Department of the Treasury
Bureau of Engraving and Printing

Chief Financial Officer
Performance and Accountability Report
2009

Quality Focused * Earth Friendly
Quality Assured in conformance with ISO 9001:2000 Currency Manufacturing
Environmentally Safe in conformance with IDO 14001:2004 Currency Manufacturing

Mission

The mission of the Bureau of Engraving and Printing is to design and manufacture high quality security documents that meet customer requirements for quality, quantity and performance, including counterfeit deterrence.

Vision

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

About the Cover

The vignette featured on the cover is from an engraving done in 1957 by Richard M. Bower based on artwork by Vincent Aderente.

This vignette was chosen for the cover because of the many symbolic references contained in the design. Foremost is the globe, representing the worldwide acceptance and trust of U.S. currency. The globe is also emblematic of the Bureau’s commitment to reducing its environmental footprint. The torch is symbolic of the leadership displayed by the Bureau in an ongoing commitment to quality manufacturing and environmental stewardship. Taken together, the vignette accurately depicts the Bureau’s unwavering focus on remaining the world’s premier government securities printer.

[photo]
Larry R. Felix, the 25th Director of the Bureau of Engraving and Printing, meeting Barack Obama, the 44th President of the United States.

Table of Contents

[photo]
BEP Director Larry R. Felix

Message From The Director

Traditionally, the “Message from the Director” has been one of reflection on the Bureau’s achievements and accomplishments of the preceding year. This year, however, I will depart from tradition to also address some of the obstacles that confronted the Bureau in 2009 and the challenges for 2010.

At the Bureau of Engraving and Printing, our business model is based on four core values: Integrity, Fairness, Performance and Respect. The mission of the Bureau of Engraving and Printing is “to design and manufacture high quality security documents that meet customer requirements for quality, quantity, and performance, including counterfeit deterrence.” By focusing on our core values and the objectives in our mission statement, as well as the fundamentals of running a good business—operational excellence coupled with fiscal discipline—we can and will successfully face and overcome any challenge we encounter.

The production of a redesigned $100 banknote is the most critical near-term challenge facing the Bureau. The redesigned note will be the most sophisticated and complex banknote the United States has ever produced. The challenges to the Bureau include incorporating new, advanced counterfeit deterrent features, changes in the production processes, and extensive public education for the users of U.S. currency around the globe. Users everywhere must accept the new note with confidence and it must function flawlessly in commerce, especially in light of the economic turbulence in the world today.

In 2009, the necessity of consistently manufacturing high quality U.S. paper currency, as though all notes were being printed at one facility and on one press, was forcefully brought to the attention of the Bureau by the FederalReserve Board. The Board expressed concern about manufacturing inconsistencies between the Bureau’s two facilities. The Board went on to say, “the Bureau must produce high quality notes consistently to withstand the inevitable scrutiny of these notes.” The Bureau is committed to doing whatever is necessary to ensure the confidence that is expected and demanded by the worldwide users of this nation's currency is maintained. The Bureau has taken several steps, described in the following paragraph, to meet this challenge.

The Bureau has established the BEPWay initiative to help ensure confidence and consistency in the manufacture of the new notes at both the Washington, DC and Fort Worth, Texas facilities. The focal point of this endeavor is the establishment of the best operational practices, process controls, and improvement strategies at both facilities, accompanied by total employee support of the effort. The BEPWay initiative is an essential element of the Bureau's efforts to promote and ensure confidence in the authenticity of U.S. currency. As the world's currency, the Bureau must help maintain the U.S. dollar's near universal acceptance as a secure store of value.

The Bureau is implementing many significant changes to support the requirements of 21st century currency manufacturing. The multi-year effort to retool the currency manufacturing process with state-of-the-art intaglio printing presses, electronic inspection systems, and finishing equipment is expected to be completely phased into operation over the next three years. The successful implementation of this advanced technology will improve productivity, reduce the Bureau's environmental impact, and enhance counterfeit deterrence of U.S. currency. Although the addition of the new production equipment will help ensure the production of high quality currency, it creates additional challenges as well. Changing business processes and printing technologies will create new challenges for the Bureau's employees. Our employees are ready to take on these challenges and we will invest in them to meet the demands of the future.

Work continues on the challenge of enabling the Nation's currency to better serve all users, including the blind and visually impaired. The Bureau will be incorporating features into the next redesign of currency that will help the blind and visually impaired denominate currency. In 2010, the Bureau will formally issue recommendations to redesign our currency to provide specific accommodations for the blind and visually impaired.

The Bureau is positioning itself to meet these and those "yet to be encountered" challenges on both an operational and fiscal front. The Bureau can draw upon an established tradition of excellence to ensure future success and the achievement of its goals. A steadfast commitment to our core values will serve to keep us focused on the pursuit of excellence regardless of any challenges or difficulties we may encounter in the future.

It continues to be an honor and a privilege to lead the Bureau of Engraving and Printing. No matter who leads an organization, ultimately the employees are responsible for its success. The Bureau of Engraving and Printing is extremely fortunate to have a focused and dedicated group of professionals at every level. They are a diverse team of employees united by a resolute commitment for excellence. They are the Bureau of Engraving and Printing!

<signature>
Larry Felix

[photo]
BEP CFO Leonard R. Olijar

Message From The Chief Financial Officer

I am pleased and privileged to present the Bureau of Engraving and Printing's Performance and Accountability Report for 2009.

In 2009, we continued a commitment to strong financial management; timely, accurate financial reporting; and continual improvement at the Bureau. This tradition of quality financial management resulted in an unqualified audit opinion on the Bureau's financial statements for the 25th consecutive year. Further, the Bureau received, for the fifth consecutive year, an unqualified opinion on management's assertion of effective internal control over financial reporting based on the criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Both accomplishments spring from the efforts of a long, unbroken line of outstanding employees committed to excellence.

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

In 2009, the Bureau delivered 6.2 billion currency notes to the Federal Reserve, resulting in revenue of $485 million and an excess of revenue over expenses of $23 million. The excess of revenues over expenses provides funding for the Bureau's multi-year recapitalization initiative. Overall program performance was favorable, and direct manufacturing costs for currency were below established standards.

To ensure total quality currency production and successfully meet the needs and expectations of all our stakeholders, the Bureau began several initiatives designed to align and enhance operating and business practices. The Bureau is devoting substantial resources toward ensuring the availability of state-of-the-art production equipment, as well as a highly trained and adaptive work force in order to more consistently produce high quality currency.

The Bureau continued a $200 million multi-year recapitalization of its Washington, DC and Fort Worth, Texas facilities. Investments in new production and test equipment will improve productivity, reduce the Bureau’s environmental impact, and provide the capability to more consistently produce increasingly sophisticated and complex currency designs.

In 2009, the Bureau began the implementation of BEP Enterprise (BEN). BEN will provide an integrated platform that will simplify and standardize the integration of disparate information technology systems and applications used in the Bureau. This will enable the collection, consolidation, and analysis of data from the electronic systems embedded in manufacturing equipment. Overall, this will improve currency consistency and quality while providing necessary data for real-time decision making.

Investments in equipment and technology will be accompanied by similar investments in our employees. Toward this end, the Bureau has initiated a competency/skill assessment program designed to evaluate the skill and proficiency levels of the Bureau’s workforce. This assessment will identify the strengths of the workforce, and areas where additional training is required. The result will be a more skilled and adaptive cadre of highly motivated employees.

In 2009, the Treasury Learning Management System (TLMS) came online at the Bureau. TLMS is a tool designed to provide all employees with online access to a variety of training resources and a comprehensive, web-based reference library. Ensuring that adequate, relevant, and timely training is provided to all employees is a prerequisite for quality manufacturing.

As the Bureau prepares for the future, we must maintain our focus on quality manufacturing, superior customer service, and efficient stewardship of resources so we can continue on effectively meeting the needs of all stakeholders.

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

<signature>
Leonard R. Olijar

Highlights of the Year

In 2009, the Bureau of Engraving and Printing continued to produce and deliver currency to the Federal Reserve System and moved forward on its multi-year program of currency redesign.

The Bureau also continued a $200 million recapitalization of its currency process to improve productivity and its capability to manufacture increasingly complex currency designs. The second phase of this effort was completed in 2009, as new intaglio printing presses were installed in both the Washington, DC and Fort Worth, Texas facilities. These new sheet-fed presses will improve ink mileage and reduce the release of volatile organic compounds. Each press has a “Stack and Rack” delivery system developed by Bureau employees. This delivery system improves ergonomics for the printers and provides more consistent product quality.

Additional financial and operational highlights for 2009 include:

Accounting Opinion

In 2009, the Bureau received an unqualified opinion on its financial statements for the 25th consecutive year; and for the fifth consecutive year, the Bureau received an unqualified opinion on its internal control over financial reporting.

Eco-Friendly Tour Buses

During 2009, our Western Currency Facility in Fort Worth, Texas welcomed two new, diesel powered, eco-friendly tour buses. These buses feature an air conditioning system which can be operated using an independent electric supply when the bus is not in transit. This lowers the Bureau’s carbon footprint, while maintaining a comfortable vehicle temperature for riders.

The BEPWay

In 2009, the Bureau introduced an initiative titled the BEPWay to ensure the consistent manufacture of high quality U.S. currency as though only one facility was printing it. The BEPWay will establish best practices, process controls, and improvement strategies that are utilized at both facilities, enabling the Bureau to consistently manufacture uniform, high quality notes of all denominations.

[photo]
Plate printers Richard Zachmann and Jose Del Toral operating a new intaglio printing press.

[photo]
Eco-Friendly tour bus at the Western Currency Facility.

Highlights of the Year

Expanded Tour Hours

To better serve the public, the Bureau expanded the hours for public tours and its Visitor Center to accommodate the many additional visitors in Washington, DC for both the Presidential Inauguration and the annual Cherry Blossom Festival. These expanded hours enabled more than 18,000 additional people to enjoy the production tour at the Bureau.

Industry Day

The Bureau reached out to members of the small business community hosting its first "Industry Day" in 2009. This special event enabled small businesses to learn more about contracting opportunities available at the Bureau, including new developments, policies, and procedures used in applying for small business contracts.

Longer Life of the $1 Note

The Bureau recently concluded a four-year circulation field study to quantify the impact of wear and tear on the fitness of the $1 currency note. The lifespan of a $1 note had previously been estimated to be approximately 18 to 22 months. The data from the study showed the notes' estimated lifespan to be between 32 and 40 months. The study utilized scientific methodology to introduce, extract, and analyze the physical, chemical, and optical properties of circulating banknotes over a four-year period, providing greater insight into the banknote's fitness and deterioration rate.

New Plating Line

The Bureau installed a new plating line in Washington, DC in 2009. The new plating line is one component of our retooling and retrofitting efforts that will provide improved operating effectiveness and efficiency throughout the plate line operation. In addition to being more environmentally friendly, the automated plating line can produce plates in significantly less time with much greater process control.

[photo]
Teresa Brooks, Chief, Office of Acquisitions meeting with small business representatives at Industry Day.

[photo]
In 2009, a new plating line began operating in Washington, DC.

[photo]
First intaglio plate from new plating line presented by Office of Engraving intaglio plate makers.

Highlights of the Year

BEP Enterprise – BEN

The Bureau has begun the modernization of its information technology infrastructure under a program called BEN. BEN will support improved business processes and facilitate data integration, enabling data and information to flow seamlessly from one application to another, while providing more timely and relevant data for decision-making.

Best Currency Website

The International Association of Currency Affairs honored the Bureau with two Excellence in Currency awards. The Bureau won the award for the "Best Currency Website" for www.moneyfactory.gov/newmoney and its launch of the new $5 note, which involved an impressive use of pictures and interactive features to explain the new design and the security features. The Bureau also received an award for "Best Public Education Program" for its use of digital media to educate and promote awareness of the new $5 note.

The Bureau received a Silver Award in the government organization category at the iNOVA Awards, which recognizes the world's best corporate Websites. The award recognizes Website excellence, and honors professionals who contribute to the process of building image and making a difference in the global market place.

Palletizers at the Western Currency Facility

As part of the overall retooling and retrofitting at the Bureau, the Fort Worth, Texas facility incorporated a palletizer on each of its seven COPE-Pak presses. The palletizers will reduce repetitive motion injuries and improve productivity. What was once primarily a manual effort has become a fully automated process that is a model of efficiency and effectiveness.

[photo]
The Bureau's Chief Information Officer, Peter Johnson,
introduces BEN to Bureau employees.

[photo]
The Bureau's award winning website.

[photo]
Currency palletizer at the Western Currency Facility.

Highlights of the Year

Improved Access to Currency

The Bureau conducted a comprehensive study to analyze options and evaluate potential measures to improve access for the blind and visually impaired to U.S. currency. The purpose of the study was to gather data and to research and analyze options in support of the development of a method - or methods - to help the blind and visually impaired denominate U.S. currency. Based on the results of the study, the Bureau, the Department of the Treasury and the Federal Reserve Board will recommend changes to be incorporated in future redesigns of U.S. currency in support of this endeavor.

Veteran's Appreciation Day

In honor of Veteran's Day, the Bureau held "Veteran's Appreciation Day." This year's event honored all veterans, as well as those now serving in America's armed services. The keynote speakers were Tuskegee Airman Charles Herbert Flowers (Washington, DC) and Claude Platte (Fort Worth, Texas). Both spoke on the history of the first-ever African American flying unit in the U.S. Army Air Force during World War II.

Bring Our Children to Work Day

In April, the Bureau hosted "Bring Our Children to Work Day." Employees at both the Washington, DC and Fort Worth, Texas facilities were encouraged to bring their children to work to see the vital services Bureau employees provide in support of the nation's economy. More than 200 children participated, ranging in ages from nine to eighteen.

[photo]
Tuskegee Airman Charles Herbert Flowers and
Air Force Reservist Matthew Robinson at Veteran's
Appreciation Day in Washington, DC.

[photo]
Tuskegee Airman Claude Platte at Veteran's
Appreciation Day in Fort Worth, Texas.

[photo]
Ken North, Machine Tool Operator, answers questions
about his job at Bring Our Children to Work Day in
Fort Worth, Texas.

[photo]

The Fort Worth, Texas Bring Our Children to Work Day activities ended with a group photo of the children and their parents.

Profile of the Bureau of Engraving and Printing

The mission of the Bureau of Engraving and Printing is to design and manufacture high quality security documents that meet customer requirements for quality, quantity and performance, including counterfeit deterrence.

The Bureau of Engraving and Printing began printing currency in 1862. The Bureau 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 a means of a revolving fund established in 1950 in accordance with Public Law 81-656. This fund is reimbursed through product sales for direct and indirect costs of operations including administrative expenses. In 1977, Public Law 95-81 authorized the Bureau to include an amount sufficient to fund capital investment and to meet working capital requirements in the prices charged for products. This eliminated the need for appropriations from Congress.

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

The Bureau occupies three government-owned facilities. The Main and Annex buildings, located in Washington, DC, produce Federal Reserve notes and other security products. The Western Currency Facility, located in Fort Worth, Texas, produces Federal Reserve notes. The Main Building became operational in 1914, the Annex Building in 1938, and the Western Currency Facility began operations in

1991. The Western Currency Facility was constructed to provide increased production capacity, reduce transportation costs and enhance the Nation’s emergency preparedness.

[photo]
Timothy F. Geithner, U.S. Secretary of the Treasury, providing his signature for use on U.S. currency to Bureau Director Felix.

[photo]
Rosie Rios, Treasurer of the United States, with Jon J. Cameron, Associate Director (Eastern Currency Facility).

Profile of the Bureau of Engraving and Printing

In addition to housing production facilities, free tours of currency operations are offered to the general public in both Washington, DC and Fort Worth, Texas. The tours include Visitor Centers with currency manufacturing displays, interactive kiosks and other information about the history of our Nation's currency. The Visitor Centers also sell uncut sheets of currency, engravings and other collectibles. In addition to the on-site sales centers, these items are available through mail order and through the Bureau's internet site: www.moneyfactory.gov.

Manufacturing

In recent years, the Bureau has redesigned and the Federal Reserve has issued new $5, $10, $20, and $50 notes. The new designs are part of the U.S. government's ongoing efforts to maintain the integrity of U.S. currency. The latest note to be redesigned was the $5 note. The redesigned $5 note was unveiled in 2007 and was put into circulation in spring 2008. Work continues on the redesign of the $100 note and the development of new counterfeit deterrent features that may be incorporated.

During 2009, the Bureau delivered 6.2 billion Federal Reserve notes to the Federal Reserve System. The Washington and Fort Worth facilities delivered 2.6 billion and 3.6 billion Federal Reserve notes, respectively. For 2010, the Federal Reserve System has ordered eight billion Federal Reserve notes. In keeping with its tradition of product innovation and production efficiency, the Bureau has installed and made operational six new state-of-the-art intaglio printing presses. The presses have an indirect inking system, the ability to print larger sheet sizes and an automated electronic inspection system.
Successful implementation of this advanced technology will improve productivity, reduce the Bureau's environmental impact and provide the ability to produce increasingly more complex currency note designs.

The Bureau's quality management system for the production of U.S. currency has been registered as ISO 9001 compliant for the past eight years. In 2009, the Bureau's ISO 14001 registration for its environmental management systems (EMS) at both the Washington and Fort Worth facilities was re-certified. The ISO certifications are indicative of the Bureau's commitment to continuous process improvement, world class management practices, and environmental stewardship.

[photo]
Western Currency Facility, Fort Worth, Texas.

[photo]
The Bureau’s Main Building in Washington, DC.

Profile of the Bureau of Engraving and Printing

Information Technology

In 2009, the Bureau continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and information technology (IT) related processes and enhanced governance of the IT program and resources.

Also during 2009, the Bureau was subjected to a number of reviews of financial, Federal Information Security Management Act (FISMA), and support IT systems as the Bureau applies OMB Circular A-123 and the Government Accountability Office's Federal Information System Controls Audit Manual (FISCAM) audit standards in support of the annual audited financial statements. The Bureau's CIO continues to be an active participant in Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises and through biannual tests of the COOP plans for the Bureau's mainframe computer, enterprise management information system, and public sales support systems.

In support of OMB initiatives, the Bureau has implemented Federal Desktop Core Configurations and is awaiting Networx/TIC conversion as part of the Department of the Treasury's TNet contract.

Organization

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

BEP Staffing and Production Volume

[chart]
Staffing (FTE) by Function

Year	Manufacturing	Manufacturing Support	Administration
2005	963	1019	300
2006	1003	890	297
2007	902	929	278
2008	841	887	288
2009	761	915	263

[chart]
Currency Production by Facility (Billions of Notes)

Year	Washington, DC	Ft. Worth, TX
2005	4.0	4.5
2006	3.7	4.5
2007	3.5	5.6
2008	3.0	4.7
2009	2.6	3.6

Executive Organizational Structure

[First Level]
LARRY R. FELIX
DIRECTOR
BUREAU MISSION
The mission of the Bureau of Engraving and Printing is to design and manufacture high quality security documents that meet customer requirements for quality, quantity and performance, including counterfeit deterrence.

[Second Level]
PAMELA J. GARDINER
DEPUTY DIRECTOR
BUREAU VISION
The Bureau of Engraving and Printing is a world-class securities printer providing our customers and the public superior products through excellence in manufacturing and technological innovation.

[Third Level, First Item]
JON J. CAMERON
ASSOCIATE DIRECTOR
(EASTERN CURRENCY FACILITY)
The mission of the ECF is to assure the manufacturing of high quality government security documents in a cost-effective and efficient manner that satisfies the needs of the customer, and to provide a safe and secure working environment for employees in the Washington, DC facility.

[Third Level, Second Item]
CHARLENE WILLIAMS
ASSOCIATE DIRECTOR
(WESTERN CURRENCY FACILITY)
The mission of the WCF is to assure the manufacturing of high quality government security documents in a cost-effective and efficient manner that satisfies the needs of the customer, and to provide a safe and secure working environment for employees in the Fort Worth, Texas facility.

[Fourth Level, First Item]
LEONARD R. OLIJAR
ASSOCIATE DIRECTOR
(CHIEF FINANCIAL OFFICER)
The mission of the CFO Directorate is to provide superior customer service while: maintaining the

integrity of the Bureau’s revolving fund; executing financial management responsibilities; ensuring
proper authorization for production activities; promoting compliance with internal controls, ISO
standards for quality and environmental management systems and Treasury regulations; providing
acquisition services, and redeeming mutilated paper currency.

[Fourth Level, Second Item]
SCOTT WILSON
ASSOCIATE DIRECTOR
(MANAGEMENT)
The mission of the Management Directorate is to provide the highest quality Security, Human Resources,
Facilities Support, Environmental, Health and Safety Services, Employment Opportunity, and Labor
Relations, in support of the overall Bureau mission.

[Fifth Level, First Item]
PETER O. JOHNSON
ASSOCIATE DIRECTOR
(CHIEF INFORMATION OFFICER)
The mission of the CIO Directorate is to provide proven, secure, state-of-the-art information
technology in support of cost-effective production of U.S. security products, with primary
emphasis on U.S. currency.

[Fifth Level, Second Item]
JUDITH DIAZ MYERS
ASSOCIATE DIRECTOR
(TECHNOLOGY)
The mission of the Technology Directorate is to support the production of U.S. currency and other
government securities by incorporating new 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 directs the effective operation of BEP’s quality management
system.

[Sixth Level]
KEVIN J. RICE
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.

Quality

Quality currency production has always been and will continue to be the primary goal of the Bureau of Engraving and Printing. Over time the definition of “quality production” has evolved, and has come to mean a great deal more than just delivering a product that looks good and is acceptable to the average person in the marketplace. Today, a simple but all encompassing definition would be “producing a product that successfully meets the expectations of all stakeholders.” Who or what is a stakeholder? A stakeholder is anyone affected by what the Bureau does. This includes the Federal Reserve, currency users around the world, employees, vending and cash handling organizations, suppliers, and the American public. Quality production is more than just a product; it is the sum of all the processes included in producing currency. Moreover, every process has different stakeholders, and each process is expected to deliver a promised result or “value” to the affected stakeholders.

Value means different things to different stakeholders. To a customer, “value” is a cost efficient product performing as expected, delivered in the right quantity, and on time. To an end-user, “value” is a product that works the first time, every time. In the case of an employee, “value” is having the right tools, training, and leadership to get the job done. To the American public, “value” is the assurance that the Bureau is doing everything possible to produce the most secure currency in the world. Value can be succinctly described as the outcome of successfully meeting stakeholders’ expectations, or as the outcome of total quality manufacturing.

In response to a changing operating environment and the increasing sophistication of U.S. currency, the Bureau is devoting substantial resources toward ensuring continued quality currency production and to successfully meet the expectations of all stakeholders. The Bureau has initiated a comprehensive set of synergistic programs designed to align and enhance all of our best practices to create superior products that meet the needs of all our stakeholders. These programs include:

- The BEPWay;
- ISO 9001 and ISO 14001 certifications;
- Skills assessments followed by targeted investment in employees;
- Retooling existing production processes;

and

- The BEN initiative.

The BEPWay is a multi-discipline initiative established to ensure the consistent production of the highest quality currency at both BEP operating facilities. Currency that is not only of superlative quality, but also so uniform in appearance that it would be as though all currency were printed at one facility on one press. The worldwide users of U.S. currency demand this level of excellence; there must be no question as to the authenticity of U.S. currency. To achieve this challenging objective, all production processes at both facilities must be flexible, seamless, and indistinguishable. Because this endeavor must be successful, a commitment to excellence in every process is essential.

[photo]
Dixie March, Letter and Script Engraver, etching plate numbers used to identify the plate.

[photo]
Frank Grap, Offset Pressman, examines a sheet of currency after offset printing.

Quality

ISO 9001 Quality Management System certification is an integral component of quality manufacturing and support processes, providing structure and discipline in daily operations. The ISO certification, which was upgraded to the 2008 standard, also serves as an indicator to all stakeholders of the Bureau’s ongoing commitment to quality manufacturing, continuous process improvement, and exceptional management practices. All are essential elements in achieving cost-effective, flexible, and seamless business operations.

ISO 14001 Environmental Management Systems certification is a strong indicator to stakeholders that the Bureau is committed to environmental stewardship and responsibility. It is the Bureau’s stated goal to absolutely minimize its environmental footprint. Reducing air, liquid and solid waste is at the forefront of the Bureau’s efforts to maintain a healthy and productive environment for everyone.

The Bureau’s Investments in Employees includes two initiatives; the Competency/Skill Assessment and the Treasury Learning Management System.

The competency/skill assessment initiative is designed to ensure the availability of a highly skilled and flexible workforce. The program will evaluate the skill and proficiency levels of the Bureau’s workforce. Proficiency in the use of the new equipment being acquired and total quality manufacturing requires employees that are highly skilled, proficient, and adaptable. Enhanced staffing flexibility to support the Bureau’s mission critical objectives under a variety of production scenarios is critical if the Bureau is to achieve the goal of flexible, seamless, and consistent quality manufacturing.

[photo]
Carolyn Dunlap, Plate Printer, examines the face of the $100 note at press.

[photo]
Glenn Edwards, Cope Pressman, performs quality assurance overprinting press duties.

Quality

The Treasury Learning Management System (TLMS) is the tool that will support Bureau efforts to deliver the training required to mitigate identified skill gaps, and upgrade the skill level required of a dynamic and flexible workforce. The TLMS provides all employees with access to a variety of online training courses and a comprehensive, web-based reference library. Ensuring that adequate, relevant, and timely training is available to all employees is another critical element of quality manufacturing.

Retooling existing production processes with state-of-the-art printing, electronic inspection and finishing equipment at the Washington, DC and Fort Worth, Texas facilities is well under way. The new equipment provides the rapid response, flexibility, and advanced technology necessary for total quality manufacturing. This will improve productivity, reduce the Bureau's environmental impact, provide increased production flexibility, and enable enhanced counterfeit deterrence of U.S. currency.

BEP Enterprise (BEN) is the centerpiece of the Bureau's IT investments over the next several years. As various systems are put on line, nearly all of the Bureau's production related business decisions will be driven by near real-time manufacturing performance metrics available from the new production equipment being acquired. BEN will provide an integrated platform that will simplify and standardize the integration of disparate information technology systems and applications used in the Bureau to optimize the timely collection and reliability of all available data. This will have a direct and positive impact on quality manufacturing.

In summary, these initiatives are designed to complement and enhance one another. Separately, each will have an impact on quality manufacturing; however, together their impact is far greater. Together, they create a synergy affecting every process in the Bureau, and thus every stakeholder.

[photo]
Dave Ferris and Ananthapadmanabhan Chandrasekhar from the
Office of Engineering, at one of the new intaglio presses.

[photo]

Engraving personnel view production of the first plate produced on the new intaglio plate line.

Safety, Health and Environmental Management

In 2009, the Bureau continued making strides in environment, health, and safety (EHS) excellence. The Office of Environment, Health, and Safety (OEHS) manages programs that minimize the Bureau's impact on the environment and protect workers from injuries, illnesses, and disabilities. The Bureau's goals are to lower occupational injuries and illness rates, as well as minimizing our environmental impact by reducing air emissions, wastewater discharge, and solid waste.

Both Bureau plants have Environmental Management Systems (EMS) in place that are certified to the ISO 14001 standard. Unlike other organizations, each EMS includes all aspects of the environment, as well as health and safety. The Bureau is committed to maintaining an outcome-oriented EMS that focuses on reducing EHS risks and impacts through continuous improvement. As each facility's EMS matures, continuous improvement principles are increasingly integrated into all aspects of normal operations.

[chart]

Year	Lost Work Days Due to Injury
2005	439
2006	385
2007	267
2008	416
2009	198

[chart]

OSHA Reportable Injuries and Illnesses
(Lost Time Rate per 100 employees—Washington, DC Facility)

Year	Lost Time Rate
1999	4.61
2000	4.00
2001	4.25
2002	3.05
2003	3.05
2004	1.39
2005	1.36
2006	1.25
2007	0.65
2008	1.56
2009	0.93

(A case represents an on-the-job injury resulting in lost work time beyond the day of injury.)

Improving Worker Health and Safety

The primary focus of our safety and health function is to reduce injuries, illnesses, and lost workdays.
Particular emphasis has been placed on tracking injuries at the Washington, DC facility due to the
facility's age and outdated configuration. Our key performance indicator is Occupational Safety and
Health Administration's (OSHA) reportable lost time case rate. Over the past 10 years the Bureau has
achieved a 80% reduction in the lost time case rate, as shown on the graph below.

The Bureau has set work practice expectations, communicated expectations to employees, and established
a multidisciplinary group to review unfavorable events and recommend corrective actions. This group
underscores the importance of local work unit accountability for employee health and safety.

Protecting the Environment

Both of the Bureau's facilities have maintained their respective ISO 14001 certifications and have moved
forward with plans to continually improve EHS performance. The Bureau plans to integrate EMS and
continuous improvement methodologies into more of our normal operations. Technical work groups are also
an important part of the EMS as they include representatives from our labor work force who are the true
experts in the work done on the "factory floor."

Safety, Health and Environmental Management

[chart]
Waste Stream Reductions
(Percent Reduction—Washington, DC Facility)

Year	Wastewater	Regulated Waste	Air Emissions
1999	0%>x>-25%	0%>x>-25%	0%>x>-25%
2000	0%>x>-25%	0%>x>-25%	-50%>x>-25%
2001	-50%>x>-25%	-50%>x>-25%	-50%>x>-25%
2002	-50%>x>-25%	0%>x>-25%	-50%>x>-25%
2003	-50%>x>-25%	-50%>x>-25%	-50%>x>-25%
2004	-50%>x>-25%	-50%>x>-25%	-50%>x>-25%
2005	-50%>x>-25%	-50%>x>-25%	-75%>x>-50%
2006	-50%>x>-25%	-50%>x>-25%	-75%>x>-50%
2007	-50%>x>-25%	-50%>x>-25%	-75%>x>-50%
2008	-75%>x>-50%	-75%>x>-50%	-75%>x>-50%
2009	-75%>x>-50%	-75%>x>-50%	-100%>x>-75%

The following plans and programs have been improved or moved forward:

• Wiping solution recycling is a process to reclaim approximately 95% of a water-based solution used in the printing process. Wiping solution is used to clean the intaglio printing plates. The wiping solution recycling process will save approximately 12 million gallons of water annually. In addition to water savings, the project will reduce consumption of chemicals used in wiping solution production and treatment, as well as lowering the energy required for solution heating. The total savings for water, chemicals, and energy is projected to be approximately $1 million annually. The conceptual design phase will conclude during 2010 with construction beginning in 2011.

• The Bureau has diverted over 5.5 million pounds of solid waste from landfills through recycling, re-use, and remanufacture.

• The Western Currency Facility (WCF) installed a new roof in 2009 that meets California Cool Roof Standards. For comparison purposes, temperatures above the cool roof portions this summer were near 119° F, while the preexisting areas were a scorching 169° F. Initial results for electrical usage are very encouraging, and June 2009 showed a 20% reduction when compared to the same time in 2008. Under the WCF EMS, management has set a target of reducing overall utility consumption by 10% by December 31, 2010.

• WCF Energy Awareness Team received recognition from the Department of Energy for reductions in

electrical consumption. Equipment and lighting schedules were changed to run the fewest possible hours.
As a result, energy consumption at the WCF in the third and fourth quarters of 2008 was reduced by 12%
and 14% respectively, saving $470,000.

[photo]
WCF Energy Awareness Team Members (from left to right): Richard Bonner, Arnulfo Pulido, and Gregory Wade, Stationary Engineers; and Bob Hobbs, Chief, Office of Operations Support.

Safety, Health and Environmental Management
Cool Roof Saves Energy

In support of Executive Order 13423-Strengthening Federal Environmental, Energy and Transportation Management requirements, the Office of Operations, Western Currency Facility (WCF) in Fort Worth, Texas initiated a project to install a new roof system as a way to reduce roof surface temperatures and thus save on overall energy costs. The project includes removal of the existing roof and replacement with a new 4-ply roof system with a white top coat. "Cool roofs" contain highly-reflective and emissive materials that stay 50 to 60 degrees cooler than a normal tar roof during the summer, thereby reducing the temperature in the building. This, in turn, will help reduce electrical usage for air conditioning.

It is too early to accurately determine the total energy usage reduction produced by the new cool roof system; however, preliminary results have been very encouraging. It is anticipated that when completed the new roofing system will reduce overall utility consumption by 10%. This is another example of the Bureau's ongoing effort to save money wherever possible and to reduce its environmental footprint.

[photo]
Workers put finishing touches on a cool roof area around the WCF pyramid.

[photo]
Workers prepare an area for installation of cool roofing material.

[photo]
Standing between an area of cool and preexisting roof (left to right),
Robert Cargile, Plant Architect; Arnulfo Pulido, Stationary Engineer;
Willis Rogers and Gary Swift, Safety Specialist Contractors;
and Gary Barton, Environmental Contractor.

Bring Our Children to Work Day at the Bureau

[photo - 8 photos]

Strategic Plan

The Bureau's Strategic Plan, which is aligned with the Department of the Treasury's Strategic Plan, serves as a roadmap to guide the Bureau toward the goal of creating a new environment that will ensure cost-effective and flexible business operations for years to come. While committed to meeting the many new challenges of implementing innovative technology, the Bureau remains resolute in producing quality currency, controlling costs, being environmental stewards, and working safely as we move towards our vision – to continue to be the preeminent banknote producer worldwide. We want to make sure we get it right – in all respects – the first time, every time. The Bureau will rely on the ingenuity, industriousness, and commitment of every employee to meet the challenges of printing currency into the 21st century.

The Bureau's Strategic Goal is to produce currency of consistently high quality that deters counterfeiting, contributes to public confidence, and facilitates commerce. In order to achieve this Strategic Goal the Bureau has established three strategic objectives. These strategic objectives are:
(1) Quality Manufacturing, (2) Innovative and Effective Design, and (3) Security and Accountability.
Quality Manufacturing encompasses quality, cost effectiveness, and efficient manufacturing, which serve to maintain the Bureau's stature as a world-class securities manufacturer. Consistently producing high quality currency improves customer satisfaction, and maintains public confidence in U.S. currency.

The Bureau has initiated a multi-year effort to retool its currency manufacturing process with a $200 million investment in state-of-the-art printing, electronic inspection, and finishing equipment for the Washington, DC and Fort Worth, Texas facilities.

The technological sophistication of the manufacturing platforms being acquired will require a commensurate investment in the Bureau's information technology infrastructure. This will enable nearly all of the Bureau's production related business decisions to be driven by near real-time manufacturing performance metrics.

Proficiency in the use of the new equipment will require employees who are highly skilled and adaptable. To ensure the development of this type of workforce, the Bureau has begun a competency/skill assessment program to elevate the skills and the proficiencies of our workforce and provide training when necessary.

Innovative and Effective Design of currency instills confidence in the integrity of U.S. currency. We will continue to collaborate with the Federal Reserve, the U.S. Secret Service, other partners, and stakeholders to identify, evaluate, and improve features in new currency designs, while ensuring acceptance in the market place. Counterfeiting of U.S. currency is an international issue due to the worldwide use and acceptance of the dollar. The Strategic Plan calls for conducting robust research and development to ensure a continued technological advantage is maintained over evolving counterfeiting threats.

[photo]
Director Larry Felix discusses the Bureau's strategic plan.

Strategic Plan

Since U.S. currency is so widely used outside the United States, it is imperative that business and financial communities, foreign exchange companies, law enforcement groups, banking officials, other cash handlers and, ultimately the general public around the world know about the new currency designs and counterfeit deterrent features. Consequently, the Bureau has incorporated a strategy for communication and outreach programs to all currency users to inform them of new currency designs and features.

The third strategic objective in the Plan is Security and Accountability. The Bureau is the U.S. Government's security printer and maintains the highest levels of security and accountability over our products, property, funds, and other assets. The Bureau must continually guard against fraud, loss, unauthorized use, or misappropriation.

The Bureau has begun implementation of a risk-based management approach specifically designed to identify and rank risks and vulnerabilities. This ranking process will ensure commensurate attention and resource allocation to the most vulnerable areas. The risk–based accountability and testing programs are designed to assess and test the adequacy of operating management oversight and monitoring, as well as, the adequacy of the Bureau's physical security infrastructure.

In 2009, the Bureau's executives established five quantifiable strategic goals for the next five years. They include moving the Bureau into the top 50% of the best places to work, improving product and service quality, completing the transition to BEP Enterprise, identifying and developing new counterfeit deterrent features, and ensuring that staffing supports customer requirements.

The Bureau has positioned itself to meet its strategic goals and the related objectives from both an operational and financial management perspective. The Bureau will uphold its tradition of excellence by taking advantage of opportunities to maintain a talented workforce, practice a disciplined capital investment strategy, enhance product quality, promote counterfeit deterrence, and streamline manufacturing processes.

[photo]

Dawn Haley, Chief, Office of External Relations, is responsible for promoting public education efforts.

Federal Managers' Financial Integrity Act Plans and Accomplishments

The Federal Managers' Financial Integrity Act (FMFIA), which was passed in 1982, requires agencies to perform regular evaluations of internal controls and financial management systems to protect against fraud, waste, and abuse. The subsequent passage of the Chief Financial Officers Act, the Federal Financial Management Improvement Act, and the Sarbanes-Oxley Act of 2002 further increased the internal control requirements.

The Bureau has a history of strong internal controls and an aggressive monitoring program. Key elements of this program include comprehensive financial management controls, personnel security controls, production and quality controls, computer security and information resources management programs, and strong physical security and product accountability functions to safeguard products and assets. The Bureau's Strategic Plan reflects this emphasis. Security, accountability, and resource management are major strategic goals.

To enhance product accountability, the Bureau maintains an Accountability Help Desk at its facilities in Washington, DC and Fort Worth, Texas. The Help Desks are staffed with personnel knowledgeable in all aspects of the Bureau's accountability system. They provide training and day-to-day assistance to accountability system users to prevent, minimize, or resolve product accountability issues. In addition, they review and update existing accountability procedures and reports to provide the controls needed to properly track and account for Bureau securities.

Ongoing efforts to improve internal controls include compliance reviews and an active internal control awareness program. The Bureau's Compliance Review Teams (CRTs) in both facilities promote compliance with Bureau operating policies and procedures by performing unannounced reviews in production, storage, and off-line components that have custody of security items. During 2009, the CRTs performed 230 unannounced reviews. The results of the reviews were reported to office chiefs, supervisors and managers responsible for enforcing policies and procedures, and implementing corrective actions. The Internal Control Awareness Program is used to promote the visibility and understanding of internal control issues, objectives and requirements. Internal review personnel conduct management and organizational reviews at both facilities to strengthen the Bureau's internal controls, ensure compliance with existing policies and procedures, and safeguard Bureau assets. The Bureau's quality management system for the production of U.S. currency, as well as, the environmental management system have both been ISO registered. The internal review staffs support the maintenance and continuous improvement of the Bureau's quality and environmental management systems by conducting internal quality audits throughout the Bureau.

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

The accompanying financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 25th consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. Additionally, for the fifth consecutive year, the Bureau received an unqualified opinion from the auditors on management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and the requirements of Appendix A of Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control." The unqualified audit opinion on the financial statements, the unqualified opinion on the internal control over financial reporting, and the FMFIA review process, ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making.

Federal Managers' Financial Integrity Act
Plans and Accomplishments

In 2009, the Bureau continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and information technology (IT) related processes and enhanced governance of the IT program and resources. In IT security, 100% of the Bureau's major applications and general support systems have been accredited in order to meet the requirement for certification and accreditation at least every three years. In responding to concerns about lost computers and data throughout the Federal Government and the private sector, the Bureau has implemented technologies to encrypt all laptop computers and the associated peripherals.

The Bureau continues to refine policy and procedures for ensuring the adequacy of management controls throughout the life cycle of all hardware and software. The Bureau is committed to full implementation of the National Institute of Standards and Technology (NIST) SP800-53 management, operational, and technical controls for IT systems, as well as 100% implementation of the Federal Desktop Core Configuration for Microsoft software and NIST approved configurations for other operating systems and databases.

During the 2009 fiscal year, the Bureau was subjected to a number of audits and reviews of financial and support IT systems, and FISMA implementation. The Bureau continues to design and implement controls to comply with the Sarbanes-Oxley Act Section 404 and the Government Accountability Office's Federal Information System Controls Audit Manual audit standards, in order to support the annual audited financial statements. The CIO Directorate is an active participant to Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises. The Directorate also tests COOP plans for the Bureau's mainframe computer, enterprise management information system, and public sales support systems twice a year.

[photo - engraving of eagle]

Custody of Assets

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

Currency products and other items used in test, experimental, research and other off-line activities normally are expensed immediately and are not carried as assets in the Bureau's financial statements. While the costs expensed may be immaterial to the financial statements, many of these items have high intrinsic value. Therefore, the Bureau ensures that 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 the former postage stamp operations, as well as other securities produced by the Bureau. While these collections are not included in the inventory balances as reported in the financial statements, appropriate custodial records and controls are maintained. Physical inventories are performed regularly to ensure accountability for these collections.

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

In order to effectively manage its fiduciary and custodial responsibilities, the Bureau has implemented effective internal control and security systems. To ensure that these systems are functioning properly, management has institutionalized an organizational focus on the safeguarding and accountability of all assets. This focus is reflected in the Bureau's organizational structure. The Office of Compliance, which reports to the Associate Director (Chief Financial Officer), evaluates and monitors internal control systems and maintains a comprehensive product accountability system. The Office of Security, which reports to the Associate Director (Management), plans, administers and monitors the Bureau's security programs. These programs include personnel, physical and operational security 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.

[photo]
The Bureau's Honor Guard presenting the colors in front of the Bureau of Engraving and Printing.

Program Performance Measures

The Bureau measures the effectiveness and efficiency of its overall organizational performance by using program performance measures. Standards are developed annually by the senior executive staff based on the prior year's performance, contracted price factors, and anticipated productivity improvements. Actual performance against standard depends on the Bureau's ability to meet annual spoilage, efficiency, and capacity utilization goals established for currency production.

Bureau-level performance measures and associated results for 2009 are as follows:

[chart]

Measured Value	2009 Standard	2009 Actual
1. Federal Reserve Notes (Cost per Thousand Notes)	$32.82	$31.55
2. Federal Reserve Notes Delivered (Billions)	6.2	6.2
3. Productivity Change 2008 to 2009	-8.0%	-7.8%
4. Currency Spoilage	4.6%	4.6%

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

The actual production cost per thousand currency notes, which includes direct labor and materials, and applied manufacturing overhead, was below standard in 2009. This was due primarily to a reduction in direct labor costs.

[chart]

Currency	2009	2009
Cost per Thousand Notes	Standard	Actual
Federal Reserve Notes	$32.82	$31.55

[chart]

Year	Currency Deliveries (in Billions)
2000	9.0

2001	7.0
2002	7.0
2003	8.2
2004	8.8
2005	8.5
2006	9.2
2007	9.1
2008	7.7
2009	6.2

[chart]

Year	Currency Spoilage (percentage)
2005	4.3
2006	4.3
2007	4.4
2008	4.2
2009	4.6

Program Performance Measures

[chart]

Currency	2009	2009
Deliveries	Order	Actual
Federal Reserve Notes (Billions)	6.2	6.2

[chart]

	2009	2009
Measured Value	Standard	Actual
Productivity Change	-8.0%	-7.8%

In 2009, the Bureau delivered 6.2 billion Federal Reserve notes to the Federal Reserve System.
Deliveries and billings are based on orders received from the customer. The Federal Reserve submits their requirements for currency deliveries to the Bureau on an annual basis. In 2009, the Federal Reserve reduced the order during the third quarter. For 2010, the Federal Reserve has ordered 8.0 billion notes. Productivity is calculated based on units of output per labor hour. In 2009, overall productivity decreased by 7.8%. This was primarily due to the decrease in the currency order.

During 2009, the Bureau continued retooling its facilities to improve efficiency and effectiveness while minimizing its environmental impact. This included the installation of new printing presses in the Washington, DC and Fort Worth, Texas facilities and a new plating line in Washington.

Staff development and training programs have intensified as well because the advanced technology incorporated in the new equipment requires the availability of a highly skilled and adaptive workforce.

In order to ensure training attended was in the most critical areas, the Bureau developed core competencies for all positions and prepared Individual Development Plans (IDPs). Using IDPs, all employees are encouraged to continue their skill enhancement through details, training opportunities and other types of professional development. To this end, the Bureau is leveraging the use of the Treasury Learning Management System (TLMS). The TLMS empowers employees, through a web-based application, to take training online that meets their individual needs.

During 2009, performances on key manufacturing performance measures were favorable. Direct manufacturing costs for the currency program were 10% below standard.

Spoilage, an inherent result of any production process, is an important indicator of the overall effectiveness of the production process and quality of material inputs. In 2009, overall currency spoilage was at standard.

[chart]

Measured Value	2009	2009
Currency Spoilage	Standard	Actual
Federal Reserve Notes	4.6%	4.6%

[chart]

Measured Value	2007	2008	2009
1. Federal Reserve Notes (Cost per Thousand Notes)	$28.66	$29.60	$31.55
2. Federal Reserve Notes Delivered (Billions)	9.1	7.7	6.2
3. Productivity Change	7.6%	-12.3%	-7.8%
4. Currency Spoilage	4.4%	4.2%	4.6%

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.

Program Performance Measures

Prompt Payment

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

The Bureau’s prompt payment performance for the past three years is presented below. As the data indicates, the Bureau has continued to perform much better than the Department standard for late payments.

[chart]

Measured Value	2007	2008	2009
1. Number of Invoices Paid Late	58	25	38
2. Interest Penalties Paid	$1,165	$936	$1,521
3. Percent of Invoices Paid Late	0.92%	0.40%	0.60%

[feature box]
Did You Know?

. . . the Bureau’s first work force was six people (two men and four women).
. . . the Bureau was one of the first government agencies to employ women.
. . . counterfeiting of U.S. currency dates back to the Civil War.
. . . in 1881, Blanche Kelso Bruce, Register of the Treasury, was the first African American whose signature appeared on U.S. currency. He was born in Virginia and served as a U.S. Senator for Mississippi.
. . . the Bureau is the largest producer of security documents in the United States.
. . . the Bureau began in a single room in the basement of the Treasury Building on August 29, 1862.
. . . during World War II, President Franklin Roosevelt used the Bureau’s Annex basement platform when required to travel by train.

. . . the Bureau printed currency for the governments of the Philippines in 1928, the Republic of China in 1934, Siam in 1945, and Korea in 1947.

. . . although currency notes in denominations above $100 are no longer printed, at one time the Bureau printed denominations of $500, $1,000, $5,000, and $10,000.

. . . the Bureau printed U.S. Postage stamps, food coupons, alcoholic beverage revenue stamps, gas rationing coupons, and U.S. saving bonds.

. . . the Bureau presently prints the intaglio end sheets for the U.S. passport and is a major security printer for the Department of Homeland Security.

Management Discussion and Analysis

During 2009, the Bureau of Engraving and Printing continued to focus its resources and efforts on producing the most secure currency ever issued by the Federal Reserve.

Currency-billing rates for the 2009 currency program included a charge for the acquisition of capital assets to fund the Bureau's multi-year retooling initiative. As a result, revenue in excess of expenses for the year was significantly higher than in 2008.

Total revenue in 2009 decreased due to a substantial decrease in the number of Federal Reserve notes ordered and delivered to the Federal Reserve System. In 2009, the Bureau delivered 6.2 billion notes, which was a decrease of 1.5 billion notes from the previous year's delivery of 7.7 billion notes. The Bureau remains well capitalized with sufficient working capital to meet identified requirements.

Cash

Cash decreased by $14 million in 2009. The decrease is attributed to the reduction in the 2009 currency order and the ongoing investments in new currency manufacturing equipment.

Accounts Receivable

Accounts receivable decreased by $18 million in 2009. This was due to the reduced amount of currency delivered in the final month of the year and the related billing.

Inventories

Inventories increased by $46 million in 2009. This is primarily due to the significant amount of completed currency on hand at year-end in preparation for the larger Federal Reserve currency order in 2010.

Property and Equipment

Net property and equipment increased $26 million in 2009 to $308 million. The increase was related to the purchase of new currency manufacturing equipment as part of the retooling effort.

Other Assets

Other assets remained relatively unchanged in 2009.

[chart]

Year	Research and Development Costs (Millions of Dollars)
2005	7.6
2006	10.7
2007	14.0
2008	12.0
2009	12.0

[chart]

Year	Total Revenue (Millions of Dollars)
2005	512
2006	477
2007	578
2008	517
2009	485

Management Discussion and Analysis

Accounts Payable

Accounts payable increased from $13 million in 2008 to $17 million in 2009. The principal cause of the increase was the timing of cash disbursements in making vendor payments.

Accrued Current Liabilities

Accrued current liabilities increased from $29 million in 2008 to $38 million in 2009. The principal causes for the change was an increase in the accrual for production equipment purchases and an increase in the year-end payroll accrual.

Advances

Advances increased by $8 million in 2009. The increase is attributed to an increase in advance funding for special security product orders and an increase in undisbursed mutilated currency refunds.

Workers’ Compensation Liabilities

The actuarial workers’ compensation liability decreased $5 million in 2009. The decrease in the actuarial liability primarily resulted from increases in the discount rates used by the Department of Labor to calculate the liability.

Revenue from Sales

Overall revenue from sales decreased from $517 million in 2008 to $485 million in 2009. This $32 million decrease is attributable to the decrease in the currency order.

Cost of Goods Sold

Cost of goods sold decreased from $443 million in 2008 to $381 million in 2009. The $62 million decrease relates to the lower 2009 sales volume. The gross margin as a percentage of revenue increased from 14 percent in 2008 to 21 percent in 2009. The changes for both accounts are attributed to the reduction in the 2009 currency order.

Operating Costs

Operating costs increased by $8 million in 2009. The change is primarily attributed to increased information technology expenditures.

[chart]
Annual Investment in Property and Equipment

Year	(Millions of Dollars)
2005	24
2006	34
2007	38
2008	54
2009	57

[chart]
Average Billing Rate for Currency

Year	Rate per Thousand Notes	Single Note
1999	$44.36	$0.044
2000	$45.34	$0.045
2001	$46.64	$0.047
2002	$54.39	$0.054
2003	$57.16	$0.057
2004	$55.56	$0.056
2005	$56.08	$0.056
2006	$54.56	$0.055
2007	$60.99	$0.061
2008	$63.82	$0.064
2009	$74.82	$0.075

Assurance Statement Fiscal Year 2009

The Bureau of Engraving and Printing (Bureau), made a conscientious effort during fiscal year 2009 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Federal Financial Management Improvement Act (FFMIA) of 1996, Office of Management and Budget (OMB) Circular A-123, and the Reports Consolidation Act of 2000. The Bureau, taken as whole, is operating in accordance with the procedures and standards prescribed by the Comptroller General of the United States and OMB guidelines.

As required by the FMFIA, the Bureau evaluated both its internal controls and financial management systems for fiscal year 2009. The results of these evaluations provided reasonable assurance that the internal 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 had no instances of material internal control weaknesses and no material nonconformances outstanding as of September 30, 2009.

The Bureau evaluated its internal control over financial reporting in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control." Based on the results of this evaluation, the Bureau can provide reasonable assurance that internal control over financial reporting as of September 30, 2009, is operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. Further, the Bureau has active programs in place to provide reasonable assurance that programs achieve their intended results; resources are used consistent with the Bureau's overall mission; programs and resources are free from waste, fraud, and mismanagement; laws and regulations are followed; controls are sufficient to minimize any improper or erroneous payments; performance information is reliable; systems security is in substantial compliance with all relevant requirements; continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and financial management systems are in compliance with federal financial systems standards.

<signature>
Larry Felix

SUMMARY OF OFFICE OF INSPECTOR GENERAL AND GOVERNMENT ACCOUNTABILITY OFFICE AUDITS

The Bureau began Fiscal Year 2009 with five open audit recommendations which were issued by the Office of Inspector General (OIG). These recommendations pertained to program and contract issues. During Fiscal Year 2009, the Bureau received no additional recommendations in the one OIG audit report (Bureau's Fiscal Years 2008 and 2007 Financial Statements). Additionally, the Bureau implemented corrective action on two of these open items and the remaining three recommendations will be addressed as appropriate.

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.

[photo]
The Bureau celebrates the Cherry Blossom Festival.

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Financial Statements

Years ended September 30, 2009 and 2008
(With Independent Auditors' Reports Thereon)

[KPMG company logo]

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Inspector General, Department of the Treasury and
The 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 (the Bureau) as of September 30, 2009 and 2008, and the related statements of operations and cumulative results of operations and cash flows (hereinafter referred to as "financial statements") for the 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 of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended. Those standards and OMB Bulletin No. 07-04 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, 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, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the financial statements, the Bureau has adopted the provisions of Financial Accounting Standards Board Accounting Standards Codification (ASC) 820-10, Fair Value Measurements and Disclosures, and ASC 855-10, Subsequent Events, effective October 1, 2008 and September 30, 2009, respectively.

We have also examined management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2009, and have issued our report thereon dated October 30, 2009. 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 in assessing the results of our fiscal year 2009 audit.

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2009, on our tests of the Bureau's compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in assessing the results of our fiscal year 2009 audit.

October 30, 2009

<signature>
KPMG LLP

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Balance Sheets

As of September 30, 2009 and 2008

[chart]

Table Level	Measured Value		2009	2008
Top			(In Thousands)	
Top	ASSETS			
Parent level	Current assets			
First child level		Cash (Notes 3 and 14)	$ 139,520	$ 153,511
First child level		Accounts receivable (Note 10)	28,989	46,552
First child level		Inventories, net (Note 4)	150,023	103,967
First child level		Prepaid expenses	5,259	4,871
Parent level	Total current assets		323,791	308,901
Parent level	Property and equipment, net (Note 5)		307,929	281,876
Parent level	Other assets, net (Note 6)		15,607	18,059
Parent level	Total assets		$ 647,327	$ 608,836
Top	LIABILITIES AND EQUITY			
Parent level	Liabilities			
Parent level	Current liabilities (Notes 7 and 8)			
First child level		Accounts payable	$ 16,938	$ 13,359
First child level		Accrued liabilities	38,013	28,585
First child level		Advances	14,065	6,477
Parent level	Total current liabilities		69,016	48,421
Parent level	Workers' compensation liability (Note 8)		55,967	61,447
Parent level	Total		124,983	109,868

	liabilities			
Parent level	Contingencies and commitments (Notes 12 and 13)			
Parent level	Equity			
First child level		Invested capital	32,435	32,435
First child level		Cumulative results of operations	489,909	466,533
Parent level	Total equity		522,344	498,968
First child level		Total liabilities and equity	$ 647,327	$ 608,836

See accompanying notes to the financial statements.

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Statements of Operations and
Cumulative Results of Operations
For the Years Ended September 30, 2009 and 2008

[chart]

Table Level	Measured Value		2009	2008
Top			(In Thousands)	
Parent level	Revenue from sales (Note 10)		$ 484,824	$ 516,610
Parent level	Cost of goods sold		380,886	443,263
Parent level	Gross margin		103,938	73,347
Parent level	Operating costs:			
First child level		General and administrative expenses	68,310	60,262
First child level		Research and development	12,252	12,446
Sum of child level values			80,562	72,708
Parent level	Excess of revenues over expenses		23,376	639
Parent level	Cumulative results of operations at beginning of year		466,533	465,894
Parent level	Cumulative results of operations at end of year		$ 489,909	$ 466,533

See accompanying notes to the financial statements.

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Statements of Cash Flows
For the Years Ended September 30, 2009 and 2008

[chart]

Table Level	Measured Value				2009	2008
Top					(In Thousands)	
Top	Cash flows from operating activities					
Parent level	Excess of revenues over expenses				$ 23,376	$ 639
First child level		Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Second child level			Depreciation		30,905	28,619
Second child level			Loss from disposal of property and equipment		72	38
First child level		Changes in assets and liabilities				
Second child level			(Increase) decrease in accounts receivable		17,563	(7,418)
Second child level			(Increase) decrease in inventories		(46,056)	3,135
Second child level			(Increase) decrease in prepaid expenses		(388)	581

Second child level			Decrease in other assets		2,452	400
Second child level			Increase (decrease) in accounts payable		3,579	(2,148)
Second child level			Increase (decrease) in accrued liabilities		9,428	(704)
Second child level			Increase in advances		7,588	4,854
Second child level			Increase (decrease) in workers' compensation liability		(5,480)	4,012
Third child level				Net cash provided by operating activities	43,039	32,008
Top	Cash flows from investing activities					
Parent level	Purchases of property and equipment				(57,030)	(54,477)
First child level		Net cash used in investing activities			(57,030)	(54,477)
Parent level	Net decrease in cash				(13,991)	(22,469)
Parent level	Cash at beginning of year				153,511	175,980
Parent level	Cash at end of year				$ 139,520	$ 153,511

See accompanying notes to the financial statements.

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Notes to the Financial Statements

September 30, 2009 and 2008

1. Reporting Entity

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

The Bureau operates under basic authorities conferred by the Act of July 11, 1862, (12 Stat. 532; also, 31 U.S.C. 5114) and other laws and regulations. In accordance with the provisions of Public Law 81-656, effective August 4, 1950, the operations of the Bureau are financed by means of a revolving fund. This fund is reimbursed through billings to the Bureau's customers for products delivered. Public Law 9581 authorized the Bureau to include in its product prices an amount to provide funding for the acquisition of capital equipment and future working capital. Invested capital represents the historical value of the initial contribution made by the Federal Government.

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

Estimates

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

Cash

Cash represents the aggregate amount of the Bureau's funds held on deposit with the U.S. Treasury and are available to pay liabilities. The Bureau historically does not maintain significant cash balances in commercial bank accounts, and owns no cash equivalents.

(continued)

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Notes to the Financial Statements
September 30, 2009 and 2008

Inventories

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

Property and Equipment

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

The Bureau occupies and uses buildings and land owned by the Department of the Treasury. 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 Department of the Treasury (See Note 5).

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

[chart]

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

Other Assets

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

Employee Retirement Plans

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

Postretirement Benefits Other than Pensions

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

(continued)

Workers' Compensation Costs

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

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

The second component, the actuarial FECA liability, is the estimated liability for future benefit payments. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for future FECA benefits. The actuarial liability for future worker's compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB) economic assumptions for 10-year Treasury notes and bonds, which resulted in discount rates as of September 30, 2009 and 2008, of 4.22% and 4.37% in year one and 4.72% and 4.77% thereafter.
Based on information provided by DOL, the Department of the Treasury allocated the overall liability to Treasury components based on past claims paid.

Annual, Sick, and Other Leave

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

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

Revenue Recognition

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

Research and Development Costs and Advertising Costs

Research and development costs and advertising costs are expensed as incurred. Advertising costs, which are reported in cost of goods sold, amounted to $6.5 million and $8.4 million in the years ended September 30, 2009 and 2008, respectively.

Tax Status

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

(continued)

Contingencies

Liabilities from loss contingencies, including environmental remediation costs not within the scope of FASB Accounting Standards Codification (ASC) 410-20, Asset Retirement and Environmental Obligations -Asset Retirement Obligations, arising from claims, assessments, litigation, fines and penalties, and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation cost can be reasonably estimated. Loss contingencies that do not meet these criteria, but are reasonably possible and estimable are not accrued, but are disclosed in Note 12.

Fair Value Measurements

On October 1, 2008, the Bureau adopted the provisions of ASC 820-10, Fair Value Measurements and Disclosures, for fair value measurements of financial assets and financial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820-10 also establishes a framework for measurement of fair value and expands disclosures about fair value measurements (See Note 14).

Subsequent Events

Effective September 30, 2009, the Bureau adopted ASC 855-10, Subsequent Events. It establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued (See Note 15).

Comparability

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

3. Cash

The year-end cash balances by fund are as follows as of September 30, 2009 and 2008:

[chart]

Table Level	Measured Value		2009	2008
Top			(In Thousands)	
Parent level	Bureau of Engraving and Printing			
First child level		Revolving Fund	$ 132,319	$ 152,766
Parent level	Mutilated Currency Revolving Fund		7,201	745
Parent level	Total		$ 139,520	$ 153,511

The balance in the mutilated currency revolving fund, consisting of processed claims for mutilated
currency submitted by the public for redemption, is offset by a liability to the public which is
included in advances on the balance sheets as of September 30, 2009 and 2008, respectively (See Note 7).

(continued)

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Notes to the Financial Statements
September 30, 2009 and 2008

4. Inventories, net

Inventories consist of the following as of September 30, 2009 and 2008:

[chart]

Table Level	Measured Value	2009	2008
Top		(In Thousands)	
Parent level	Raw material and supplies	$ 46,772	$ 40,517
Parent level	Work-in-process	57,879	36,619
Parent level	Finished goods - currency	28,287	3,232
Parent level	Finished goods - uncut currency	17,085	23,599
Parent level	Total	$ 150,023	$ 103,967

The allowance for inventory obsolescence was $743 thousand and $665 thousand, at September 30, 2009
and 2008, respectively.

5. Property and Equipment, net

Property and equipment consist of the following as of September 30, 2009 and 2008:

[chart]

Table Level	Measured Value	2009	2008
Top		(In Thousands)	
Parent level	Machinery and equipment	$ 450,566	$ 434,795
Parent level	Building and land improvements	229,750	236,040
Parent level	IT equipment and software	26,009	22,060
Parent level	Office machines	1,435	1,103
Parent level	Furniture and fixtures	1,140	1,140
Parent level	Donated assets - art work	125	125
Parent level	Motor vehicles	212	212
Sum of values		709,237	695,475
Parent level	Less accumulated depreciation	454,385	455,184
Sum of values		254,852	240,291

Parent level	Construction-in-progress	53,077	41,585
Parent level	Net property and equipment	$ 307,929	$ 281,876

Depreciation expense for the years ended September 30, 2009 and 2008, was $30.9 million and $28.6 million, respectively.

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

6. Other Assets, net

Other assets consist principally of machine repair parts and tools. The allowance for obsolescence for these parts and tools for the years ended September 30, 2009 and 2008, was $5.0 million and $5.7 million, respectively.

(continued)

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Notes to the Financial Statements
September 30, 2009 and 2008

7. Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2009 and 2008:

[chart]

Table Level	Measured Value	2009	2008
Top		(In Thousands)	
Parent level	Intragovernmental	$ 12,435	$ 10,952
Parent level	With the public	56,581	37,469
Parent level	Total	$ 69,016	$ 48,421

Accrued current liabilities consist of the following as of September 30, 2009 and 2008:
[chart]

Table Level	Measured Value	2009	2008
Top		(In Thousands)	
Parent level	Payroll	$ 14,764	$ 11,128
Parent level	Annual leave	11,185	10,775
Parent level	Workers' compensation	5,557	4,874
Parent level	Other	6,507	1,808
Parent level	Total	$ 38,013	$ 28,585

Advances consist of the following as of September 30, 2009 and 2008:
[chart]

Table Level	Measured Value	2009	2008
Top		(In Thousands)	
Parent level	Other Federal Agencies	$ 6,855	$ 5,654
Parent level	Mutilated Currency	7,201	745
Parent level	Public sales	9	78
Parent level	Total	$ 14,065	$ 6,477

8. Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2009 and 2008, but not yet reimbursed to DOL by the
Bureau, are approximately $12.1 million and $11.7 million, of which approximately $5.6 million and $4.9
million represent a current liability, as of September 30, 2009 and 2008, respectively. The Bureau will
reimburse DOL for these claims in the next two years. The Bureau's estimated non-current,

actuarially-derived future workers' compensation liability was approximately $49.5 million and $54.6
million as of September 30, 2009 and 2008, respectively.

(continued)

9. Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were $16.5 million and $16.1 million for 2009 and 2008, respectively. The CSRS employer contribution rate for fiscal years 2009 and 2008 was 7.0%. The FERS agency contribution rate for fiscal years 2009 and 2008 was 11.2%. The cost of providing the CSRS and FERS benefits is more than the amounts contributed by the Bureau and the employees to OPM. The additional cost of providing benefits, including the cost financed by OPM, which is not included in the Bureau's Statements of Operations, totaled $23.8 million and $23.1 million in 2009 and 2008, respectively.

OPM paid costs totaling $11.1 million and $10.3 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2009 and 2008, respectively. These costs are not included in the Bureau's Statements of Operations.

10. Related Party Transactions and Concentration of Revenue

The Bureau's principal customers are other federal and quasi-federal governmental organizations. During 2009 and 2008, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2009 and 2008, are reflected in the following table:

[chart]

Table Level	Measure Valued		Revenue for year ended September 30		Accounts receivable as of September 30	
Top			2009	2008	2009	2008
Parent level	Federal Reserve System:		(In Thousands)		(In Thousands)	
First child level		Currency Production	$ 467,509	$ 492,343	$ 27,575	$ 45,219
First child		Mutilated Currency	3,587	3,757	884	942

level						
Parent level	Other Federal Agencies		3,163	7,841	165	391
Sum of values			474,259	503,941	28,624	46,552
Parent level	Public sales		9,764	12,669	2	—
Parent level	Other		801	—	363	—
Sum of values			10,565	12,669	365	—
Total			$ 484,824	$ 516,610	$ 28,989	$ 46,552

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

11. Principal Suppliers

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

(continued)

12. Commitments and Contingencies

The Bureau is a party in various administrative proceedings, legal actions, and claims brought against the Federal Government by employees, contractors, and other parties. As of September 30, 2009, there are no contingencies for litigation involving the Bureau, where the risk of loss is probable. As of September 30, 2008, there were approximately $800 thousand of such contingencies that were accrued in the financial statements. Contingencies, where the risk of loss is reasonably possible, are approximately $2.1 million and $4.5 million as of September 30, 2009 and 2008, respectively. Since the risk of loss for these litigations are not probable, the Bureau did not record any liability. Management believes that the ultimate resolution of these litigations will not have a material impact on the reported financial position, results of operations, and cash flows.

The American Council of the Blind (ACB) and others have filed suit against the Department of the Treasury under Section 504 of the Rehabilitation Act seeking the redesign of U.S. currency. In 2007, a judge ruled that the current U.S. currency design violates this Act and this ruling was appealed. In 2008, the United States Court of Appeals for the District of Columbia Circuit affirmed this ruling. No monetary damages were awarded by the Court. However, the Bureau is required to provide meaningful access to United States currency for blind and other visually impaired persons. This may require changes to U.S. currency (excluding the one-dollar note). The Court ordered such changes shall be completed, in connection with each denomination of currency, not later than the date when a redesign is next approved by the Secretary of the Treasury. Because the cost of these changes will be incorporated into future currency redesign costs, no costs have been accrued in the accompanying financial statements as of September 30, 2009 and 2008.

The United States Court of Appeals, in the above-mentioned case, also ordered that the Bureau pay the ACB and others for attorney’s fees and costs. Such fees and costs were estimated to be $800 thousand in

2008. As noted above, in 2008 this amount was accrued and included in other accrued liabilities.

Judgments resulting from litigation against the Bureau are generally paid by the Judgment Fund. In 2009, the Judgment Fund paid the attorney fees and other costs accrued in 2008. In 2009, the Bureau determined it is not required to reimburse the Judgment Fund for those attorney fees and other costs as they are not claims related to employee discrimination and contract disputes. As such, the Bureau has recognized income amounting to $800 thousand related to attorney fees and other costs associated with the ACB settlement paid by the Judgment Fund on behalf of the Bureau.

The Bureau has contracted to purchase over-printing presses, incorporating automated inspection and packaging capability, costing approximately $49.0 million. As of September 30, 2009, the Bureau has made cumulative payments of $10.5 million and the remaining commitment outstanding is $38.5 million.
The Bureau has also contracted to purchase intaglio printing presses, costing approximately $55.8 million. As of September 30, 2009, the Bureau has made cumulative payments of $45.7 million and the remaining commitment outstanding is $10.1 million. Delivery of the presses will be determined upon successful completion of final factory inspection tests. Progress payments related to the above contracts are included in construction-in-progress within Property and Equipment on the balance sheets as of September 30, 2009 and 2008, respectively.

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

(continued)

13. Operating Lease

In 2002, the Bureau entered into a cancelable operating lease for warehouse space that expires in 2012. The lease contains a renewal option for 10 years. Rental expense for the years ended September 30, 2009 and 2008, was $1.9 and $1.8 million, respectively.

[chart]
Future minimum payments under the lease as of September 30, 2009, are (in thousands):

Year	For the years ending September 30:
2010	$ 1,838
2011	1,850
2012	935
Total	$ 4,623

14. Fair Value Measurements

As discussed in Note 2, the Bureau adopted ASC 820-10, Fair Value Measurements and Disclosures, on
October 1, 2008. The fair values of the Bureau’s financial instruments represent management’s best
estimates of the amounts that would be received to sell those assets or that would be paid to transfer
those liabilities in an orderly transaction between market participants at that date. Those fair value
measurements maximize the use of observable inputs. However, in situations where there is little, if
any, market activity for the asset or liability at the measurement date, the fair value measurement
reflects the Bureau’s own judgments about the assumptions that market participants would use in pricing
the asset or liability. Those judgments are developed by the Bureau based on the best information
available in the circumstances.

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used
to measure fair value. The hierarchy gives the highest priority to unadjusted quote prices in active
markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to
measurements involving significant unobservable inputs (Level 3 measurements).

The Bureau’s financial instruments are comprised of cash, accounts receivable, accounts payable,
accrued liabilities, and advances as of September 30, 2009 and 2008. The carrying amounts of these

financial instruments approximate fair value because of the short-term nature of these instruments.
The Bureau holds no financial instruments that are measured at fair value on a recurring basis or for which the fair value option has been elected at September 30, 2009.

15. Subsequent Events

The Bureau has evaluated subsequent events through October 30, 2009, the date which the financial statements were available to be issued. There were no material events that required additional accruals or disclosures.

[BEP seal]

DEPARTMENT OF THE TREASURY
Bureau of engraving and Printing
Washington, d.C. 20228

Management's Report on Internal Control Over Financial Reporting

We as management of the Bureau of Engraving and Printing (Bureau) are responsible for establishing and maintaining adequate internal control over financial reporting and for our assertion on the effectiveness of internal control over financial reporting. The Bureau's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Bureau's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of the assets of the Bureau;
- provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Bureau are being made in accordance with authorizations of management of the Bureau and those charged with governance; and
- provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Bureau's assets that could have a material effect on the financial statements.

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

We assessed the effectiveness of the Bureau's internal control over financial reporting as of September

30, 2009. In making this assessment, the Bureau used the criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment and those criteria, we conclude that the Bureau maintained effective internal control over financial reporting as of September 30, 2009.

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

<signature>
Larry R. Felix
Director

<signature>
Leonard R. Olijar
Chief Financial Officer

October 30, 2009
Washington, DC

[KPMG company logo]

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have examined management's assertion, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that the Bureau of Engraving and Printing (Bureau) maintained effective internal control over financial reporting as of September 30, 2009, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The Bureau's management is responsible for maintaining effective internal control over financial reporting and for its assertion on the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

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

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

[KPMG company logo]

In our opinion, management’s assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2009 is fairly stated, in all material respects, based on the criteria established in Internal Control – Integrated Framework issued by COSO.

We also have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended, the balance sheets of the Bureau as of September 30, 2009 and 2008, and the related statements of operations and cumulative results of operations and cash flows of the Bureau and our report dated October 30, 2009 expressed an unqualified opinion. That report referenced that the Bureau implemented two new accounting standards in fiscal year 2009.

We noted certain additional matters that we have reported to management of the Bureau in a separate letter dated October 30, 2009.

<signature>
KPMG LLP

October 30, 2009

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

[KPMG company logo]

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

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

We have audited the balance sheets of the Bureau of Engraving and Printing (Bureau) as of September 30, 2009 and 2008, and the related statements of operations and cumulative results of operations and cash flows (hereinafter referred to as "financial statements") for the years then ended and have issued our report thereon dated October 30, 2009. That report referenced that the Bureau implemented two new accounting standards in fiscal year 2009.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Bureau is responsible for complying with laws, regulations, and contracts 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 the Bureau's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the Bureau. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph, disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 07-04.

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

<signature>
KPMG LLP

October 30, 2009

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.