not met, an interest penalty must be paid to the vendor. Within the Department of the Treasury, the standard for the late payment rate is that no more than 2% of the invoices subject to prompt payment shall be paid late (at least 98% paid within 30 days).

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

	2016	2017	2018
Number of invoices paid late	69	25	94
Interest paid	\$3,317	\$830	\$15,466
% of invoices paid late	1.54 %	0.56 %	2.21 %

The Bureau exceeded the Department's goal in 2018 due to delays in the invoice approval process that have since been addressed.

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 decreased by \$20.5 million in 2018. The decrease is attributable to cash disbursements for capital equipment and infrastructure improvements. Cash flows provided by operations for the years ended September 30, 2018 and 2017, were \$60.7 million and \$57.6 million, respectively.

Accounts Receivable

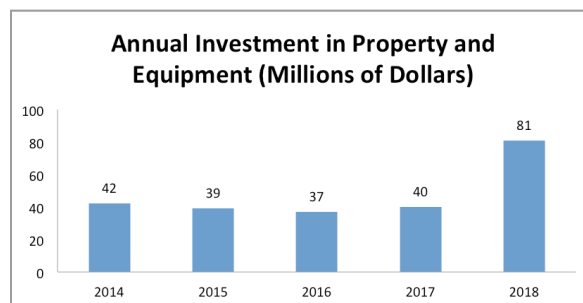
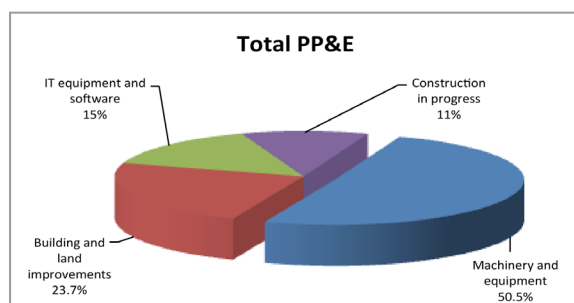
Accounts receivable increased by \$27.4 million in 2018. This is due to the increase in scheduled currency deliveries at year end.

Inventories

Net inventories decreased by \$17.3 million in 2018. This was due to a reduction in raw material and supplies and finished goods inventory.

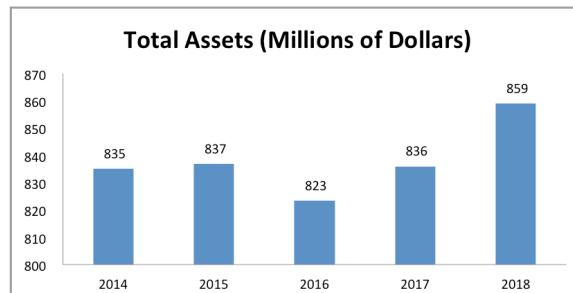
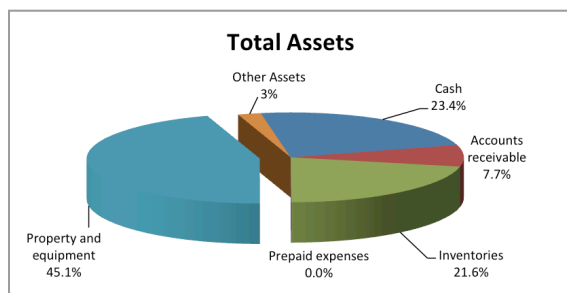
Property and Equipment

Net property and equipment increased \$35.7 million in 2018 to \$387.5 million. The increase can be attributable to investments for currency manufacturing equipment in excess of depreciation.



Other Assets

Other assets decreased by \$1.4 million in 2018. The decrease was related to the write-off of obsolete repair parts.



Accounts Payable

Accounts payable increased from \$20.8 million in 2017 to \$27.2 million in 2018. The principal cause for the increase was the increase in outstanding invoices related to the Bureau's technology and equipment investments.

Accrued Current Liabilities

Accrued current liabilities increased from \$29.4 million in 2017 to \$30.0 million in 2018, due to an increase in the year-end payroll accrual.

Advances

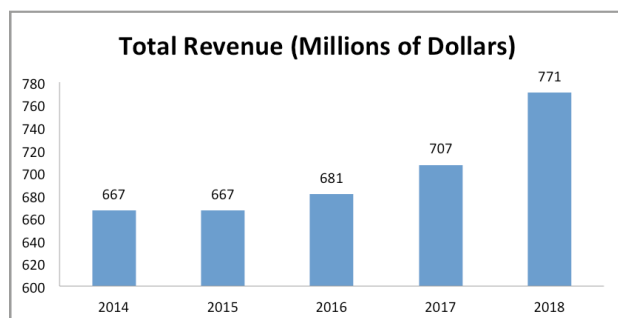
Advances increased from \$5.8 million in 2017 to \$7.7 million in 2018, due to undisbursed mutilated currency case reimbursements at the end of the fiscal year.

Workers' Compensation Liabilities

The actuarial workers' compensation liability was relatively unchanged from the prior year.

Revenue from Sales

Overall, revenue from sales increased from \$706.5 million in 2017 to \$771.5 million in 2018. This \$65.0 million increase is attributable to an increase in currency deliveries over the previous year with a higher proportion of the total delivery comprised of higher cost notes.



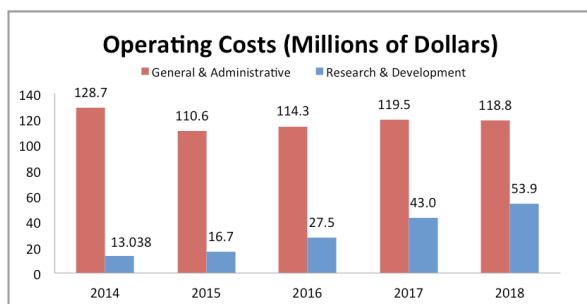
Average Billing Rate for Currency		
Year	Rate per Thousand Notes	Single Note
2014	\$101.97	\$0.102
2015	\$89.64	\$0.090
2016	\$87.54	\$0.088
2017	\$96.77	\$0.097
2018	\$102.47	\$0.102

Cost of Goods Sold

Cost of goods sold increased from \$530.6 million in 2017 to \$583.9 million in 2018. The change is directly attributable to the 2018 Yearly Currency Order, which increased by approximately 5% in 2018. In addition, the order's product mix resulted in higher production costs, as higher-costing denominations made up a greater portion of the order compared to the previous year.

Operating Costs

Operating costs increased by \$10.1 million in 2018. The increase is primarily due investment in the Bureau's R&D program for the development of new security features necessary to keep the Nation's currency secure.



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 2018, 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 2018, the CRTs performed 880 unannounced reviews. The results of the reviews were reported to office chiefs, supervisors and managers responsible for enforcing policies and procedures, and implementing corrective actions. The Internal Control Awareness Program is used to promote the visibility and understanding of internal control issues, objectives and requirements. Internal review personnel conduct management and organizational reviews at both facilities to strengthen the Bureau's internal controls, ensure compliance with existing policies and procedures, and safeguard Bureau assets. The Bureau's quality management system for the production of U.S. currency, and the environmental management system are ISO 9001:2015 and 14001:2015 registered, respectively. The Bureau's ISO Lead Auditor trained staff support the maintenance and continuous improvement of the Bureau's quality and environmental management systems by conducting regular audits throughout the Bureau.

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

The accompanying financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 34th consecutive year, the Bureau has received an unmodified opinion on its financial statements from an independent, certified public accounting firm. Additionally, for the tenth consecutive year, the Bureau received an unmodified opinion from the auditors on management's assertion that the Bureau maintained effective internal control over financial reporting based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework) and the requirements of Appendix A of Office of Management and Budget (OMB) Circular No. 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 2018, the Bureau's Chief Information Officer (CIO) continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and information technology (IT) related processes and enhanced governance of the IT program and resources. In IT security, 100% of the Bureau's Major Applications (MA) and General Support Systems (GSS) have been accredited in order to meet the requirement for certification and accreditation at least every three years. Additionally, the BEP remains committed to full implementation of the National Institute of Standards and Technology (NIST) SP800-53 and SP800-53A management, operational, and technical controls for IT systems as well as 100% implementation of the United States Government Configuration Baseline for Microsoft software and NIST approved configurations for other operating systems and databases.

Manufacturing Execution Systems (MES) is the Bureau's enterprise-wide financial and manufacturing application that uses the Oracle E-Business Suite. The system is hosted in the cloud at the Oracle Managed Cloud Service (OMCS). MES 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 systems security team within the CIO Directorate executes quarterly Separation of Duties analyses on all MES 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 2018 fiscal year, the CIO Directorate participated in a number of audits and reviews of financial and support IT systems, and the Federal Information Security Management Act (FISMA) implementation. BEP continues to design and implement controls to comply with OMB Circular No. A-123, Management's Responsibility for Internal Control and the Government Accountability Office's Federal Information System Controls

Audit Manual audit standards, in order to support the annual audited financial statements. The CIO Directorate is an active participant in Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises. The Directorate also tests and executes Disaster Recovery plans for the Bureau's major systems that support financial operations such as MSS and the Local Area Network/Wide Area Network (LAN/WAN) on a biannual basis.

At the end of the 2018 fiscal year, the CIO Directorate planned and executed an assessment of IT security controls for the Treasury Departmental Office (DO) system known as HRConnect. This onsite assessment tested security controls across a number of IT security control families to determine if these controls were designed and operating effectively. This was the fourth consecutive year this assessment was conducted by BEP CIO Directorate. Testers interviewed DO staff and reviewed all available system specific security documents at Treasury DO. Evaluated security controls were determined to be operating effectively as of September 30, 2018. The CIO Directorate is issuing a report outlining any assessment findings and recommendations for use by the BEP Chief Financial Officer.



BEP hosted an Analytics Day to give employees an opportunity to learn about new data analysis tools.

Custody of Assets

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

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

Although the Bureau does not hold title to any land or facilities, it maintains custodial control over the buildings occupied in Washington, DC and Fort Worth, Texas. In order to effectively manage its fiduciary and custodial responsibilities, the Bureau has implemented effective internal controls 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 for Management, plans, administers and monitors the Bureau's security programs. These programs include personnel, physical and operational security, and securities destruction. Through this structure, individual unit managers are held accountable and responsible for maintaining proper custody and safeguarding of all assets under their control.



Assurance Statement

The Bureau of Engraving and Printing (Bureau) made a conscientious effort during 2018 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 No. 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 2018. The results of these evaluations provide reasonable assurance that the internal control (Section 2) and the financial management system (Section 4) are in overall compliance with standards prescribed by the Comptroller General of the United States and guidance issued by the Office of Management and Budget. In addition, the Bureau had no instances of material internal control weaknesses or material non-conformances as of September 30, 2018.

The Bureau evaluated its internal control over financial reporting in accordance with OMB Circular No. 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, 2018, 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.



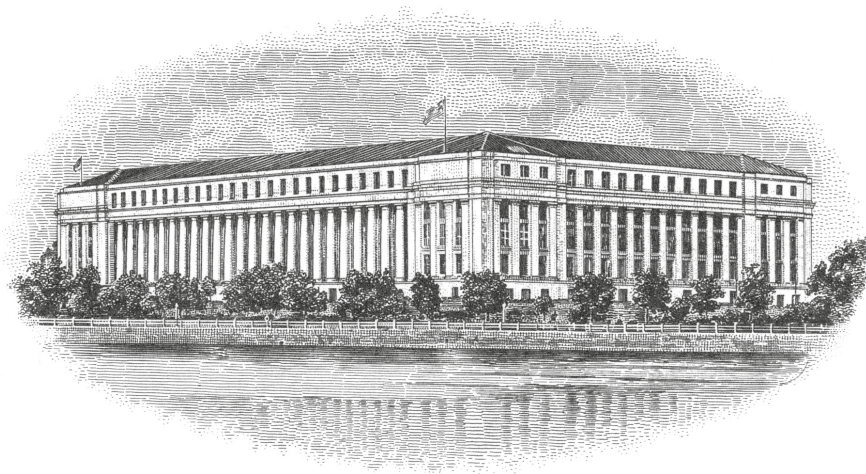
From BEP Historical Archives - \$2 United States Note, Series 1869, face.

Summary of Office of Inspector General Audits

The Bureau began 2018 with no open corrective actions. The Office of Inspector General (OIG) issued ten new ones. These pertained to training, policy and/or procedure adherence, and internal controls. The Bureau implemented corrective action on nine items during the year. There is one open issue outstanding.

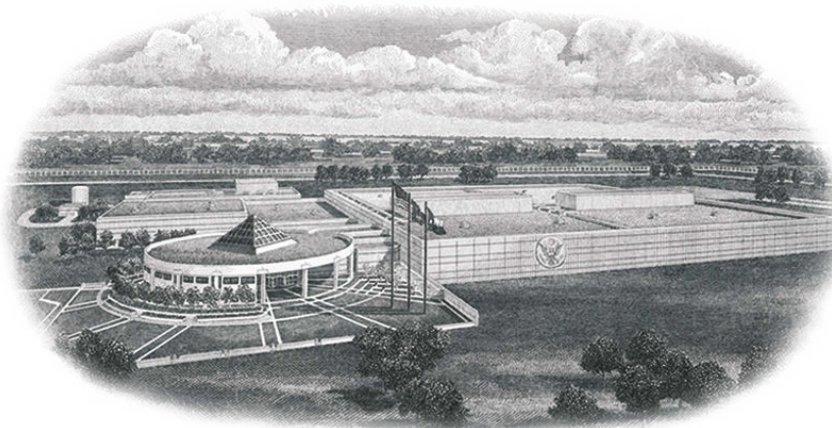


The Large Examining and Printing Equipment produces sheets of 50-subject \$1 notes.



Limitations of the Financial Statements

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



Department of the Treasury
Bureau of Engraving and Printing

Financial Statements

Years ended September 30, 2018 and 2017

(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 and Internal Control

We have audited the accompanying financial statements of the Bureau of Engraving and Printing (the Bureau), which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of operations and cumulative results of operations, and cash flows for the years then ended, and the related notes to the financial statements. We also have audited the Bureau's internal control over financial reporting as of September 30, 2018, based on the criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility for Internal Control over Financial Reporting

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the entity's internal control over financial reporting based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

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

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. Our audit of internal control over financial reporting also included performing such other procedures as we considered necessary in the circumstance. The procedures selected depend on the auditors' judgment, including the assessment of the risks that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over

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financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau of Engraving and Printing as of September 30, 2018 and 2017, and the results of its operations, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Also, in our opinion, the Bureau of Engraving and Printing maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018, based on *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Other Reporting Required by Government Auditing Standards

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 under *Government Auditing Standards* or OMB Bulletin No. 19-01.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, DC
December 19, 2018

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

Balance Sheets

As of September 30, 2018 and 2017

	2018	2017
	(In Thousands)	
ASSETS		
Current assets		
Cash (Note 3)	\$ 200,751	\$ 221,228
Accounts receivable (Note 10)	66,535	39,162
Inventories, net (Note 4)	185,723	202,977
Prepaid expenses	398	618
Total current assets	453,407	463,985
Property and equipment, net (Note 5)	387,451	351,716
Other assets, net (Note 6)	18,404	19,773
Total assets	<u>\$ 859,262</u>	<u>\$ 835,474</u>
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities (Notes 7 and 8)		
Accounts payable	\$ 27,212	\$ 20,828
Accrued liabilities	29,968	29,390
Advances	7,732	5,785
Total current liabilities	64,912	56,003
Workers' compensation liability (Note 8)	64,317	64,302
Total liabilities	129,229	120,305
Contingencies and commitments (Notes 12 and 13)		
Equity		
Invested capital	32,435	32,435
Cumulative results of operations	697,598	682,734
Total equity	730,033	715,169
Total liabilities and equity	<u>\$ 859,262</u>	<u>\$ 835,474</u>

See accompanying notes to the financial statements.

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

Statements of Operations and
Cumulative Results of Operations
For the Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
	(In Thousands)	
Revenue from sales (Note 10)	\$ 771,480	\$ 706,530
Cost of goods sold	<u>583,949</u>	<u>530,575</u>
Gross margin	<u>187,531</u>	<u>175,955</u>
Operating costs:		
General and administrative expenses	118,788	119,496
Research and development	<u>53,879</u>	<u>43,026</u>
	<u>172,667</u>	<u>162,522</u>
Excess of revenues over expenses	14,864	13,433
Cumulative results of operations at beginning of year	<u>682,734</u>	<u>669,301</u>
Cumulative results of operations at end of year	<u><u>\$ 697,598</u></u>	<u><u>\$ 682,734</u></u>

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the Years Ended September 30, 2018 and 2017

	2018	2017
	(In Thousands)	
Cash flows from operating activities		
Excess of revenues over expenses	\$ 14,864	\$ 13,433
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	45,207	54,159
Loss from obsolescence	44	1,587
Loss from disposal of property and equipment	-	342
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(27,373)	12,085
Decrease (increase) in inventories	17,254	(23,366)
Decrease in prepaid expenses	220	52
Decrease in other assets	1,325	627
Increase in accounts payable	6,621	644
Increase in accrued liabilities	578	213
Increase (decrease) in advances	1,947	(1,527)
Increase (decrease) in workers' compensation liability	15	(671)
Net cash provided by operating activities	<u>60,702</u>	<u>57,578</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(81,179)</u>	<u>(40,348)</u>
Net cash used in investing activities	<u>(81,179)</u>	<u>(40,348)</u>
Net (decrease) increase in cash	(20,477)	17,230
Cash at beginning of year	<u>221,228</u>	<u>203,998</u>
Cash at end of year	<u><u>\$ 200,751</u></u>	<u><u>\$ 221,228</u></u>

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

September 30, 2018 and 2017

1. Reporting Entity

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

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

Notes to the Financial Statements

September 30, 2018 and 2017

Estimates

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

Cash

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

Inventories

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

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

Property and Equipment

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

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

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

Notes to the Financial Statements

September 30, 2018 and 2017

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

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

Other Assets

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

Employee Retirement Plans

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

Postretirement Benefits Other than Pensions

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

Workers' Compensation Costs

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

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

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

Notes to the Financial Statements

September 30, 2018 and 2017

The second component, the actuarial FECA liability, is the estimated liability for future benefit payments. These future workers' compensation estimates were generated by DOL from an application of actuarial procedures developed to estimate the liability for future FECA benefits. The actuarial liability for future worker's compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is 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, 2018 were 2.716% and 2.379% for wages and medical in year one and subsequent years, respectively. Discount rates as of September 30, 2017 were 2.683% and 2.218% for wages and medical in year one and subsequent years, respectively. The Department of the Treasury allocated the overall liability to Treasury components based on past claims paid information provided by DOL.

Annual, Sick, and Other Leave

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

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

Revenue Recognition

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

Tax Status

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

Contingencies

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

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

Notes to the Financial Statements

September 30, 2018 and 2017

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, 2018 and 2017, 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, 2018 or 2017.

3. Cash

The year-end cash balances by fund are as follows as of September 30, 2018 and 2017:

	(In Thousands)	
	2018	2017
Bureau of Engraving and Printing		
Revolving Fund	\$ 193,019	\$ 215,708
Mutilated Currency Revolving Fund	7,732	5,520
Total	<u>\$ 200,751</u>	<u>\$ 221,228</u>

The balance in the mutilated currency revolving fund, consisting of processed claims for mutilated currency submitted by the public for redemption, is offset by a liability to the public which is included in advances on the balance sheets as of September 30, 2018 and 2017, respectively (See Note 7).

4. Inventories, net

Inventories consist of the following as of September 30, 2018 and 2017:

	(In Thousands)	
	2018	2017
Raw material and supplies	\$ 58,643	\$ 63,686
Work-in-process	63,613	51,689
Finished goods - currency	32,851	56,660
Finished goods - uncut currency	23,979	24,464
E-Reader inventory	6,637	6,478
Total	<u>\$ 185,723</u>	<u>\$202,977</u>

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

Notes to the Financial Statements

September 30, 2018 and 2017

5. Property and Equipment, net

Property and equipment consist of the following as of September 30, 2018 and 2017:

	(In Thousands)	
	2018	2017
Machinery and equipment	\$ 594,123	\$ 593,110
Building and land improvements	279,049	275,307
IT equipment and software	174,873	170,756
Office machines	1,685	1,685
Furniture and fixtures	1,339	1,339
Donated assets - art work	125	125
Motor vehicles	212	212
Leasehold improvements	230	230
	<u>1,051,636</u>	<u>1,042,764</u>
Less accumulated depreciation	792,170	747,164
	<u>259,466</u>	<u>295,600</u>
Construction-in-progress	127,985	56,116
Net property and equipment	<u><u>\$ 387,451</u></u>	<u><u>\$ 351,716</u></u>

Depreciation expense for the years ended September 30, 2018 and 2017 was \$45.2 million and \$54.2 million, respectively.

The majority of the increase in construction-in-progress from 2017 to 2018 was due to an increase in spending for progress payments of production equipment being built to meet our specification and construction/renovation projects. Equipment spending occurred primarily on the WCF Intaglio Presses, N/S LEPE, Banknote Design Test Lines (Multifarious Press and Hot Foil Press), and Offset Inspection Upgrade. The increase in spending on construction projects occurred primarily on the WCF Expansion, but included additional spending on the DCF Tour Bridge Modernization, the DCF Main Headhouse HVAC Upgrade, and the WCF Automated Lighting Control projects.

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 both years ended September 30, 2018 and 2017 was \$14.3 million.

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

Notes to the Financial Statements

September 30, 2018 and 2017

7. Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2018 and 2017:

	(In Thousands)	
	2018	2017
Intragovernmental	\$ 5,300	\$ 5,657
With the public	59,612	50,346
Total	<u>\$ 64,912</u>	<u>\$ 56,003</u>

Accrued current liabilities consist of the following as of September 30, 2018 and 2017:

	(In Thousands)	
	2018	2017
Payroll	\$ 12,776	\$ 11,973
Annual leave	12,187	11,796
Workers' compensation	4,612	5,219
Other	393	401
Total	<u>\$ 29,968</u>	<u>\$ 29,389</u>

Advances consist of the following as of September 30, 2018 and 2017:

	(In Thousands)	
	2018	2017
Other Federal Agencies	\$ 0	\$ 243
Mutilated Currency	7,732	5,520
Public sales	0	22
Total	<u>\$ 7,732</u>	<u>\$ 5,785</u>

8. Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2018 and 2017, but not yet reimbursed to DOL by the Bureau, are approximately \$10.2 million and \$10.9 million, respectively, of which approximately \$4.6 million and \$5.2 million represent a current liability, as of September 30, 2018 and 2017, respectively. The Bureau will reimburse DOL for these claims in the next two years. The Bureau's estimated non-current, actuarially derived future workers' compensation liability was approximately \$57.8 million and \$58.6 million as of September 30, 2018 and 2017, respectively. The Bureau's estimated, undiscounted, non-current, actuarially derived future workers' compensation liability was approximately \$79.2 million and \$79.7 million as of September 30, 2018 and 2017, respectively.

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

Notes to the Financial Statements

September 30, 2018 and 2017

9. Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were \$22.5 million and \$22.5 million for fiscal years 2018 and 2017, respectively. The CSRS employer contribution rate for fiscal years 2018 and 2017 was 7.0%. The FERS agency contribution rate was 13.7% for fiscal years 2018 and 2017, 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 \$29.0 million and \$26.8 million in 2018 and 2017, respectively.

OPM paid costs totaling \$13.0 million and \$10.0 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2018 and 2017, respectively. These costs are not included in the Bureau's Statements of Operations. The Bureau paid costs totaling \$17.1 million and \$16.9 million for the FEHBP and FEGLI programs in 2018 and 2017, 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 2018 and 2017, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2018 and 2017, are reflected in the following table:

	Revenue (In Thousands)		Accounts Receivable (In Thousands)	
	2018	2017	2018	2017
Federal Reserve Board:				
Currency Production	\$ 758,763	\$ 687,471	\$ 64,342	\$ 36,886
Mutilated Currency	3,531	3,560	903	882
Meaningful Access	1,238	1,472	398	483
New Facility	23	727	0	231
Other Federal Agencies	2,649	3,696	33	7
	<u>766,204</u>	<u>696,926</u>	<u>65,676</u>	<u>38,489</u>
Public sales	5,275	9,604	-	-
Other	1	-	859	673
	<u>5,276</u>	<u>9,604</u>	<u>859</u>	<u>673</u>
Total	<u>\$ 771,480</u>	<u>\$ 706,530</u>	<u>\$ 66,535</u>	<u>\$ 39,162</u>

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

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

Notes to the Financial Statements

September 30, 2018 and 2017

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 do not exist as of September 30, 2018 and 2017. Contingencies, where the risk of loss is reasonably possible, are approximately \$ 5.5 million and \$4.7 million as of September 30, 2018 and 2017, 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, 2018 and 2017. 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 \$159.0 million. As of September 30, 2018, the Bureau has made cumulative payments of \$60.3 million and the remaining commitment outstanding is \$98.7 million. Delivery of the printing equipment will be determined upon successful completion of final factory inspection tests. The Bureau entered into an Inter-Agency Agreement with the United States Army Corps of Engineers for the design review, construction, and contract administration of the Western Currency Facility expansion project. As of September 30, 2018, the Bureau has obligated \$172.2 million for this project and has made cumulative payments of \$10.7 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, 2018.

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, 2018 and 2017

13. Operating Lease

Rental expense for both years ended September 30, 2018 and 2017 was \$3.1 million.

Future minimum payments under the cancelable lease as of September 30, 2018, are (in thousands):

For the years ending September 30:	Amount
2019	\$ 3,121
2020	3,135
2021	3,150
2022	<u>1,591</u>
Total	<u>\$ 10,997</u>

14. Subsequent Events

The Bureau has evaluated subsequent events through December 19, 2018, 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, 2018. 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, 2018.

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



Allan Wibbenmeyer
Acting Associate Director
(Chief Financial Officer)