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Financial Management: Audited Financial Statements of the Bureau of Engraving and Printing for Fiscal Year 2002

OIG-03-046 January 7, 2003

Office of Inspector General

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The Department of the Treasury

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

JAN 7 2003

MEMORANDUM FOR THOMAS A. FERGUSON, DIRECTOR
BUREAU OF ENGRAVING AND PRINTING

FROM: William H. Pugh, William H. Pugh
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Audited Financial Statements of the Bureau of
Engraving and Printing for Fiscal Year 2002

I am pleased to transmit the audited financial statements of the Bureau of Engraving and Printing (BEP) for Fiscal Year (FY) 2002. These financial statements are incorporated in the attached Bureau of Engraving and Printing's *2002 Chief Financial Officer Performance and Accountability Report.* The BEP's financial statements were audited by Ernst & Young LLP, an independent public accountant (IPA). The IPA issued the following reports, which are included in the attachment:

- Report of Independent Auditors;
- Report of Independent Accountants on Internal Control Over Financial Reporting;
- Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance With *Government Auditing Standards*; and
- Report of Independent Auditors on Other Financial Information.

The IPA rendered an unqualified opinion on BEP's FY 2002 financial statements. The IPA's Report of Independent Accountants on Internal Control Over Financial Reporting and the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in

Accordance With *Government Auditing Standards* disclosed no matters involving internal control over financial reporting and it operations that were considered to be material weaknesses. In addition, there were no instances of noncompliance with laws and regulations.

The IPA also issued a management letter dated October 7, 2002, discussing various issues that were identified during the audit, but were not required to be included in the audit reports.

My staff's review of the IPA's working papers determined that the work was performed in accordance with generally accepted government auditing standards. Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Louis C. King, Director, Financial Audits at (202) 927-5774.

Attachment

Department of the Treasury

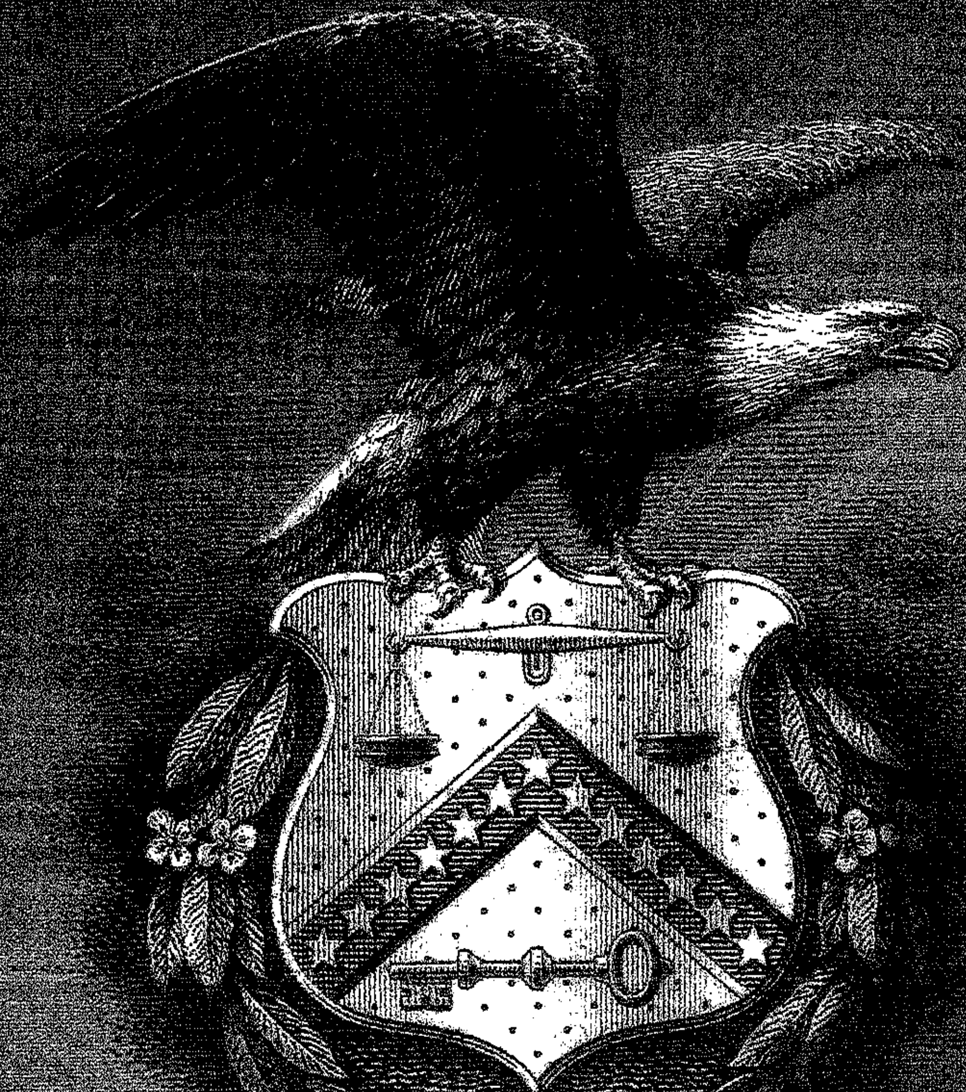
Bureau of Engraving and Printing

2002

Chief Financial Officer

Performance and Accountability Report

2002
Chief Financial Officer
Performance and Accountability Report
Department of the Treasury
Bureau of Engraving and Printing

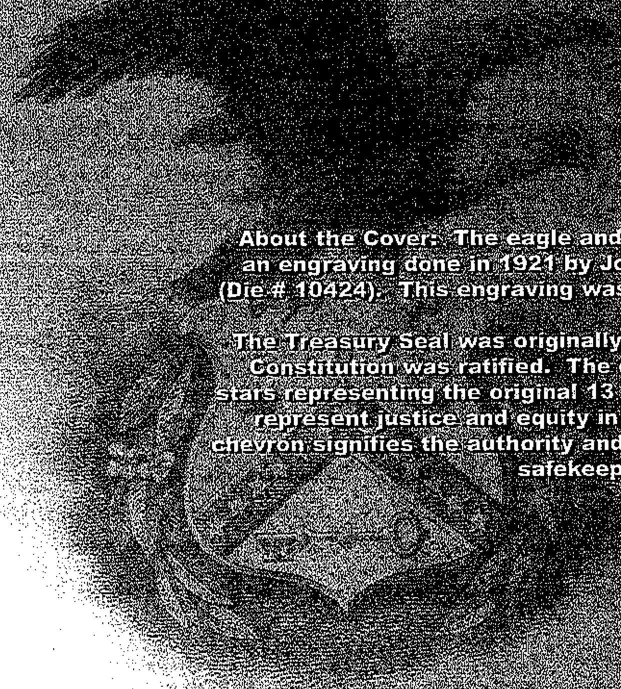


MISSION STATEMENT

The mission of the Bureau of Engraving and Printing is to securely and efficiently produce United States currency, postage stamps, and other government securities that satisfy the current and future needs of the American public and the government agencies it serves.

VISION STATEMENT

The Bureau of Engraving and Printing is a world-class organization that is "state of the art" in all of its people, products and services. It is a flexible, nimble organization that can respond to the constant forces of change. It believes in and practices continuous improvement, thereby upgrading current processes and creating exciting, competitive new products and services.



About the Cover: The eagle and Treasury Seal featured on the cover are from an engraving done in 1921 by John Eissler entitled "Eagle and Treasury Seal" (Die # 10424). This engraving was originally used on official Treasury letterhead.

The Treasury Seal was originally designed in 1780, almost a decade before the Constitution was ratified. The design includes a shield with a chevron of 13 stars representing the original 13 states. The balanced scales above the chevron represent justice and equity in managing Federal funds. The key below the chevron signifies the authority and trust bestowed on the Treasury Department for safekeeping the Nation's funds.

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Message from the Director

This past year reaffirmed my belief in the ingenuity, industriousness, and dedication of the Bureau's employees. I am extremely proud that the Bureau of Engraving and Printing was nominated by the Secretary of the Treasury for the Presidential Quality Award for our support of the financial management initiatives in the President's Management Agenda, and that the Department of the Treasury recognized our accomplishments with its World-Class Performance Award for exceeding the goal of a three-day accounting close with accurate data. The Bureau also received the Gravure Association of America's Golden Cylinder Award for the rapid design and production of the "United We Stand" postage stamp depicting the spirit of the United States after the terrorist attacks of September 11, 2001. These awards are a measure of our commitment to achieving unparalleled excellence throughout the Bureau.

During 2002, the Bureau was actively engaged in the development of a new design for the next generation of the $20 currency note to be introduced into circulation in 2003. In addition, the Bureau began the effort to expand the current certification of its currency manufacturing quality management systems under ISO (International Organization for Standards) 9001 standards to additional areas, and to upgrade the certification to the revised standards issued in 2000. The Bureau also continued its efforts to improve worker safety, ensure environmental compliance and reduce lost time due to injuries. These efforts resulted in a reduction in lost time due to injuries of over 30% in 2002.

We can look back on 2002 with pride and an overall sense of accomplishment. As presented in this report, the Bureau performed well in all major program areas as the Bureau delivered 7.0 billion Federal Reserve Notes and 12.2 billion postage stamps to the Federal Reserve System and the U.S. Postal Service, respectively.

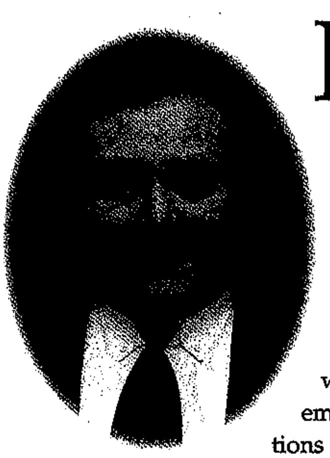
The performance and financial data presented in this report is complete and accurate as outlined in guidance available from the Office of Management and Budget. The Bureau regularly uses this financial and performance data for decision making. Consequently, every effort is made to ensure its accuracy and reliability.

Finally, I would like to express my appreciation to all the employees at the Bureau for their outstanding effort this year. The Bureau has prospered through the considerable talents of its employees and their "can-do" spirit. The awards and recognition noted above were not earned by the Bureau of Engraving and Printing, they were earned through the hard work and dedication of the outstanding employees that I feel fortunate to have working here. This highly skilled and proud workforce will ensure that the Bureau meets future challenges and takes advantage of the opportunities that lie ahead.

TA Ferguson

Thomas A. Ferguson
Director

Message from the Chief Financial Officer



In 2002, the Bureau continued to build upon its strong financial management and financial reporting foundation. The Bureau's financial statement audit was completed on October 7, 2002, setting a new benchmark for timely and accurate financial reporting. This achievement marked the culmination of an effort begun more than two years ago to streamline and accelerate financial reporting. The keystone of this effort was a partnership that the Bureau forged with the Office of Inspector General, the independent public accounting firm, and the Department of the Treasury. This partnership enabled the Bureau to accelerate the year-end close and audit, and complete the monthly close within three business days for each of the last 15 months. While the accelerated annual and monthly closes are an unprecedented accomplishment, it must be noted that they were accomplished while ensuring data accuracy and reliability. As a result of this emphasis on data quality, the Bureau had no material weaknesses, reportable conditions or material instances of non-conformance in 2001 or 2002.

The Bureau's efforts in improving financial reporting were formally recognized when it received a World-Class Performance Award from the Department of the Treasury, and the Secretary of the Treasury nominated us for the prestigious Presidential Quality Award for support of the financial management initiatives in the President's Management Agenda. This recognition is indicative of the Bureau's unwavering commitment to achieving unparalleled excellence in financial reporting. By emulating best practices in the private sector and developing best practices for the public sector, the Bureau continues to set the standard for Federal financial reporting.

The financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 18th consecutive year, the Bureau received an unqualified opinion on its financial statements from an independent, certified public accounting firm. The annual audit and internal control review process help to ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making. Audits and reviews performed throughout the year did not identify any material weaknesses in financial or performance reporting.

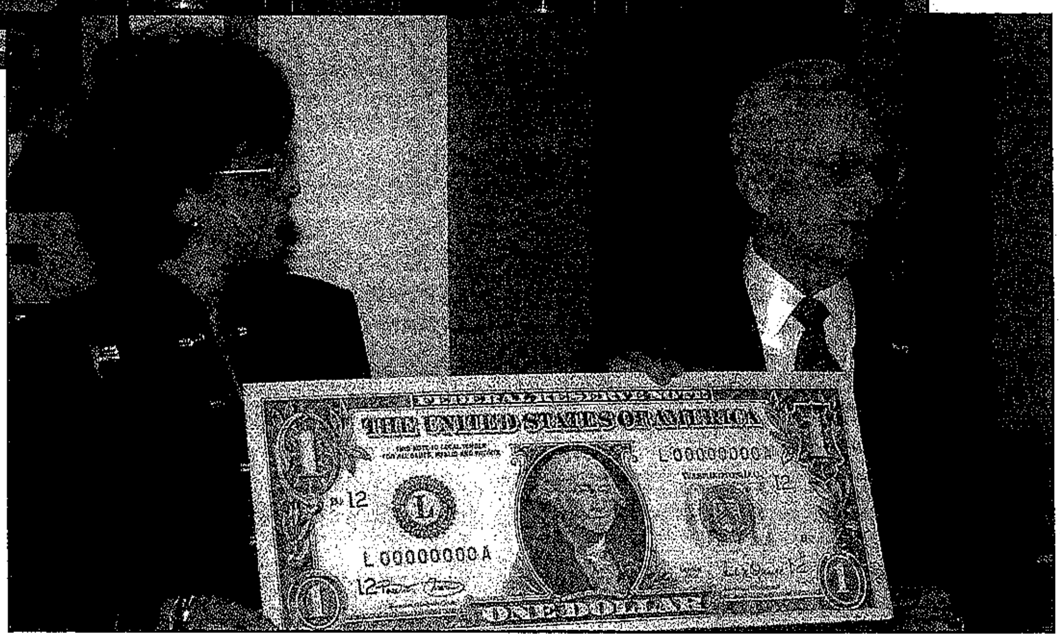
In 2002, the Bureau delivered 7.0 billion Federal Reserve Notes and 12.2 billion postage stamps to the Federal Reserve System and the U.S. Postal Service, respectively. This resulted in revenue of $443 million and an excess of expenses over revenue of $29 million. When setting currency prices for 2002, the Bureau chose to fund the additional costs incurred to prepare for the production of next generation currency (primarily design development and testing) through working capital and productivity improvements rather than price increases.

Performance with respect to all major program areas was favorable in 2002. Direct manufacturing costs for both the currency and postage stamp programs were below standard. Currency manufacturing costs were lower than expected, in part, because of improved ink utilization due to continued fine-tuning of the Bureau's currency manufacturing operations to maintain its ISO 9001 quality certification. Similarly, postage stamp costs benefited from continued improvements in postage stamp processing that significantly reduced spoilage.

As the Bureau plans for the future, we will continue to focus on our commitment to product quality, superior customer service and efficient stewardship of resources so that we continue to effectively meet the needs of the American public. The Bureau has positioned itself to meet these needs both from an operational and financial management perspective. The Bureau has the financial resources necessary to invest in its employees, to maintain a talented and up-to-date workforce, and a well-disciplined capital investment strategy to enhance product quality, promote counterfeit deterrence, and ensure the cost effectiveness of manufacturing processes.

Gregory D. Carper

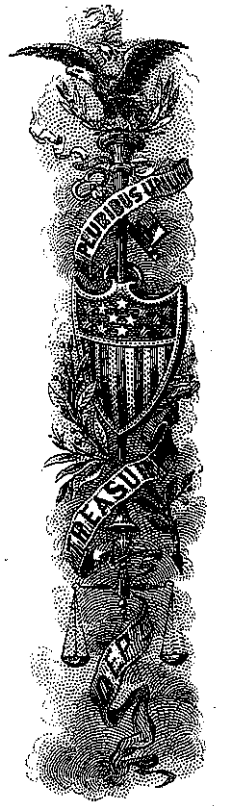
Gregory D. Carper
Associate Director
(Chief Financial Officer)



(top) U.S. Postal Service employees unveil the "United We Stand" postage stamp, which was printed by the Bureau, commemorating the tragic events of 9/11. (photo credit: Gerald Merna, USPS)

(bottom) Secretary of the Treasury Paul O'Neill (right) and Treasurer of the United States Rosario Marin display a replica note bearing their signatures.

Highlights of the Year



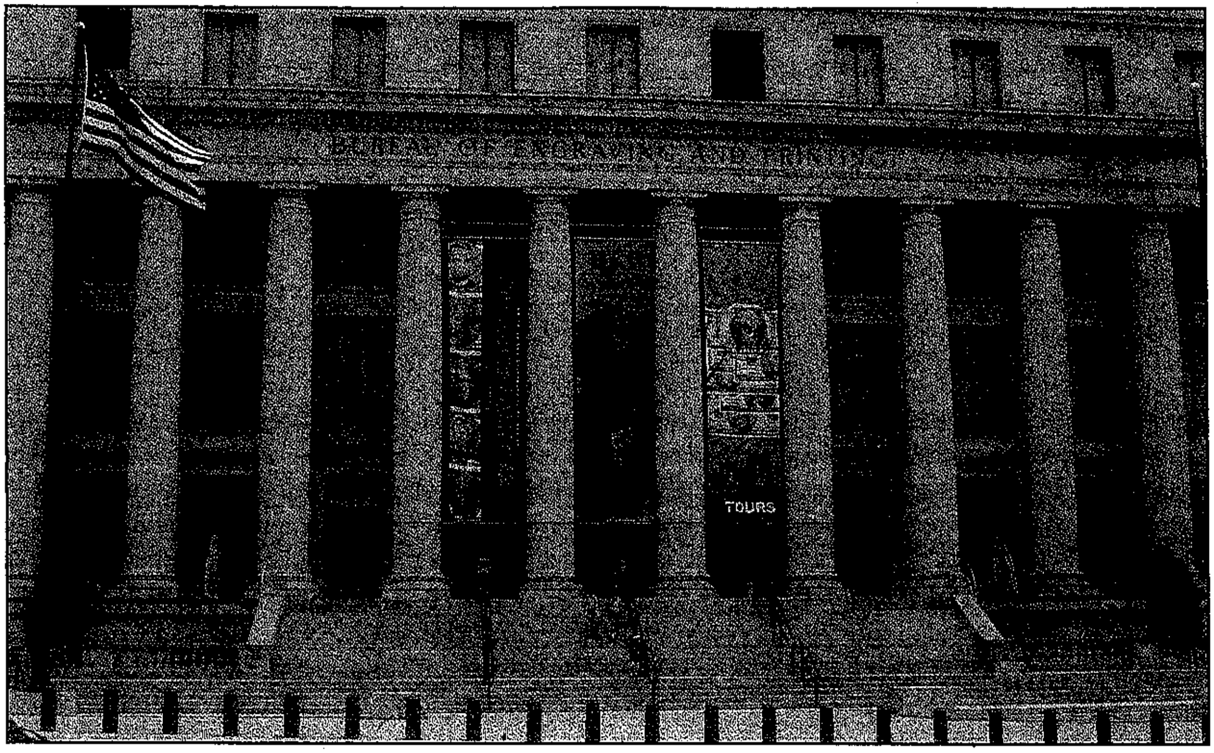
Throughout 2002 the Bureau of Engraving and Printing focused its resources and efforts on redesigning the Nation's currency to incorporate additional advanced counterfeit deterrent features to maintain the integrity of the Nation's currency. This included expanded capital investment, expansion of the Western Currency Facility and training programs in support of the redesign effort.

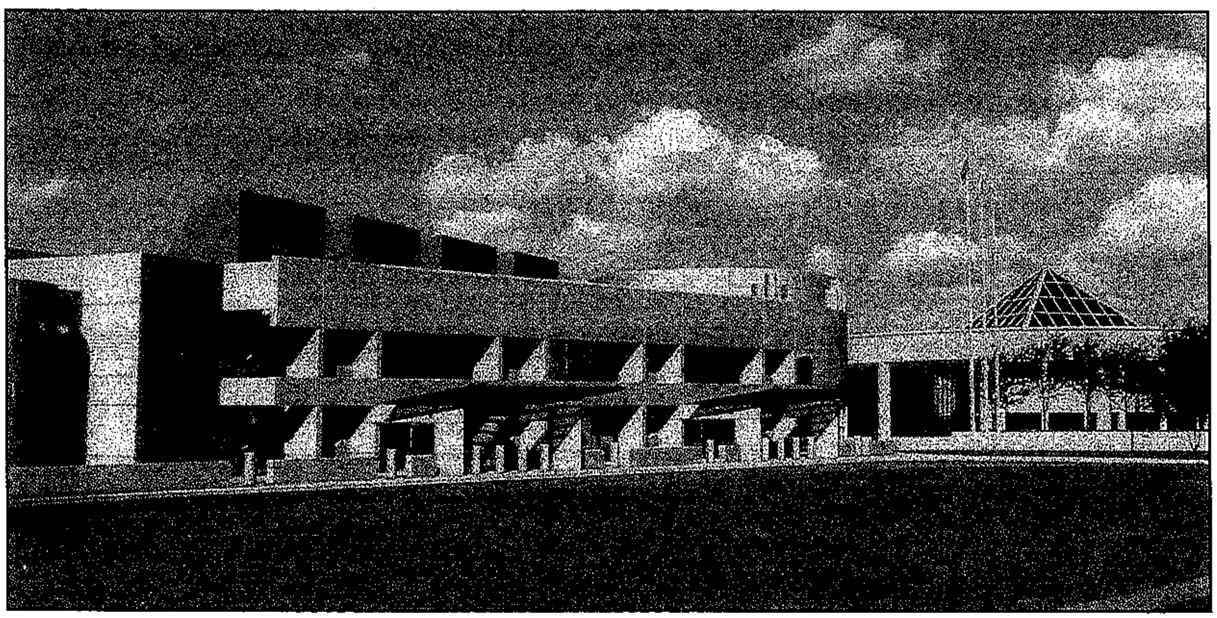
In addition, the Bureau began the effort to expand the current certification of its currency manufacturing quality management systems under ISO (International Organization for Standards) 9001 standards to additional areas, and to upgrade the certification to the revised standards issued in 2000. During the year, the Bureau also continued its efforts in support of an organizational commitment to improve worker safety, ensure environmental compliance and reduce lost time due to injuries.

Financial and operational highlights for fiscal year 2002 include:

- Completing the year-end close and financial statement audit in world-class time – 7 calendar days after year-end;
- Introducing a new currency series bearing the signatures of Paul H. O'Neill, Secretary of the Treasury, and Rosario Marin, Treasurer of the United States;
- Being nominated by the Secretary of the Treasury for a Presidential Quality Award for support of the financial management initiatives in the President's Management Agenda;
- Receiving the Golden Cylinder Award from the Gravure Association of America for the rapid production of the "United We Stand" postage stamp depicting the spirit of the United States after the terrorist attacks of September 11, 2001;
- Acquisition and installation of offset printing presses in Washington, DC and Fort Worth, TX in support of the currency redesign effort;
- Expanding the Western Currency Facility in Fort Worth, TX to accommodate the new offset presses and provide for a public tour;
- Reducing lost time due to accidents by over 30%;
- Receiving the Pretreatment Partnership Award from the City of Fort Worth for the Western Currency Facility's creativity and innovation in protecting water quality, preserving environmental resources and minimizing by-product waste; and
- Receiving an unqualified opinion on Bureau financial statements from an independent, certified public accounting firm for the 18th consecutive year.

(All Dollars in Millions)	2001	2002
Sales Revenue	**$390.8**	**$443.4**
Capital Investment	**$29.8**	**$63.8**
General and Administrative Costs	**$39.8**	**$46.1**
Research and Development	**$9.0**	**$10.3**
Total Assets	**$655.2**	**$619.4**
Excess of Revenue over Expenses	**($44.7)**	**($29.0)**
Federal Reserve Notes Delivered (Billions)	**7.0**	**7.0**
Postage Stamps Delivered (Billions)	**15.9**	**12.2**





The Bureau of Engraving and Printing's Main Building in Washington, DC (top) and a conceptual drawing of the completed expansion of the Western Currency Facility in Fort Worth, TX.

Profile of The Bureau of Engraving and Printing

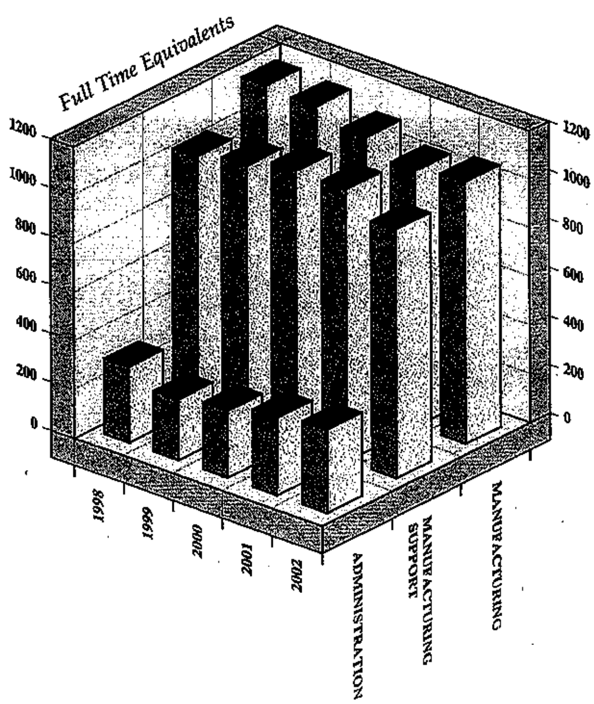
The mission of the Bureau of Engraving and Printing is to securely and efficiently produce United States currency, postage stamps, and other governmental securities that satisfy the current and future needs of the American public and the government agencies it serves.

The Bureau of Engraving and Printing operates on the basis of authority conferred upon the Secretary of the Treasury by 31 U.S.C. 321(a)(4) to engrave and print currency and other security documents. Operations are financed by means of a revolving fund established in 1950 in accordance with Public Law 81-656. This fund is reimbursed through product sales for direct and indirect costs of operations including administrative expenses. In 1977, Public Law 95-81 authorized the Bureau to include an amount sufficient to fund capital investment and to meet working capital requirements in the prices charged for products. This eliminated the need for appropriations from Congress.

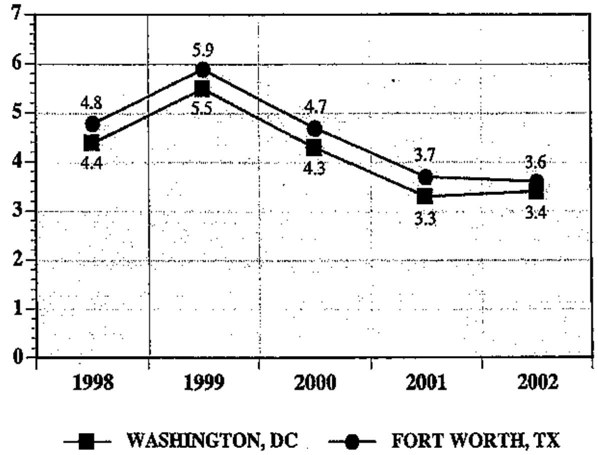
The Bureau produces U.S. currency, U.S. postage stamps, and many other security documents issued by the Federal Government. Other activities at the Bureau include engraving plates and dies; manufacturing certain inks used to print security products; purchasing materials, supplies and equipment; and storing and delivering products in accordance with requirements of customers. In addition, the Bureau provides technical assistance and advice to other Federal agencies in the design and production of documents, which, because of their innate value or other characteristics, require counterfeit deterrence. The Bureau is also responsible for the accountability and destruction of internally generated security waste products. As a service to the public, the Bureau processes claims for redemption of mutilated paper currency. The Bureau also audits cash destruction and unfit currency operations.

The Bureau occupies three government-owned facilities. The Main and Annex buildings, located in Washington, DC, produce Federal Reserve Notes, postage stamps 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 increase production capacity, reduce

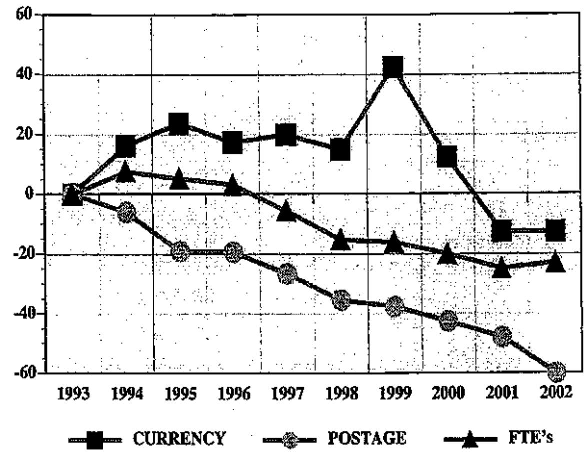
Staffing (FTE) by Function



Currency Production by Facility
Billions of Notes



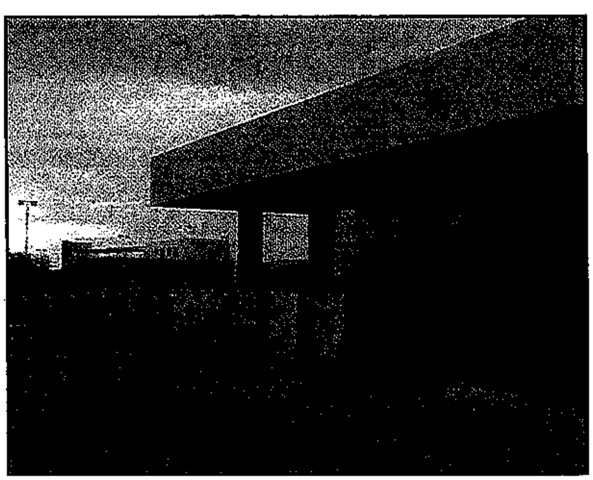
Program and Manufacturing Staffing (FTE) Changes
Percentage change from base year

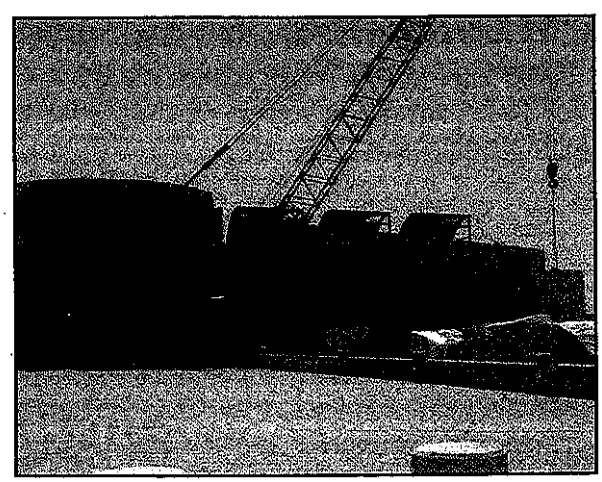


transportation costs and providing a second currency manufacturing site to enhance emergency preparedness.

In addition to housing production facilities, the Main Building in Washington, DC offers a free tour of currency operations to the general public, which is seen every year by over one-half million visitors. The tour includes a Visitor's Center with currency manufacturing displays, interactive kiosks and other information about the history of the Nation's currency. A sales center that sells uncut sheets of currency, premium numismatic currency sets, and other collectibles and engravings is also open to the public. In addition to the on-site sales center, sales are available through mail order and on the Bureau's Internet site, www.moneyfactory.com.

As part of the current expansion at the Western Currency Facility, the Bureau is adding a public tour. A raised viewing gallery will enable the public to observe currency manufacturing operations from above the production floor, and a Visitor's Center will provide the public with an opportunity to learn more about U.S. currency. The Fort Worth tour and Visitor's Center are expected to be open for the public by the end of 2003.





The ongoing expansion of the Western Currency Facility to accommodate offset printing technology.

Manufacturing

During 2002, the Bureau's ISO certified currency manufacturing operation produced and delivered 7.0 billion Federal Reserve Notes to the Federal Reserve System. The Washington, DC and Fort Worth, TX facilities delivered 3.4 billion and 3.6 billion Federal Reserve Notes, respectively. For 2003, the Federal Reserve System has ordered 8.2 billion Federal Reserve Notes.

Additionally, the Bureau delivered approximately 12.2 billion postage stamps to the U.S. Postal Service during 2002. The U.S. Postal Service has ordered 9.0 billion stamps for 2003. This is consistent with the five-year interagency agreement with the U.S. Postal Service that plans for the phase out of the production of postage stamps at the Bureau by the end of 2005.

The Bureau maintained certification in 2002 for its currency quality management system under the internationally recognized ISO (International Organization for Standards) 9001 standards. In 2003, the Bureau plans to expand the certification to include ink production, roller manufacturing and plate making/engraving. The Bureau also plans to upgrade its certification to the recently expanded ISO 9001 standards, which include requirements for continuous improvement. ISO 9001 certification demonstrates the Bureau's firm commitment to product quality to current and potential customers.

In 2002, the Bureau was the proud winner of the Gravure Association of America's (GAA) Golden Cylinder Award for its effort, dedication and innovation in the production of the "United We Stand" postage stamp. The United States Postal Service (USPS) designed the "United We Stand" postage stamp to depict the spirit of the nation after the September 11th terrorist attacks. USPS asked the Bureau to take on the challenge of producing the stamp in a quick and timely manner. The Bureau met the challenge, producing the stamp in less than one month after the September attacks.

Next Generation Currency Notes

One of the Bureau's strategic goals is to stay ahead of the technology curve with respect to ensuring the integrity of the Nation's currency. In order to achieve this goal, the Bureau has partnered with the U.S. Secret Service and Federal Reserve to devise a long-term, counterfeit deterrent strategy for U.S. currency that features regular redesign of currency notes.

During 2002, the Bureau was actively engaged in the development of a new design for the next generation of the $20 currency note to be introduced into circulation in 2003. The redesign of the $20 note has special importance because of its frequent use in everyday commerce. It is the most circulated, high denomination note and, therefore, a common target of would-be counterfeiters. Introduction of redesigned $100 and $50 notes will follow in the next few years.

The new designs will include the introduction of subtle background colors. While color is not in itself a security feature, the use of color provides the opportunity to add additional features to assist in deterring counterfeiting. The introduction of additional colors will also help consumers to identify the different denominations. The new series will retain all current security features,

Kathryn Segal, Offset Presswoman, operates the color console of a new offset printing press.

including watermarks, enhanced security threads, microprinting, and color-shifting ink.

Production of the redesigned currency required a multi-million dollar capital investment in printing technology and support processes. The Bureau installed four new offset presses in 2002 in order to produce the new notes, two in the Washington plant and two in the Texas facility. A modest expansion at the Western Currency Facility is ongoing in order to accommodate this new technology.

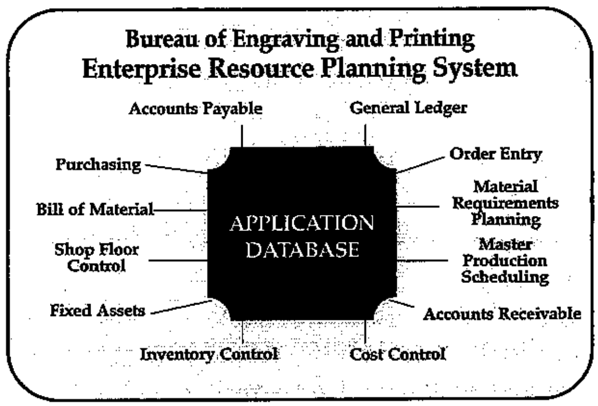
Next year is expected to be a transition year for the Bureau as it moves into production and issuance of the redesigned $20 currency note. Currency redesign efforts will also intensify and consume considerable resources with the continued development of the new $50 and $100 note designs. These redesigns are necessary to stay ahead of the technological advances available to counterfeiters.

Information Technology (IT)

The Bureau is actively developing an Enterprise Architecture (EA) for effective management and strategic decision-making, especially for information technology (IT) investments that require an integrated view of the Bureau, its operational processes and the information systems that support them. The EA will provide substantial support for the evolution of the Bureau as it anticipates and responds to the changing needs of its customers. Once completed, the EA will become a vital part of the Bureau's decision-making process.

Several IT pilot programs were implemented during 2002 using web-based forms. In 2003, the Bureau plans to expand its use of web-based form technologies to include the use of electronic signatures.

During 2002, the Bureau took steps to further enhance its Continuity of Operations Plan (COOP). The COOP facilitates the performance of essential functions during any emergency or situation that may disrupt normal operations. The Bureau reaffirmed its succession planning policy and developed a communication strategy and interim relocation plan for key executives and managers. The Bureau is working with the U.S. Mint and the Federal Reserve to establish formal contingency plans and meet mutual requirements for reducing disruptions to operations and achieving an orderly recovery and resumption of full service.



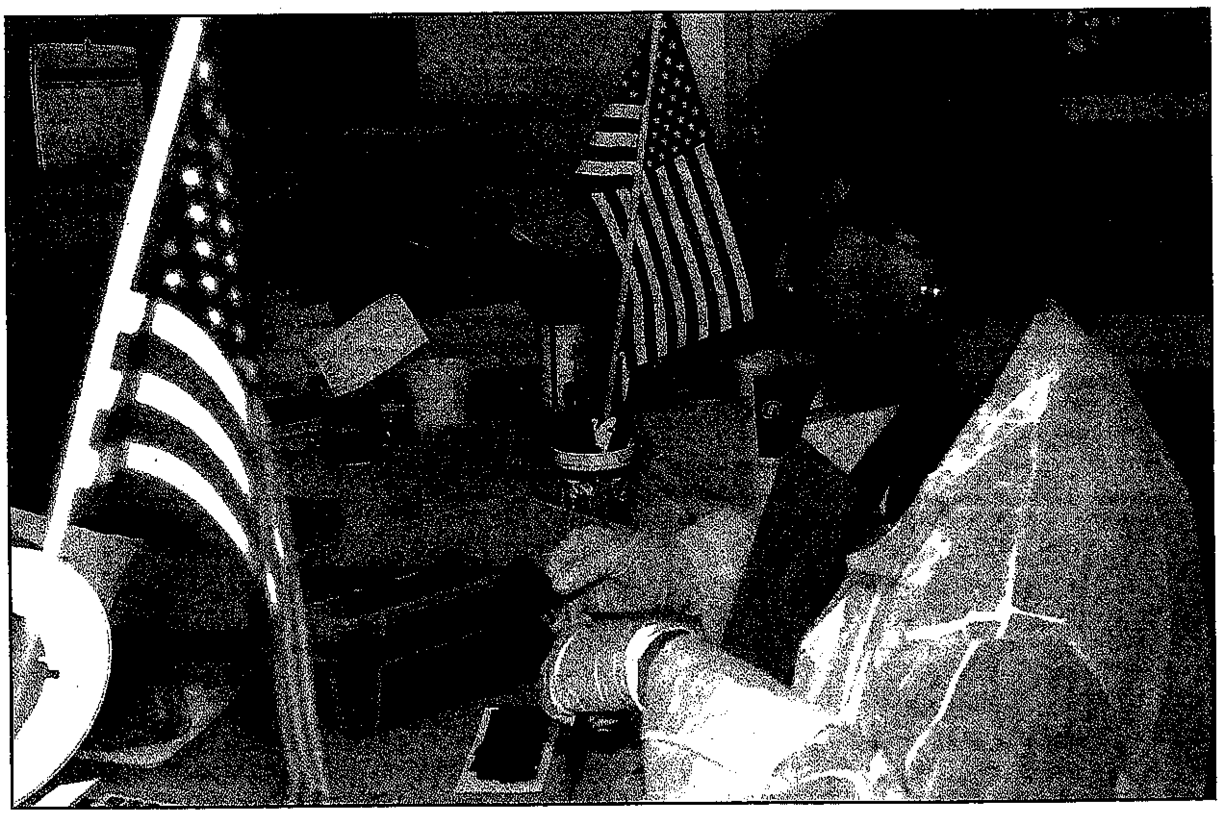
Organization

The Bureau's executive structure includes the Bureau Director, five Associate Directors, and Chief Counsel. The executive committee structure includes an Executive Committee, the Capital Investment Committee, the Information Resource Management Committee and various planning committees and subcommittees. The planning and subcommittees are composed of a cross-section of senior and mid-level managers representing diverse organizational units. By cutting across organizational lines, these groups serve to promote effective communication and participative, proactive management.

Customer Service

The Bureau continued its focus on product quality as the most essential element of customer service throughout 2002. The Bureau's world-class goals include eliminating counterfeit notes in circulation and ensuring that every note works every time in both person-to-person and person-to-machine transactions. In support of these goals, the Bureau commenced an effort to upgrade the certification of its currency quality management system. This includes expanding the certification to additional manufacturing areas and seeking certification under the recently revised ISO 9001 standards that place increased emphasis on continuous improvement.

As part of the ongoing quality initiative, the Bureau sponsored a series of quality forums that provided Bureau employees an opportunity to gain an understanding of product quality and its impact on customers. At the end of each presentation, employees were encouraged to ask questions and discuss product quality. In addition, substantial time was devoted to equipment calibration and quality training. Regularly scheduled quality meetings were also held throughout the production areas.



Margaret Briscoe, Mutilated Currency Specialist, examines the remains of currency recovered from the World Trade Center.

Executive Organizational Structure

THOMAS A. FERGUSON
DIRECTOR

BUREAU MISSION

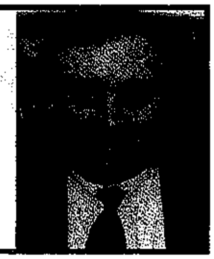
The mission of the Bureau of Engraving and Printing is to securely and efficiently produce United States currency, postage stamps, and other government securities that satisfy the current and future needs of the American public and the government agencies it serves.

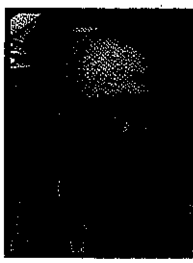
WILLIAM W. WILLS
ASSOCIATE DIRECTOR
(CHIEF OPERATING OFFICER)

The mission of the COO Directorate is to assure the manufacturing of all government security documents in a cost-effective and efficient manner that satisfies the needs of the customer, and to provide a safe and secure working environment for employees in both manufacturing facilities.

GREGORY D. CARPER
ASSOCIATE DIRECTOR
(CHIEF FINANCIAL OFFICER)

The mission of the CFO Directorate is to maintain the integrity of the Bureau's revolving fund, provide the financial resources necessary to meet customer requirements, and oversee management control functions and the mutilated currency redemption program.



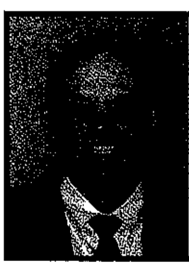


JOEL C. TAUB
ASSOCIATE DIRECTOR
(MANAGEMENT)

The mission of the Management Directorate is to provide the highest quality Security, Human Resources, Labor Relations, Procurement and Administrative Services in support of the overall Bureau mission.

CARLA F. KIDWELL
ASSOCIATE DIRECTOR
(TECHNOLOGY)

The mission of the Technology Directorate is to support the production of United States currency, postage stamps, and other government securities by incorporating new covert features that prevent counterfeiting, by developing new production processes that enhance the quality and production of securities, by providing technical support to the production process, and by providing facility support and maintenance.

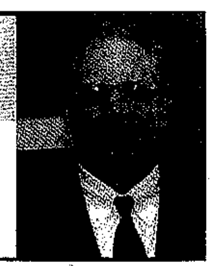


RONALD W. FALTER
ASSOCIATE DIRECTOR
(CHIEF INFORMATION OFFICER)

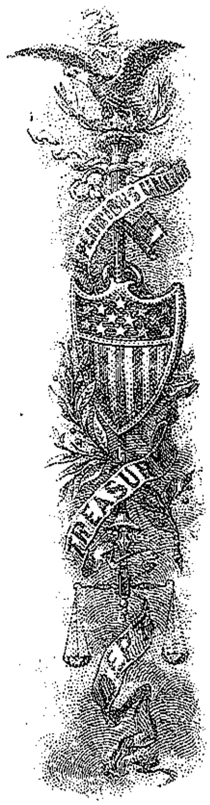
The mission of the CIO Directorate is to provide proven state-of-the-art information technology in support of cost-effective production of U.S. Security Products, with primary emphasis on U.S. currency.

CARROL H. KINSEY, JR.
CHIEF COUNSEL

The mission of the Office of the Chief Counsel is to provide the highest quality legal services in support of the overall Bureau mission.



Safety, Health and Environmental Management



This past year's events have brought a renewed focus on the safety and health of employees at the Bureau. Protecting the health and safety of employees is the highest priority of the Bureau. The Office of Environment, Safety, and Occupational Health Programs (OESOHP) has been established to manage those programs at the Bureau that protect employees, contractors, visitors, and the environment. Demonstrating the importance with which the Bureau views safety and environmental concerns, the Chief of OESOHP reports to the Director and all employees have a health, safety, and environmental element in their annual performance plans.

Improving Worker Safety

In 2002, the Bureau's Joint Occupational Safety, Health, and Environment Committee (JOSHEC) established an Injury Subcommittee and charged it with reducing injuries and lost workdays. The subcommittee includes representatives from labor and management. This Subcommittee has made several changes that significantly reduced both the number of injuries and lost work days.

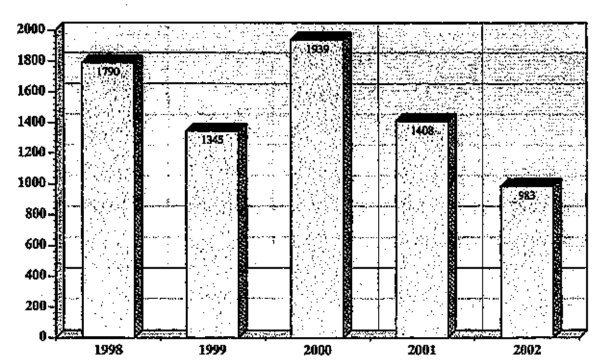
These include:

- Establishing directorate points of contact to establish a light duty job bank, and facilitate restricted duty assignments to partially disabled employees;
- Creating small focus groups to rapidly address lost time injuries as they occur, and ensure that lost time is appropriately documented;
- Streamlining injury reporting procedures to ensure employees receive the best care and assistance from the onset of the injury; and
- Hiring a full time case manager to improve claims management.

In Fort Worth, after a 60 percent reduction in lost time due to injuries in 2001, efforts this year focused on preventing lost time injuries and improving claims management. The projects and activities undertaken in 2002 toward those goals include:

- Installing lifts in several areas to keep work in the proper lifting zone to reduce repetitive motion back and shoulder strains;
- Monitoring medical treatment and providing light or limited duty opportunities where appropriate;
- Reducing the weight of the intaglio press dry blade by more than 25 percent to prevent back and shoulder strains;

Lost Work Days
Days Lost Due to Injury



Reductions in Injuries and Lost Work Days in 2002

Facility	All Injury Cases	Lost Time Cases	Lost Work Days
Washington, DC Facility	-42%	-17%	-40%
Fort Worth, TX Facility	-23%	-35%	-4%
Bureau Total	-37%	-25%	-30%

- Working with the Office of Workers' Compensation to ensure timely claim processing and adjudication;

- Installing an automated paper jogger to significantly reduce the risk of developing repetitive motion injuries; and

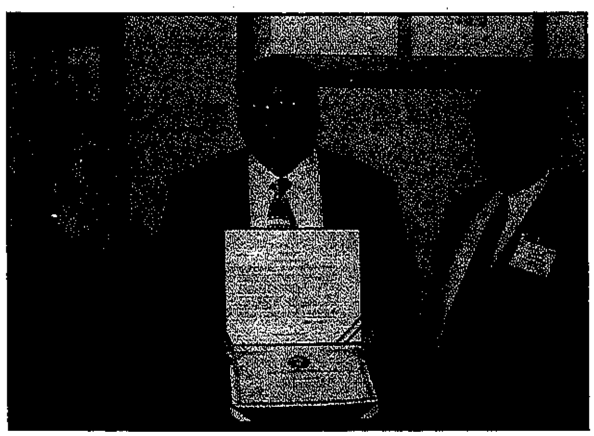
- Investigating all reported injuries to identify safety training needs and to propose and implement corrective actions.

Protecting the Environment

The Bureau continues to strive to minimize its impact on the environment through pollution prevention, recycling and reuse, and responsible handling and disposal of wastes. Reducing, and where possible, eliminating, the use of hazardous materials through the substitution of alternative safer products and processes is an essential part of the Bureau's initiative to decrease all waste streams. Toward that goal, the Bureau's Western Currency Facility received the 2002 Pretreatment Partnership Award from the City of Fort Worth, TX for its innovation and creativity in minimizing by-product waste, protecting water quality, and preserving environmental resources.

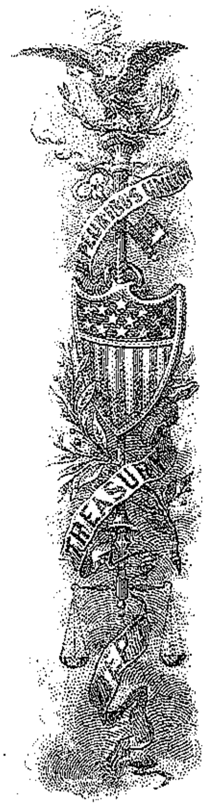
As part of this effort, a multidisciplinary work group was formed in 2002 to research alternative cleaners for the intaglio printing presses. Their goal is to identify and implement a more environmentally sound cleaner that will reduce both the waste stream and eliminate potential exposure to hazardous materials.

To institutionalize an organizational focus on the environment, the Bureau is implementing an environmental management system at both facilities. The Bureau's goal is not simply to maintain compliance with regulatory requirements, but to go beyond compliance, making the Bureau as safe and environmentally friendly as possible. To this end, the Bureau has committed to attaining certification for its environmental management systems under the internationally recognized ISO (International Organization for Standards) 14001 standard. Seeking ISO 14001 certification demonstrates the Bureau's firm commitment to minimizing its environmental footprint. Additional environmental goals involve the development of environmental management systems that identify opportunities to reduce the use of hazardous materials at all stages of the production processes.



William Brabitz (center), Supervisory Safety Coordinator at the Bureau, receives the Edward Egan Memorial Soldier of Safety Award from National Safety Council representatives Mary Sansom and Gary Ruffner for his dedication and devotion to occupational safety.

Strategic Plan



The vision guiding the Bureau's Strategic Plan is to be "a world-class securities printer providing the public and customer agencies superior products through excellence in manufacturing and technological innovation." A copy of the Bureau's Strategic Plan is available on the Bureau's web site: www.bep.treas.gov. The Bureau has identified five goals in its Strategic Plan that focus on investment in people, products and processes. These five goals provide the foundation for the Bureau's two world-class goals: (1) to manufacture currency notes that function flawlessly as designed, the first time and every time, in all transitions, either person to person or person to machine; and (2) to ensure that no counterfeit notes are passed on to the American public. The Bureau's five strategic goals are listed below.

Customer Satisfaction: Satisfy the Federal Reserve Board, the U.S. Postal Service and the public by providing responsive service and quality products.

Quality Manufacturing: Manufacture state-of-the-art products of consistently high quality while improving productivity and cost performance.

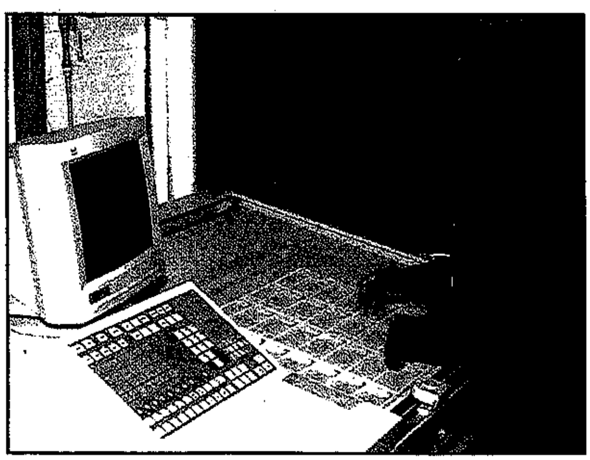
Counterfeit Deterrence: Produce state-of-the-art notes that deter counterfeiting, contribute to public confidence, facilitate daily commerce and improve the efficiency of currency in circulation.

Security and Accountability: Ensure an environment of comprehensive security and accountability for the Bureau's personnel, facilities and products.

Resource Management: Manage the Bureau's resources to increase internal efficiency and effectiveness in support of the other strategic goals.

The Bureau's principal focus in 2003 will be the continued development of the next generation of currency designs incorporating advanced counterfeit deterrent features. The Bureau also plans to expand the certification of its currency quality management system under the internationally recognized ISO (International Organization for Standards) 9001 Standard to include ink production, roller manufacturing and platemaking/engraving.

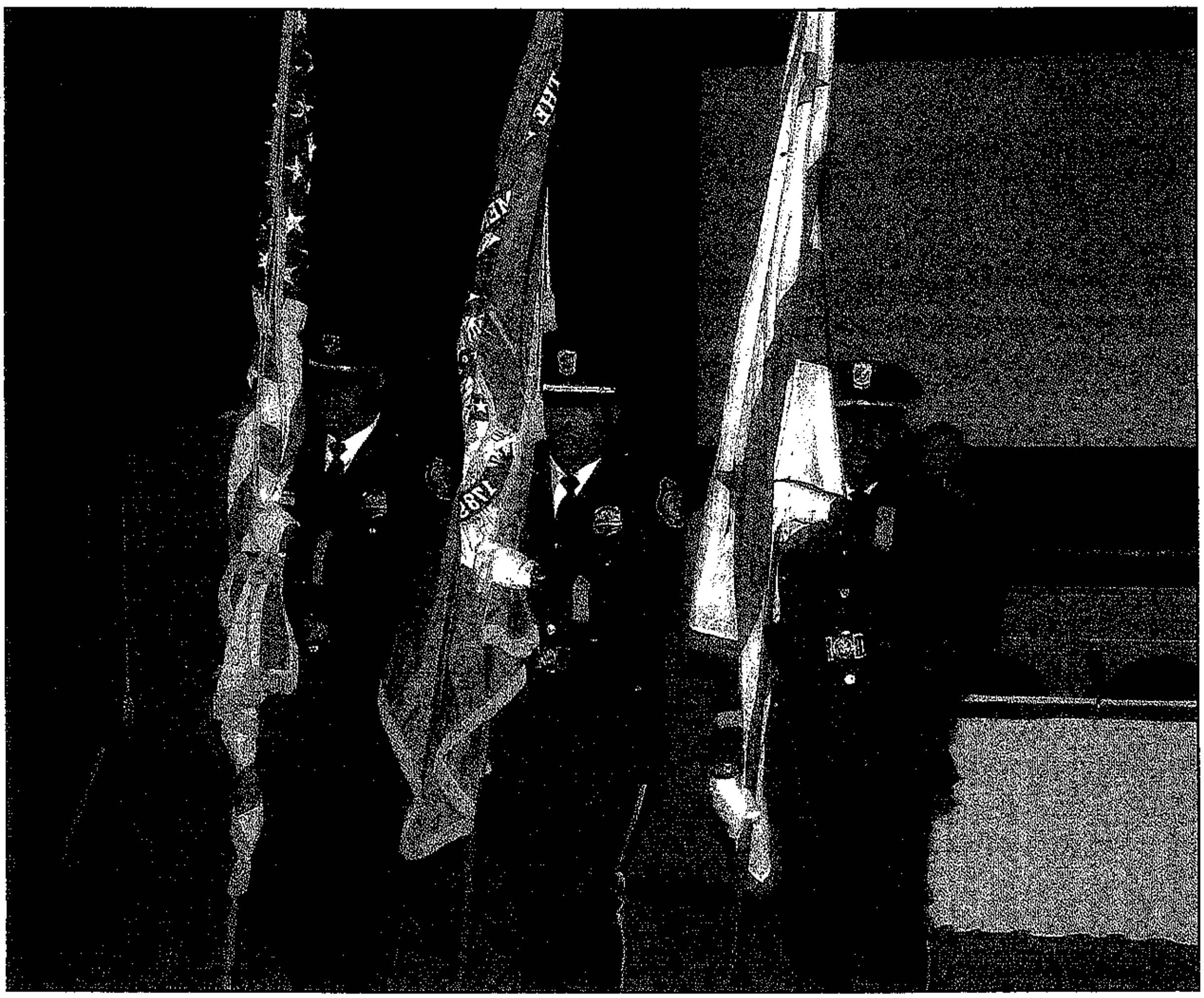
With a focus on its world-class goals, the Bureau awarded a contract for public awareness and educational campaign activities to promote the easy recognition of genuine notes in person-to-person transactions. The Bureau has also solicited feedback from vending machine manufacturers and the Federal Reserve Board regarding person-to-machine transactions.



Pressman Scott Green inspects print samples from a new offset printing press.

Summary of Office of Inspector General Audits

The Bureau began 2002 with three open audit recommendations issued by the Office of Inspector General (OIG). During 2002, the Bureau received 21 additional recommendations in 12 OIG audit reports. Four recommendations resulted from audits requested by Bureau contracting officers, and pertained to contract issues. Seventeen recommendations were the result of OIG initiated audits of the Bureau's e-commerce program, mainframe computer disaster recovery process, and controls over sensitive property. Five recommendations from contract-type audit reports were implemented or addressed in 2002 resulting in monetary benefits of about $5.3 million. In addition, 14 recommendations from program-type audit reports were implemented or addressed in 2002. The remaining recommendations will be addressed as appropriate.



The Bureau of Engraving and Printing's color guard present the flags. The flag bearers are (from left to right) Sergeant Durand Odom, Lieutenant Irvin Hamilton and Corporal Norman Simms.

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 management controls and financial management systems to protect against fraud, waste, and abuse. The subsequent passage of the Chief Financial Officers Act and the Federal Financial Management Improvement Act further increased the government's management control requirements.

The Bureau has a history of strong management 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 proactively enhance product accountability, the Office of Management Control (OMC) maintains an Accountability Help Desk. The Help Desk is 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 internal control awareness program. The Bureau's Compliance Review Team (CRT) promotes compliance with Bureau operating policies and procedures by performing unannounced reviews in production and storage areas that have custody of security items. During 2002, the CRT performed 287 unannounced reviews. The results of the reviews were reported to Office Chiefs, as well as the supervisors and managers responsible for enforcing the policies and procedures, and implementing the corrective actions. The Internal Control Awareness Program is used to promote the visibility and understanding of management control issues, objectives and requirements. OMC personnel also conduct management and organizational reviews to strengthen the Bureau's internal controls, ensure compliance with existing policies and procedures, and safeguard Bureau assets. In April 2001, the Bureau's quality management system for the production of U.S. currency was registered as ISO 9001 compliant. OMC personnel support the maintenance and continuous improvement of the Bureau's quality management system by conducting internal quality audits throughout the Bureau.

The financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 18th consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. For fiscal year 2002, the Bureau completed its annual financial statements on October 1, 2002, and received an unqualified opinion from the auditors on October 7, 2002, demonstrative of world-class financial management. The annual audit and FMFIA review process help ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making.

In 2001, the Bureau's Chief Information Officer was elevated to the Senior Executive level through the creation of the Information Technology (IT) Directorate. With its increased visibility during 2002, the IT Directorate made significant strides in increasing accountability, enhancing IT security, and standardizing the products and services delivered in support of the Bureau's mission. The Bureau hired an Enterprise Information Architect and developed a baseline architecture, which provides a map of processes, products and functions against which current IT acquisitions and future plans can be mapped. In IT security, most of the Bureau's major applications and general support systems have been certified and accredited as meeting stringent Federal requirements for ensuring the security of information systems, with the remaining accreditations due during 2003. The Bureau continued to be an active participant in Department of the Treasury Critical Infrastructure Protection Planning efforts and in instituting policies and procedures to ensure the confidentiality, security, integrity, and reliability of information.

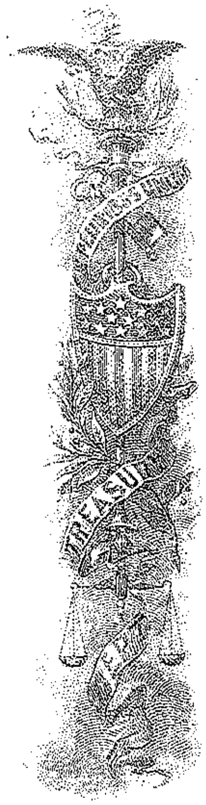
In addition, an IT governance structure has been implemented through the publication of policy and procedural guidance establishing a Configuration Control Board and configuration control process, as well as a Capital Management Process which meets Departmental and Office of Management and Budget guidelines. IT security and architectural reviews are required as part of any proposed capital investment. In terms of contingency planning, the Bureau put into place a Computer Security Incident Response Capability, revised and upgraded its Continuity of Operation Plans, and enhanced management controls throughout the life cycle of hardware and software.

Assurance Statement Fiscal Year 2002

As required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Bureau of Engraving and Printing has evaluated both its management controls and financial management systems for fiscal year 2002. The results of these evaluations provided reasonable assurance that the management controls (Section 2) and the financial management systems (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 has no instances of material management control weaknesses and no material nonconformances outstanding as of September 30, 2002. Also, based on Office of Management and Budget (OMB) guidance, OMB Bulletin 01-02 *(Audit Requirements for Federal Financial Statements)*, the Bureau can state that it is in substantial compliance with the applicable provisions of the Federal Financial Management Improvement Act of 1996. 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; continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; controls are sufficient to minimize any improper or erroneous payments; and performance information is reliable.

Ta Ferguson

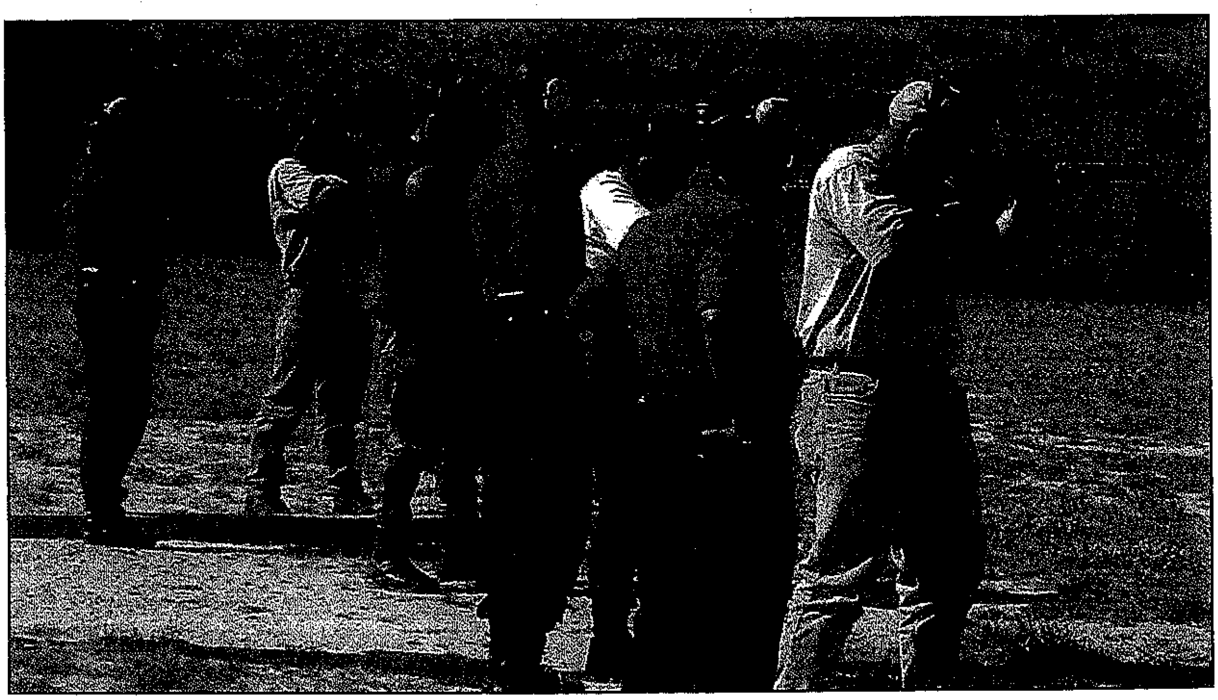
Custody of Assets



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

Currency products and other items used in test, experimental, research and other off-line activities are normally expensed immediately and are not carried as assets in the Bureau's financial statements. While the costs expensed may be immaterial to the financial statements, many of these items have high intrinsic value. Therefore, the Bureau ensures that adequate controls are in place to properly safeguard these items. The Bureau also 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 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.

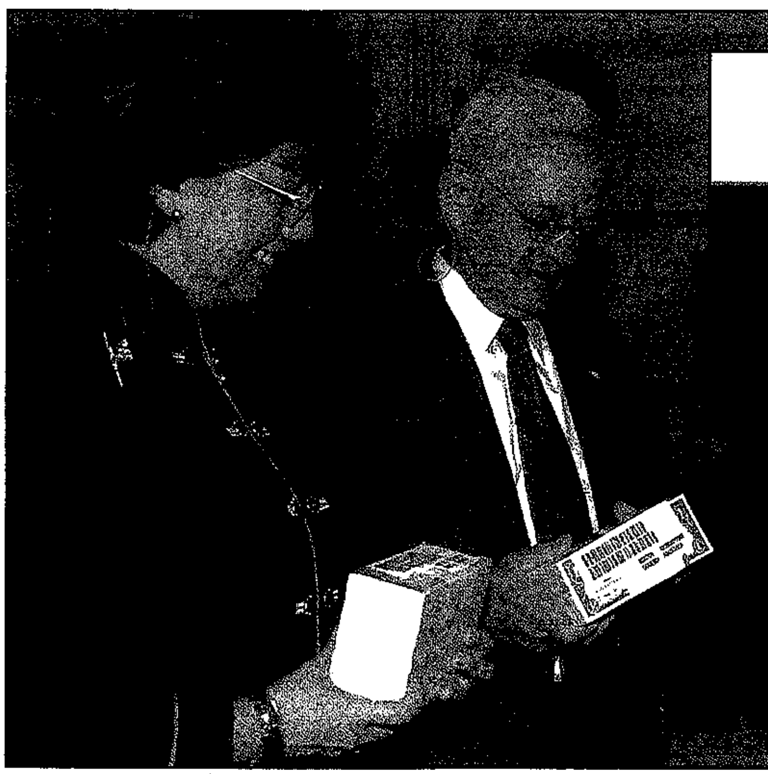
Although the Bureau does not hold title to any land or facilities, it maintains custodial control over the buildings occupied in Washington, DC



Bureau police officers practice firing automatic weapons at the Fort Meade, MD, firing range.

and Fort Worth, TX. In 1999, the Bureau began a multi-year project to substantially renovate the buildings in Washington, DC. This renovation includes roof and window replacement, transformer replacement and power upgrades, as well as significant maintenance to the buildings' exteriors and ventilation systems. In 2001, the Bureau began an expansion of the Western Currency Facility in Fort Worth, TX to provide the additional production space necessary to print the next generation of currency designs scheduled for introduction in 2003.

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



Tom Ferguson, Bureau Director, speaking at a recent Quality Forum.

Secretary of the Treasury Paul O'Neill (right) and Treasurer of the United States Rosario Marin examine newly printed currency bearing their signatures during a tour of the Washington, DC facility.

Program Performance Measures

The Bureau measures its overall organizational efficiency and effectiveness using program performance measures. Standards are developed annually by senior executive staff based on past year's performance, contracted price factors, and anticipated productivity improvement. Actual performance against standard depends on BEP's ability to meet annual spoilage, efficiency and capacity utilization goals estimated for each product line. In addition to the existing Bureau-level performance measurement system, an office-level performance measurement system was implemented in 1995 under the umbrella of the Government Performance and Results Act (GPRA).

Bureau-level performance measures and associated results for 2002 are as shown in the chart at the bottom of the page.

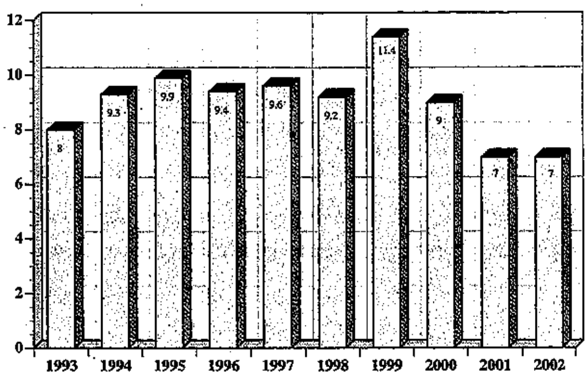
BEP does not receive Federal appropriations; operations at the Bureau are financed by a revolving fund that is reimbursed through product sales. Customer billings are the Bureau's only means of recovering the costs of operations and generating funds for capital investment. Billing rates are based on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

Currency *(Cost Per Thousand Notes)*	**2002** **Standard**	**2002** **Actual**
Federal Reserve Notes	**$30.45**	**$30.03**

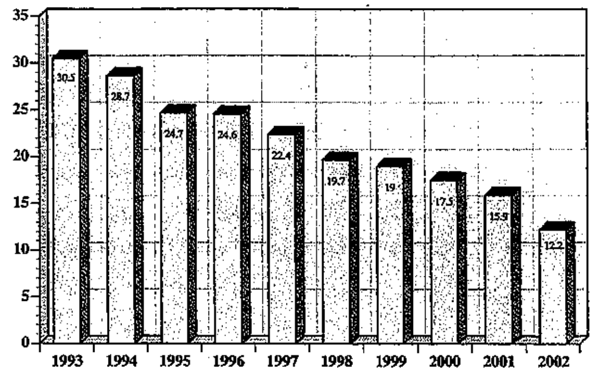
The actual production cost per thousand currency notes, which includes direct labor and materials and applied manufacturing overhead, was below standard in 2002. This was primarily

	2002 Standard	2002 Actual
1. Federal Reserve Notes (Cost Per Thousand Notes)	**$30.45**	**$30.03**
2. 100 Stamp Coil (PSA) (Cost Per Thousand Stamps)	**$1.59**	**$1.48**
3. Federal Reserve Notes Delivered (Billions)	**7.0**	**7.0**
4. Postage Stamps Delivered (Billions)	**12.0**	**12.2**
5. Overall Productivity Change 2001 to 2002	**-8.6%**	**-6.3%**
a. Currency Productivity Change 2001 to 2002	**-6.0%**	**-5.2%**
b. Postage Productivity Change 2001 to 2002	**-20.3%**	**-11.6%**
6. Currency Spoilage	**5.9%**	**5.9%**
7. 100 Stamp Coil (PSA) Spoilage	**9.7%**	**6.7%**

Currency Program
Billions of Notes



Postage Program
Billions of Stamps



due to continued improvement in the electronic inspection process for high-denomination notes.

Postage <u>*(Cost Per Thousand Stamps)*</u>	2002 <u>Standard</u>	2002 <u>Actual</u>
100 Stamp Coil (PSA)	**$1.59**	**$1.48**

The actual production cost per thousand stamps for the 100 Stamp Coil with pressure-sensitive adhesive (PSA) was approximately seven percent below standard. This was the result of continued improvements in electronic inspection, which reduced spoilage in subsequent processing areas.

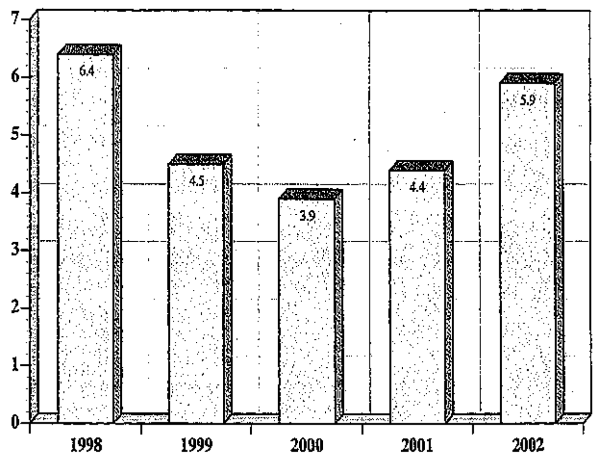
<u>*Product Deliveries*</u>	2002 <u>Order</u>	2002 <u>Delivery</u>
Federal Reserve Notes (Billions)	**7.0**	**7.0**
Postage Stamps (Billions)	**12.0**	**12.2**

In 2002, the Bureau delivered 7.0 billion Federal Reserve Notes to the Federal Reserve System and 12.2 billion postage stamps to the U.S. Postal Service. Deliveries and billings are based on orders received from customers. Customer agencies submit their requirements to the Bureau on an annual basis indicating expected product volume. In most years, actual production does not equal deliveries because production of the subsequent year's order typically starts before the new year.

<u>*Productivity Change*</u>	2002 <u>Standard</u>	2002 <u>Actual</u>
Overall Productivity	**-8.6%**	**-6.3%**
Currency Productivity	**-6.0%**	**-5.2%**
Postage Productivity	**-20.3%**	**-11.6%**

Productivity is calculated using Bureau of Labor Statistics' methodology. In 2002, overall productivity decreased by 6.3 percent. This was primarily due to a 23 percent reduction in postage stamp deliveries. This is consistent with the five-year interagency agreement with the U.S. Postal Service that plans for the phase out of the production of postage stamps at the Bureau at the end of 2005. The decrease in stamp productivity was less than anticipated due to deliveries exceeding projected demand and achievement of staff reduction goals earlier than anticipated. The decrease in currency productivity was due to an increase in staffing associated with the new offset presses needed for the production of the next generation currency notes. Productivity was also impacted by a change in the Federal Reserve's currency order for FY 2002. During the year, the Federal Reserve System amended its order to reduce the amount of $1 notes and increase the amount of the higher denomination notes. Because of the more exacting production standards associated with these higher denomination notes, press production rates are somewhat lower resulting in less output per labor hour compared to $1 note production.

Currency Spoilage
Percentage



Staffing levels (apprenticeship and training programs) continued to focus on projected, long-term demand and demand trends and preparations necessary for the production of redesigned currency, not fluctuations in year-to-year orders.

	2002	2002
Currency Spoilage	Standard	Actual
Federal Reserve Notes	5.9%	5.9%

Spoilage is an inherent result of any production process. The level of spoilage is an indicator of the overall effectiveness of the production process and quality of material inputs. Overall currency spoilage in 2002 was at standard as a result of ongoing emphasis on quality, and effective use of automated inspection technology.

	2002	2002
Postage Stamp Spoilage	Standard	Actual
100 Stamp Coil (PSA)	9.7%	6.7%

Postage stamps are printed on web presses (roll fed). This printing process is much faster than sheet-fed printing, which is used for Federal Reserve Notes. As a result of this faster processing, spoilage rates for postage stamp printing are higher when compared to currency printing. Spoilage on the 100 Stamp Coil (PSA) was below standard as a result of continued improvements in the electronic inspection processes and an unanticipated increase in the order for the 100 Stamp Coil (PSA), which allowed for longer printing runs in the section. Longer runs allowed the printing press to operate uninterrupted for greater lengths of time, eliminating the spoilage that normally occurs with increased starts and stops of the equipment.

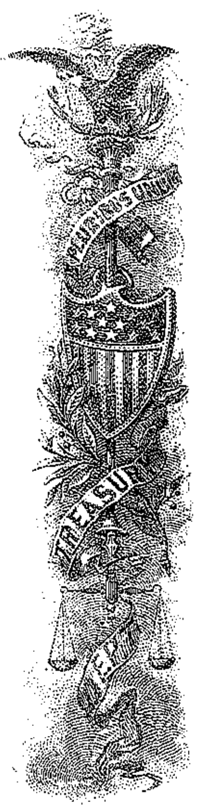
The Bureau's Western Currency Facility receives the Pretreatment Partnership Award from the City of Fort Worth, TX, for its environmental stewardship. Accepting the award for the Bureau are Bob Hobbs (third from left), Charlene Williams (third from right), and Colleen McKinney (second from right).

Comparable Performance Measures for Three Years

		2000	2001	2002
1.	Federal Reserve Notes (Cost Per Thousand Notes)	$22.65	$23.88	$30.03
2.	Federal Reserve Notes Delivered (Billions)	9.0	7.0	7.0
3.	Postage Stamps (Cost Per Thousand Stamps) 100 Stamp Coil (PSA)	$1.46	$1.31	$1.48
4.	Postage Stamps Delivered (Billions)	17.5	15.9	12.2
5.	Overall Productivity Change	-15.6%	-16.6%	-6.3%
	a. Currency Productivity Change	-13.5%	-20.3%	-5.2%
	b. Postage Productivity Change	-23.9%	-2.2%	-11.6%
6.	Currency Spoilage	3.9%	4.4%	5.9%
7.	Postage Stamp Spoilage 100 Stamp Coil (PSA)	8.8%	8.2%	6.7%

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 here. Manufacturing costs for currency steadily rose over the past three years as an increasingly larger proportion of the annual currency program shifted to more costly, higher denomination currency.

Management Discussion and Analysis



This year, the Bureau focused its resources and efforts on redesigning the Nation's currency to incorporate additional advanced counterfeit deterrent features to maintain its integrity. Capital investment and training programs in support of the redesign effort increased during 2002.

Total deliveries of Federal Reserve Notes in 2002 were comparable to 2001, and postage stamp deliveries decreased according to plan. Although currency prices for each denomination were unchanged from 2001, changes in the product mix resulted in an increase in revenue for 2002. As a result of the Bureau's decision to freeze prices in 2002, expenses exceeded revenue for the year. The net operating loss for the year was within planned parameters. Funding for the Bureau remains adequate since depreciation, a non-cash expense, offset the increase in capital investment and the planned operating loss in 2002.

Cash, Accounts Receivable and Cash Flow

Cash decreased $101 million in 2002, while accounts receivable increased $49.4 million. The decrease in cash was primarily a result of a planned reduction in working capital and an increase in accounts receivable. The increase in accounts receivable resulted from larger currency deliveries and the timing of receipt of payment for August currency deliveries at year end.

Inventories

Inventories increased from $73 million in 2001 to $79 million in 2002. This was primarily due to an increase in work-in-process inventory.

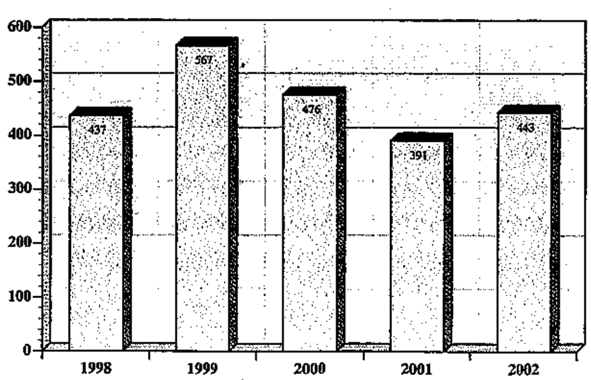
Property and Equipment

Net property and equipment increased from $299 million in 2001 to $307 million in 2002. This increase was the result of Bureau investments in new currency printing and processing technology, the ongoing capital maintenance of the Washington facilities, and the expansion of the Western Currency Facility.

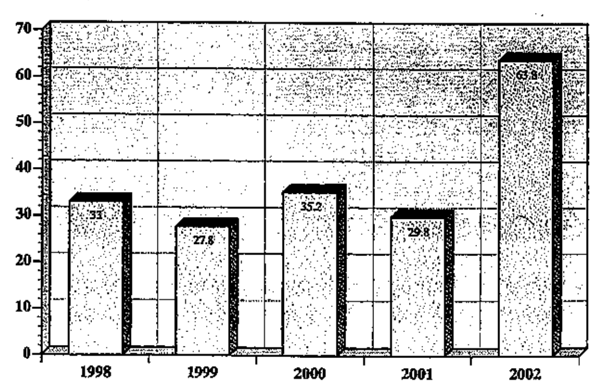
Other Assets

Other assets, primarily machinery repair parts and tools, decreased from $21.0 million in 2001 to $20.7 million in 2002 as a result of an increase in

Total Revenue
Millions of Dollars



Annual Investment in Property & Equipment
Millions of Dollars



the allowance for obsolescence for repair parts. As the repair parts age, the Bureau increases the allowance for obsolescence.

Accounts Payable

Accounts payable decreased from $13 million in 2001 to $8 million in 2002. The timing of cash disbursements for vendor payments in relation to year-end was the primary cause of the decrease.

Accrued Current Liabilities

Accrued current liabilities decreased from $31 million to $26 million in 2002 due to payroll accruals based on the timing of the pay period in relation to the end of the year.

Advances

Advances remained relatively unchanged in 2002.

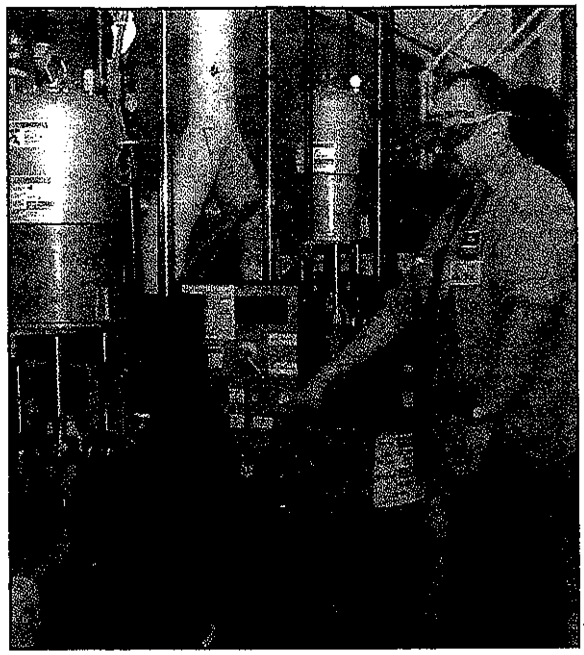


Plate printer Edwin Mejia inspects the controls of an ink pump.

Kevin Brown, Management Analyst, proudly carries the Olympic Flame of the 2002 winter games through Falls Church, VA, in December, 2001.

Deferred Revenue

Deferred revenue, which is revenue received prior to product delivery, decreased by $347 thousand in 2002. All the deferred revenue from 2001 was recognized in 2002.

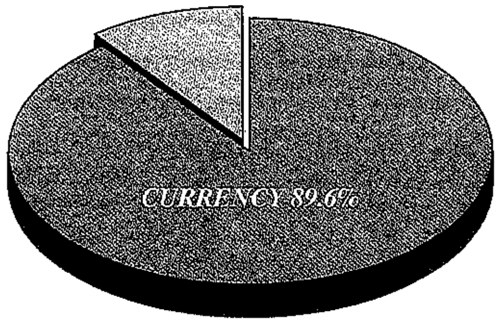
Workers' Compensation Liabilities

The workers' compensation liability (non-actuarial) increased slightly from $5.8 million in 2001, to $6.0 million in 2002. The actuarial workers' compensation liability increased from $54 million to $57 million. The increase in the actuarial liability was primarily due to changes in the discount rate used to estimate this liability.

Revenue From Sales

Overall sales revenue increased by $53 million in 2002 to $443 million. This was primarily due to a change in product mix as the Federal Reserve ordered more of the higher cost, high denomination currency notes and less $1 notes in 2002.

2002 Revenue by Program

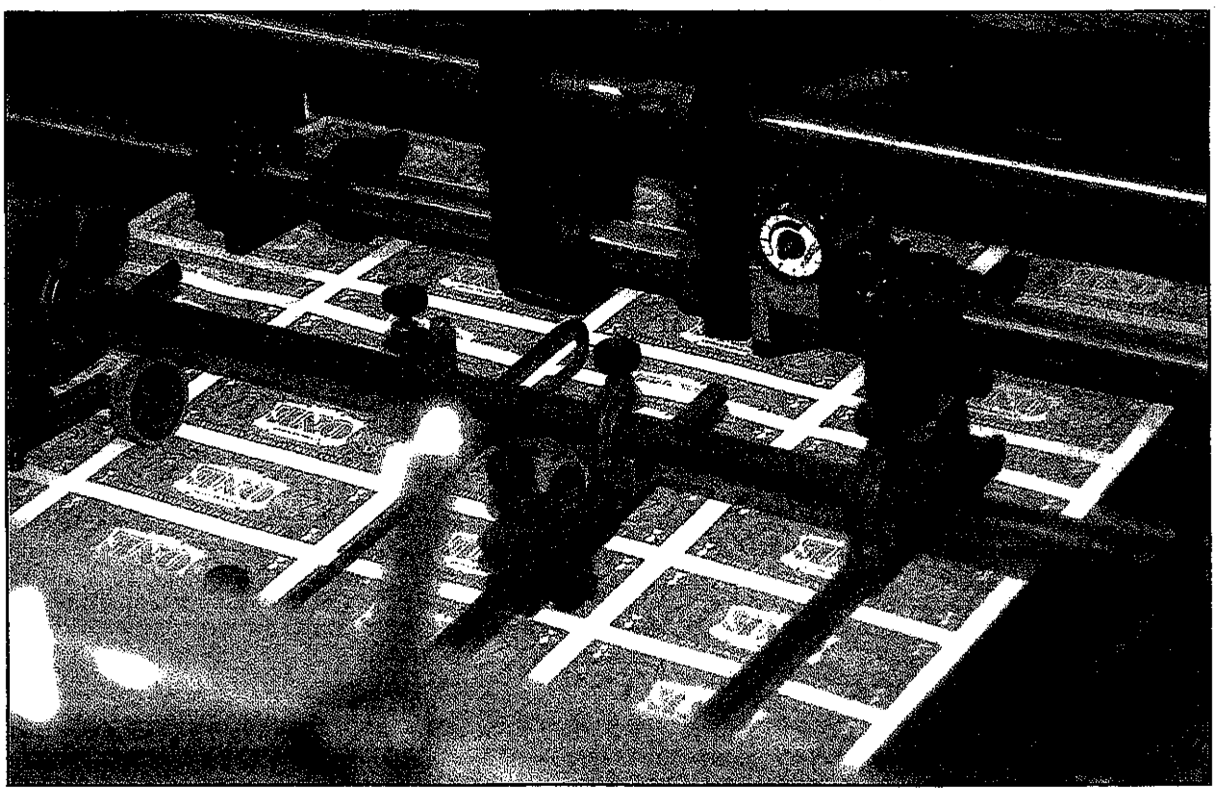


Average Billing Rate for Currency

Rate Per Fiscal Year	Rate Per Thousand Notes	Single Note
1993	$40.28	$0.040
1994	$38.66	$0.039
1995	$37.25	$0.037
1996	$39.41	$0.039
1997	$37.40	$0.037
1998	$40.20	$0.040
1999	$44.36	$0.044
2000	$45.34	$0.045
2001	$46.65	$0.047
2002	$54.39	$0.054

Cost of Goods Sold

Cost of goods sold increased from $387 million in 2001 to $416 million in 2002. As a percentage of sales revenue, cost of goods sold decreased from 99 to 94 percent. The overall increase in cost of goods sold was due to increased direct material and overhead costs. The increase in gross margin was the result of strenuous Bureau-wide cost containment efforts.

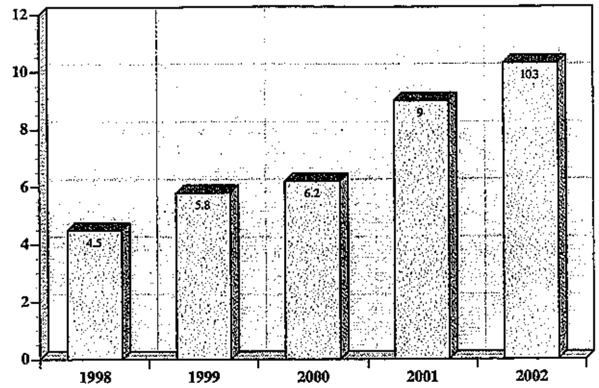


Currency with the signatures of Secretary of the Treasury Paul O'Neill and Treasurer of the United States Rosario Marin comes off the presses in the Washington, DC facility.

Operating Costs

The Bureau's total operating costs increased by about $8 million in 2002 primarily due to increased spending for computer security and establishing a baseline enterprise architecture. Research and development expenses increased by $1.3 million due to continuing research into currency counterfeit deterrence and increased developmental work on the next generation of currency designs.

Research and Development Costs
Millions of Dollars



Police Officer Billy Byrd (left), Sergeant Dewayne Johnson (center) and Sergeant Amos Hall (right) prepare to raise the Stars and Stripes in front of the Main Building in Washington, DC.

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.

Report of Management on Internal Control Over Financial Reporting

We, as members of the Bureau of Engraving and Printing, are responsible for maintaining effective internal control over financial reporting. Internal control is designed to provide reasonable assurance to the Bureau's management regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Because of inherent limitations in any internal control, no matter how well designed, misstatements due to errors or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to the financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

The Bureau assessed its internal control as of September 30, 2002 based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123, *"Management Accountability and Control,"* insofar as such criteria related to financial reporting. Based on this assessment, we assert that the Bureau maintained effective internal control over financial reporting as of September 30, 2002 based on the specified criteria.

October 7, 2002

Gregory D. Carper
Gregory D. Carper
Associate Director
(Chief Financial Officer)

Ta Ferguson
Thomas A. Ferguson
Director

Report of Independent Accountants on Internal Control Over Financial Reporting

Director of the Bureau of Engraving and Printing
Department of the Treasury

We have examined management's assertion, included in the accompanying "Report of Management on Internal Control Over Financial Reporting," that the Bureau of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, maintained effective internal control over financial reporting as of September 30, 2002, based on criteria established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget (OMB) Circular A-123, *"Management Accountability and Control."* The Bureau's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing, and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2002 is fairly stated, in all material respects, based upon criteria for effective internal control over financial reporting established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123, *"Management Accountability and Control,"* insofar as such criteria related to financial reporting.

October 7, 2002

Ernst + Young LLP

Report of Independent Auditors

Director of the Bureau of Engraving and Printing
Department of the Treasury

We have audited the accompanying balance sheets of the Bureau of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, as of September 30, 2002 and 2001, and the related statements of operations and cumulative results of operations, and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements,* as applicable. Those standards and bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have issued our report as of and for the year ended September 30, 2002 dated October 7, 2002 on our consideration of the Bureau's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audits.

October 7, 2002

Ernst + Young LLP

The Department of the Treasury
Bureau of Engraving and Printing

Balance Sheets

	September 30 2002	September 30 2001
	(In Thousands)	
Assets		
Current assets		
Cash *(Note 3)*	**$137,329**	$237,948
Accounts receivable *(Note 4)*	**71,394**	22,034
Inventories *(Note 5)*	**79,495**	72,995
Prepaid expenses	**3,839**	2,633
Total current assets	**$292,057**	$335,610
Net property and equipment *(Note 6)*	**306,673**	298,582
Advances to other Federal agencies	**5**	7
Other assets, principally machinery repair parts and tools	**20,660**	21,021
Total assets	**$619,395**	$655,220
Liabilities and equity		
Current liabilities:		
Accounts payable	**$8,188**	$12,611
Accrued liabilities *(Note 7)*	**25,658**	31,420
Advances	**2,472**	2,003
Deferred revenue	**-0-**	347
Total current liabilities *(Note 7)*	**$36,318**	$46,381
Workers' compensation costs *(Note 8)*	**5,972**	5,770
Workers' compensation actuarial liability *(Note 2)*	**57,089**	54,047
Total liabilities	**$99,379**	$106,198
Equity		
Invested capital	**$32,435**	$32,435
Cumulative results of operations	**487,581**	516,587
Total equity	**520,016**	549,022
Total liabilities and equity	**$619,395**	$655,220

See accompanying notes.

The Department of the Treasury
Bureau of Engraving and Printing

Statements of Operations and Cumulative Results of Operations

	Year ended September 30	
	2002	**2001**
	(In Thousands)	
Revenue from sales *(Note 9)*	**$443,439**	$390,801
Cost of goods sold	**416,016**	386,573
Gross margin on operations	**27,423**	4,228
Operating costs:		
General and administrative	**46,109**	39,849
Research and development	**10,320**	9,039
	56,429	48,888
Excess of expenses over revenues resulting from operations	**(29,006)**	(44,660)
Cumulative results of operations at beginning of year	**516,587**	561,247
Cumulative results of operations at end of year	**$487,581**	$516,587

See accompanying notes.

The Department of the Treasury
Bureau of Engraving and Printing

Statements of Cash Flows

	Year ended September 30	
	2002	**2001**
	(In Thousands)	
Operating activities		
Excess of expenses over revenues	**($29,006)**	($44,660)
Adjustments to reconcile excess of expenses over revenues to net cash provided (used) by operating activities:		
Depreciation and amortization	**55,687**	51,525
Changes in assets and liabilities:		
Accounts receivable	**(49,360)**	21,617
Inventories	**(6,500)**	(5,901)
Prepaid expenses	**(1,206)**	415
Other assets	**361**	1,381
Accounts payable	**(4,423)**	(719)
Accrued liabilities	**(6,130)**	(1,489)
Advances	**469**	(201)
Deferred revenue	**(347)**	346
Workers' compensation costs	**3,612**	4,963
Net cash provided (used) by operating activities	**(36,843)**	27,277
Investing activities		
Additions to property and equipment	**(63,778)**	(29,806)
Advances to other Federal agencies	**2**	8
Net cash (used in) investing activities	**(63,776)**	(29,798)
Net decrease in cash	**(100,619)**	(2,521)
Cash at beginning of year	**237,948**	240,469
Cash at end of year	**$137,329**	$237,948

See accompanying notes.

The Department of the Treasury
Bureau of Engraving and Printing

Notes to Financial Statements

1. Reporting Entity

Basis of Presentation

The Bureau of Engraving and Printing (the Bureau), a component of the Department of the Treasury, is the U.S. Government's security printer. The Bureau designs and produces United States currency, postage stamps and other United States securities. The Bureau also advises and assists Federal agencies in the design and production of other Government documents.

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 Acts. 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.

The financial statements represent the consolidation of two Federal revolving funds. The majority of all amounts and activity (over 97%) is contained in the Bureau of Engraving and Printing Revolving Fund (20X4502), which finances Bureau operations. The other revolving fund, the Mutilated Currency Revolving Fund (20X6875.13), is used to redeem damaged paper currency received from the public.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Bureau of Engraving and Printing has historically prepared its financial statements on an accrual basis in conformity with generally accepted accounting principles, based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. In October 1999, the Federal Accounting Standards Advisory Board (FASAB) was designated by the American Institute of Certified Public Accountants (AICPA) as the standards-setting body for financial statements of federal government entities, with respect to the establishment of generally accepted accounting principles. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as in conformity with generally accepted accounting principles for those federal agencies, such as the Bureau of Engraving and Printing that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, the Bureau of Engraving and Printing financial statements are presented in accordance with accounting standards published by the FASB.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Estimation Process

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Inventories

Inventories are valued at the lower of cost or market, except for finished goods inventories, which are valued at weighted average unit cost. Both 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.

Other Assets

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

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 occupies and uses buildings and land owned by the U.S. Government. In accordance with the Act establishing the revolving fund, 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 United States Government. See Note 6 for details.

2. Summary of Significant Accounting Policies (continued)

Depreciation

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

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. Employer contributions to the retirement plans for 2002 and 2001 were $14.5 million and $13.9 million, respectively. The cost of providing the CSRS benefit is more than the amounts contributed by the Bureau and the employees to the Office of Personnel Management (OPM). The full cost of providing pension benefits, including the cost financed by OPM which is not included in the Bureau's Statement of Operations, totaled $23.6 million and $23.0 million in 2002 and 2001, respectively. The cost of providing the FERS basic benefit, as provided by OPM, is equal to the amounts contributed by OPM, the Bureau and its employees (i.e., the plan is fully funded).

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 OPM.

2. Summary of Significant Accounting Policies (continued)

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 United States Government. The Bureau does not reimburse OPM for these payments. OPM paid such retirement benefit costs totaling $7.9 million and $7.0 million, as calculated by OPM, for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2002 and 2001, respectively. These costs are not included in the Bureau's Statements of Operations.

Consistent with reporting under a multi-employer plan arrangement, no accrued liability is required to be recorded by the Bureau for recognition of postretirement benefits other than pensions.

Cost of Employee Pensions and Postretirement Benefits Paid by OPM

As noted above, the Bureau's financial statements do not include the cost of employee pensions and postretirement benefits paid by OPM, or the actuarial liability for such benefits. There have been proposals made to have such costs and liabilities included at the Bureau level. If this change was made, it would have a material effect on the Bureau's financial statements.

Workers' Compensation Costs

The Federal Employees' 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 the Department of Labor (DOL) and are ultimately paid by the Bureau. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for 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 discount rate of 5.2% in year one and thereafter. In 2002 and 2001, a wage inflation factor and medical inflation factor were applied to the calculation of projected future payments. Based on information provided by the DOL, the Department of the Treasury allocated the overall liability to Treasury components based on past claims paid. The Bureau's estimated liability for workers' compensation costs was $57.1 million and $54.0 million as of September 30, 2002 and 2001, respectively.

2. Summary of Significant Accounting Policies (continued)

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 nonvested leave are expensed as the leave is taken.

Revenue Recognition

Revenue from sales to the Federal Reserve System and the United States Postal Service is recognized when finished goods are delivered to the respective on-site depository vaults. All currency is transferred to the Federal Reserve depository vault immediately upon completion.

3. Cash

The year-end cash balances are as follows:

	September 30	
	2002	**2001**
	(In Thousands)	
Bureau of Engraving and Printing Revolving Fund (20X4502)	**$134,531**	$235,611
Mutilated Currency Revolving Fund (20X6875.13)	**2,472**	2,003
Other	**326**	334
Total	**$137,329**	$237,948

Notes to Financial Statements (continued)

4. Accounts Receivable

Accounts receivable consist of the following:

	September 30 2002	2001
	(In Thousands)	
Billed	**$70,498**	$20,166
Unbilled	**896**	1,868
Total	**$71,394**	$22,034

The Bureau had intragovernmental accounts receivable of $0.1 million and $1.0 million as of September 30, 2002 and 2001, respectively. Of these amounts, $0 million and $0.7 million were unbilled. Historical accounts receivable loss experience does not warrant the establishment of an allowance for uncollectible accounts.

5. Inventories

Inventories consist of the following:

	September 30 2002	2001
	(In Thousands)	
Raw materials and supplies	**$39,834**	$40,640
Work-in-process	**31,259**	21,716
Finished goods - regular currency	**–**	3,060
Finished goods - postage stamps and special products	**912**	1,141
Finished goods - uncut currency	**7,490**	6,438
Total	**$79,495**	$72,995

In 2002, the Bureau and the Federal Reserve revised the policy on delivery of finished goods (regular currency) to the Federal Reserve Depository Vaults. Under the new policy, finished currency is delivered to the vaults as completed thereby eliminating finished goods - regular currency inventory. (See Note 2 – Revenue Recognition)

Notes to Financial Statements (continued)

6. Net Property and Equipment

Property and equipment consist of the following:

	September 30	
	2002	**2001**
	(In Thousands)	
Machinery and equipment	**$490,214**	$470,086
Building and land improvements	**162,658**	153,236
IT equipment and software	**23,849**	20,714
Office machines	**1,495**	1,495
Furniture and fixtures	**3,108**	3,108
Donated assets - art work	**125**	125
Motor vehicles	**265**	272
	681,714	649,036
Less accumulated depreciation	**414,996**	359,619
	266,718	289,417
Construction-in-progress	**39,955**	9,165
Net property and equipment	**$306,673**	$298,582

Fully depreciated assets in use as of September 30, 2002 and 2001 were $148 million and $95 million, respectively.

The Bureau occupies and uses buildings and land owned by the U.S. Government. The land and building shell for the Fort Worth, Texas facility were donated by the City of Fort Worth to the U.S. Government in 1987, and title is held by the U.S. Government. 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 complete the facility.

Notes to Financial Statements (continued)

7. Current Liabilities

All current liabilities are funded and consist of the following:

	September 30	
	2002	**2001**
	(In Thousands)	
Intragovernmental	**$4,830**	$ 7,782
Other	**31,488**	38,599
Total	**$36,318**	$46,381

Accrued current liabilities consist of the following:

	September 30	
	2002	**2001**
	(In Thousands)	
Payroll	**$9,597**	$16,796
Annual leave	**9,777**	9,168
Workers' compensation	**4,616**	4,248
Other	**1,668**	1,208
Total	**$25,658**	$31,420

8. Noncurrent Liabilities

The Bureau has recorded a liability for claims incurred and paid to claimants by the Department of Labor (DOL) as of September 30, 2002 and 2001, but not yet reimbursed to DOL by the Bureau. Such amounts, associated with workers' compensation, which will be paid in subsequent years, are approximately $6.0 million and $5.8 million, respectively. (See Note 2)

Notes to Financial Statements (continued)

9. Revenue from Sales

Revenues are derived from the following principal customers:

	September 30			
	2002		2001	
	(In Thousands)			
Federal Reserve System	**$383,917**	**86.6%**	$326,801	83.6%
United States Postal Service	**46,181**	**10.4%**	51,490	13.2%
Other	**13,341**	**3.0%**	12,510	3.2%
Total	**$443,439**	**100.0%**	$390,801	100.0%

In 2001, the Bureau and the U.S. Postal Service entered into an agreement that will gradually phase out production of postage stamps at the Bureau over a five year period ending in 2005, with delivery services continuing through 2006. The Bureau does not anticipate any substantial adverse impact from this change, as the five year period will enable the Bureau to plan and prepare for the elimination of the postage stamp program.

10. Principal Suppliers

The Bureau is dependent upon sole suppliers for distinctive currency paper, certain advanced counterfeit deterrent inks, and currency paper fibers.

11. Commitments and Contingencies

The Bureau is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Bureau are paid by the Department of the Treasury Judgment Fund. There were no payouts from the Judgment Fund made in fiscal year 2002 and only minimal payouts in fiscal year 2001. In employee-related cases, the Bureau's liability is limited to the employer's required contribution to the retirement and Medicare funds. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the financial statements.

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

The Bureau has not entered into any long-term leasing arrangements.

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance With *Government Auditing Standards*

Director of the Bureau of Engraving and Printing
Department of the Treasury

We have audited the financial statements of the Bureau of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, as of and for the year ended September 30, 2002, and have issued our report thereon dated October 7, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as applicable.

Compliance

The management of the Bureau is responsible for complying with laws and regulations applicable to the Bureau. As part of obtaining reasonable assurance about whether the Bureau's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, as applicable. 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 that are required to be reported under *Government Auditing Standards*, and OMB Bulletin No. 01-02, as applicable.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bureau's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Bureau's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management of the Bureau in a separate letter dated October 7, 2002.

In addition, with respect to internal control related to performance measures reported in the Chief Financial Officer Performance and Accountability Report, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02, as applicable. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

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

October 7, 2002

Ernst + Young LLP

Report of Independent Auditors on Other Financial Information

Director of the Bureau of Engraving and Printing
Department of the Treasury

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Bureau of Engraving and Printing taken as a whole. The accompanying additional information in the Statements of Operations (By Product Line) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

October 7, 2002

Ernst & Young LLP

The Department of Treasury
Bureau of Engraving and Printing

Statements of Operations
(By Product Line)
(Unaudited)

	September 30	
	2002	**2001**
	(In Thousands)	
Currency program revenues	**$397,258**	$339,311
Cost of goods sold	**376,720**	337,442
Gross margin on operations	**20,538**	1,869
Operating costs:		
General and administrative	**41,752**	35,947
Research and development	**10,320**	9,039
Currency-excess of expenses over revenues	**(31,534)**	(43,117)
Postage programs revenue	**46,181**	51,490
Cost of goods sold	**39,296**	49,131
Gross margin on operations	**6,885**	2,359
Operating costs:		
General and administrative	**4,357**	3,902
Postage-excess of revenues over expenses (expenses over revenues)	**2,528**	(1,543)
Net results of operations	**($29,006)**	($44,660)

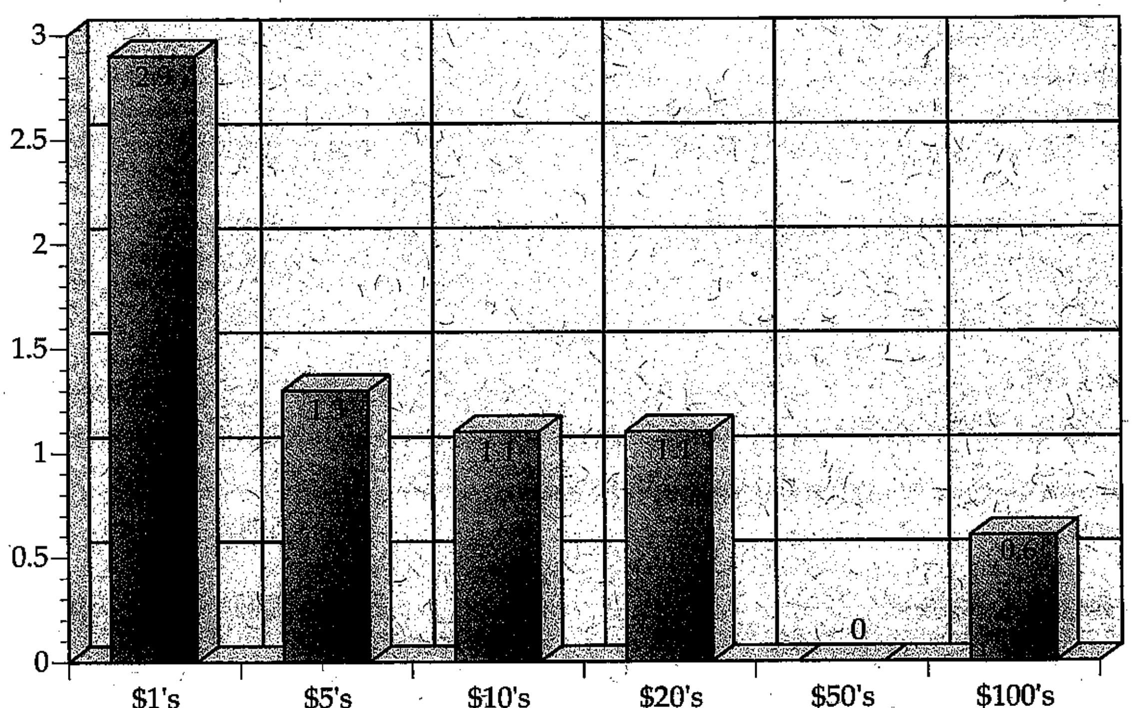
Note: Revenues and expenses for the currency product line include small amounts related to the production and sale of miscellaneous special products and services. Support, a component of cost of goods sold, and general administrative expenses are allocated to the currency and postage product lines based upon the currency and postage manufacturing costs estimated at the beginning of the year.

PRODUCT LINE STATEMENT OF OPERATIONS

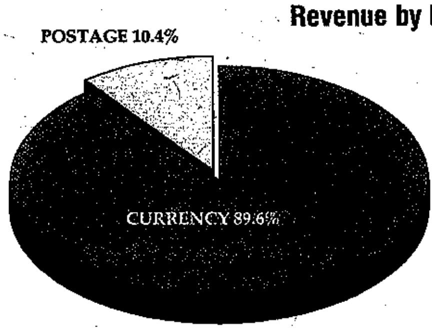
Deliveries of Federal Reserve Notes in 2002 were comparable to 2001 while postage stamp deliveries continued to decrease according to plan. Changes in the currency program product mix resulted in a revenue increase of approximately 17 percent in 2002, while postage stamp program revenue decreased approximately 10 percent. Superior performance in the manufacturing areas coupled with Bureau wide cost containment efforts resulted in positive gross margins on operations in both the currency and postage programs. As planned, the Bureau's decision to freeze currency prices in 2002 resulted in an overall excess of expenses over revenue.

2002 Deliveries by Denomination

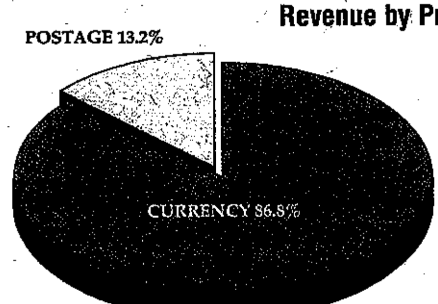
Billions of Notes



2002
Revenue by Program



2001
Revenue by Program



SUPPLEMENTAL INFORMATION

Machine Capacity Utilization*	2000	2001	2002
Currency Program Washington			
a. Printing	72%	55%	66%
b. Processing	67%	51%	58%
Currency Program Fort Worth			
a. Printing	71%	56%	67%
b. Processing	69%	54%	61%
Postage Program			
a. Printing	37%	32%	25%
b. Processing	29%	28%	23%

* All machine capacity utilization percentages are based on a three-shift, five-day workweek.

Currency Capacity Utilization	2000	2001	2002
Washington Currency Program			
a. Printing	72%	55%	66%
b. Processing	67%	51%	58%
Fort Worth Currency Program			
a. Printing	71%	56%	67%
b. Processing	69%	54%	61%

Capacity utilization in the currency program in 2002 was relatively unchanged as the currency order remained at 7 billion notes for the second year in a row. Capacity utilization in 2003 is expected to increase as a result of a planned increase in the currency order to 8.2 billion notes.

Postage Capacity Utilization	2000	2001	2002
a. Printing	37%	32%	25%
b. Processing	29%	28%	23%

Machine capacity utilization in the postage program continues to trend lower as a result of continuing production decreases. This is consistent with a five-year agreement between the U.S. Postal Service and the Bureau that plans for the phase out of postage stamp production at the Bureau in 2005. As the postage stamp order decreases each year, the Bureau has focused its attention on shifting personnel to the currency program and to cross training others in related technical fields. Machine capacity significantly exceeds actual production capacity because of the lower program volume and the Bureau's inability to staff all postage equipment for three shifts, five days a week. In 2003, printing and processing capacity utilization is expected to continue to decline as the phase out of the postage stamp program continues.

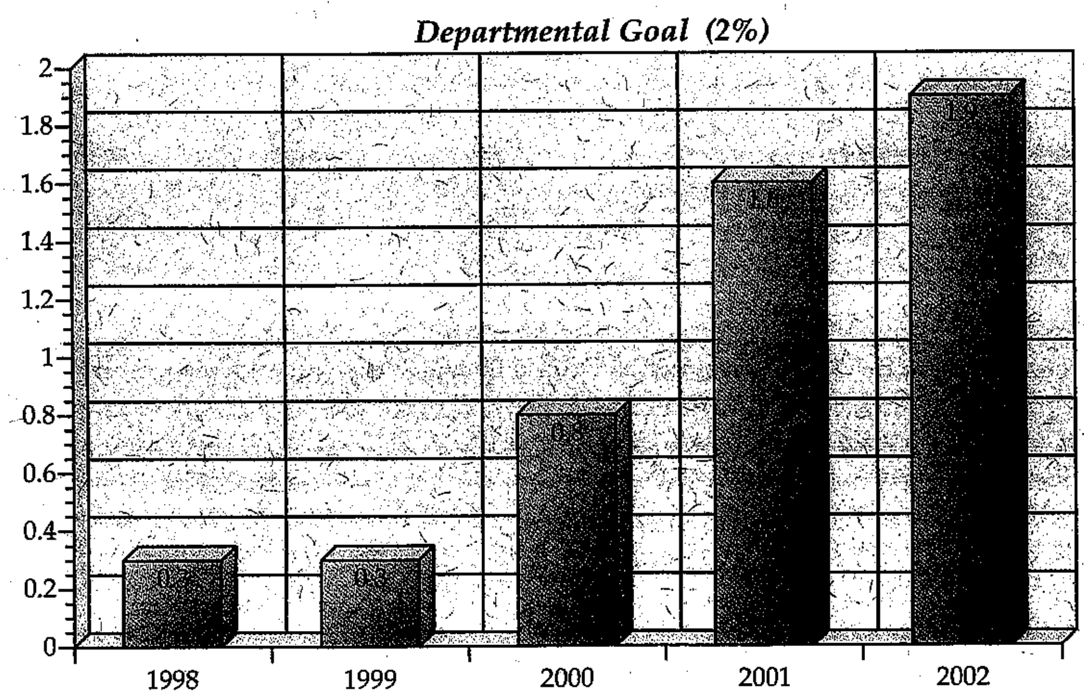
PROMPT PAYMENT

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 later of either the receipt of a proper invoice or acceptance of the goods/services. If this timeframe is not met, an interest penalty must be paid to the vendor. Within the Department of Treasury, the standard for the late payment rate is that no more than two percent of the invoices subject to prompt payment shall be paid late (at least 98 percent paid within 30 days.)

The Bureau's prompt payment performance for the past three years is presented below. As the percentages indicate, the Bureau has continued to exceed the Departmental standard for late payments. In 2002, the number of late payments remained essentially unchanged. Invoice processing was adversely affected in the first two quarters of the year in Washington, DC because all incoming mail was subject to delay, irradiation and inspection before delivery. Nonetheless, the Bureau's late payment rate continues to exceed the Departmental standard.

	2000	2001	2002
1. Number of Invoices Paid Late	70	153	154
2. Interest Penalties Paid	$1,921	$7,836	$7,452
3.Percentage of Invoices Paid Late	0.8%	1.6%	1.9%

Late Payment Occurence Rate
Percentage Paid Late



BUREAU OF ENGRAVING AND PRINTING