Department of the Treasury
Bureau of Engraving and Printing
Chief Financial Officer
Performance and Accountability Report 2001

See Part 1 of the 2001 CFO Report for pages ii through 18.

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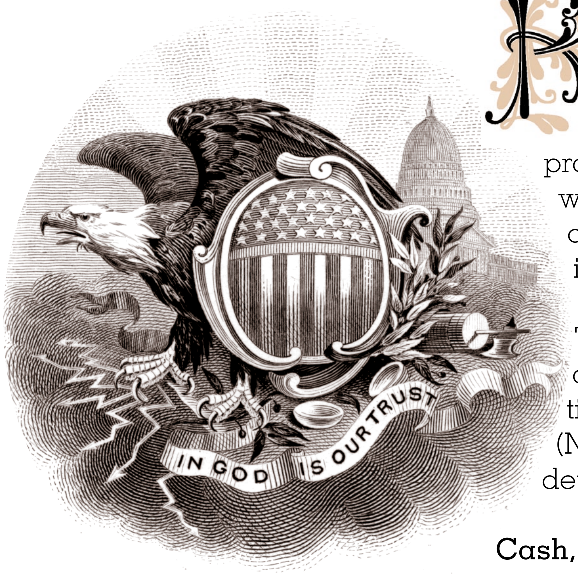
The Bureau of Engraving and Printing dedicates this report to the courageous Federal employees killed in the terrorist attacks on the Pentagon and World Trade Center in New York, as well as those who continue to risk their lives to preserve our freedoms.

MANAGEMENT DISCUSSION AND ANALYSIS



Revenue declined almost 18 percent in 2001 due to reductions in both currency and postage stamp orders. Expenses exceeded revenue in 2001 because the Federal Reserve decreased the order by one billion notes during the year. Rather than increasing prices as a result of this unanticipated program reduction, the resulting excess of expenses over revenues was funded through cost and working capital reductions. Since depreciation, a non-cash expense, exceeded the level of capital investment in 2001, the Bureau remains adequately funded.

This year, the Bureau continued to produce advanced counterfeit deterrent features in all Federal Reserve Notes, while work continued on developing a design concept for the next generation (NexGen) of currency notes, which will include new counterfeit deterrent features.

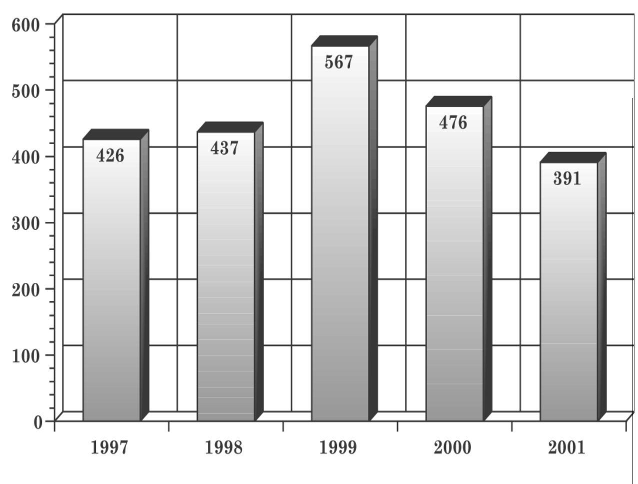
Cash, Accounts Receivable and Cash Flow

Cash was relatively unchanged in 2001, while accounts receivable decreased more than $21.6 million. The decrease in accounts receivable was due to a reduction in the currency program, resulting in lower currency orders/bills throughout the year.

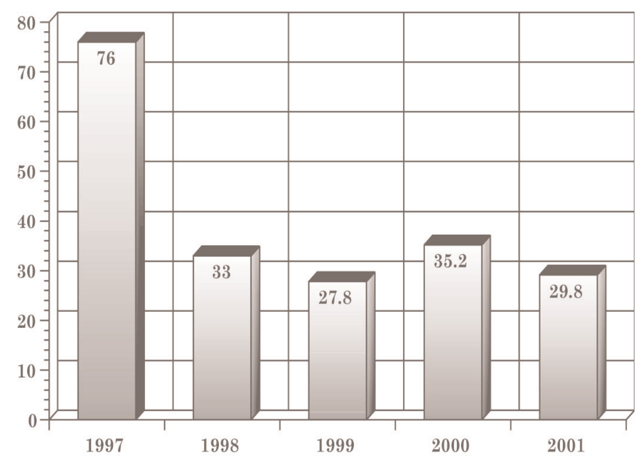
Inventories

Inventories increased from $67 million in 2000 to $73 million in 2001. This is primarily due to increases in work-in-process and finished goods inventories as the Bureau began production of the FY 2002 currency/postage orders.

Total Revenue
Millions of Dollars

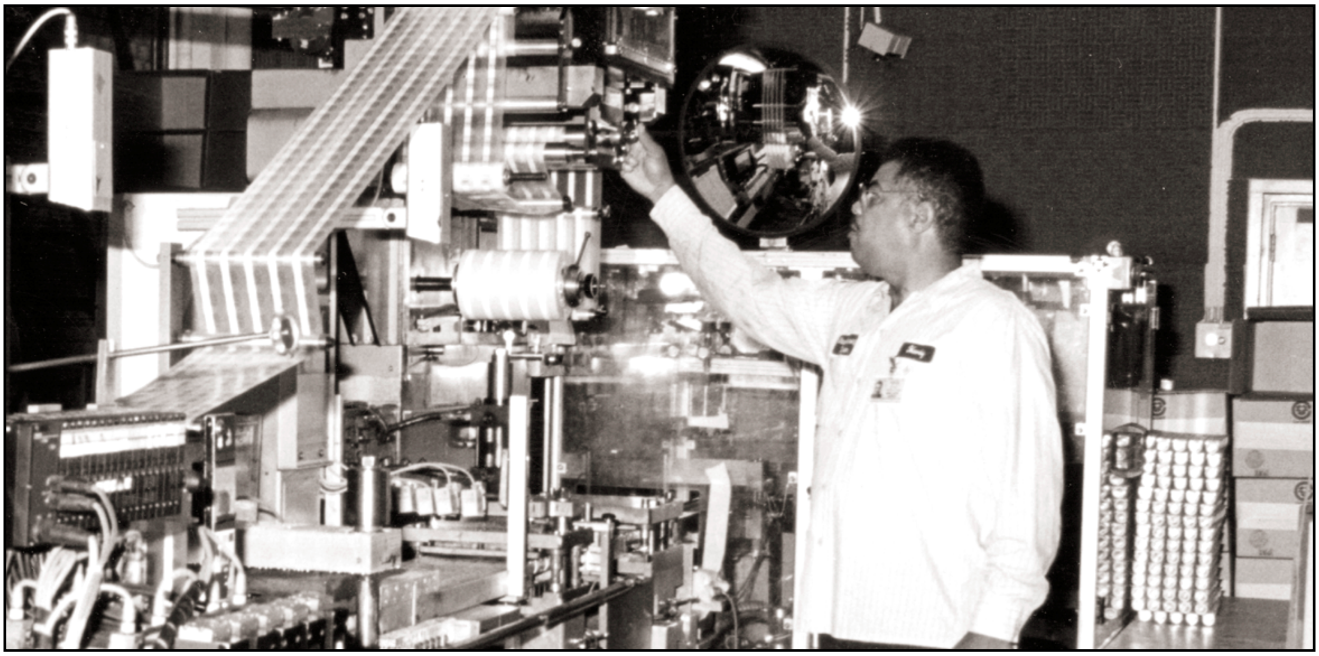


Annual Investment in Property & Equipment
Millions of Dollars



Property and Equipment

Net property and equipment decreased from $320 million in 2000 to $299 million in 2001. This decrease was the result of depreciation in excess of capital investment, primarily due to lower than anticipated capital expenditures. The level of capital expenditure is expected to increase as the Bureau invests in new currency printing and processing technology, the ongoing capital maintenance of the Washington facilities continues, and the expansion of the Western Currency Facility begins.



Wallace Hardy adjusting the 100 stamp coil packaging equipment.

Other Assets

Other assets, primarily machinery repair parts and tools, decreased from $22 million in 2000 to $21 million in 2001 as a result of an increase in the allowance for obsolescence for repair parts. As the repair parts age, the Bureau increases the allowance for obsolescence.

Accounts Payable

Accounts payable decreased slightly in 2001 due to the reduction in the currency program and the related invoices in 2001.

Accrued Current Liabilities

Accrued current liabilities decreased slightly in 2001 due to payroll accruals and the timing of the pay period in relation to the end of the year.

AVERAGE BILLING RATE FOR CURRENCY

Fiscal Year	Rate Per Thousand Notes	Rate Per Single Note
1992	$34.45	$0.034
1993	$40.28	$0.040
1994	$38.66	$0.039
1995	$37.25	$0.037
1996	$39.41	$0.039
1997	$37.40	$0.037
1998	$40.20	$0.040
1999	$44.36	$0.044
2000	$45.34	$0.045
2001	$46.65	$0.047

Currency printing presses at the Western Currency Facility.

Advances

Advances remained relatively unchanged in 2001.

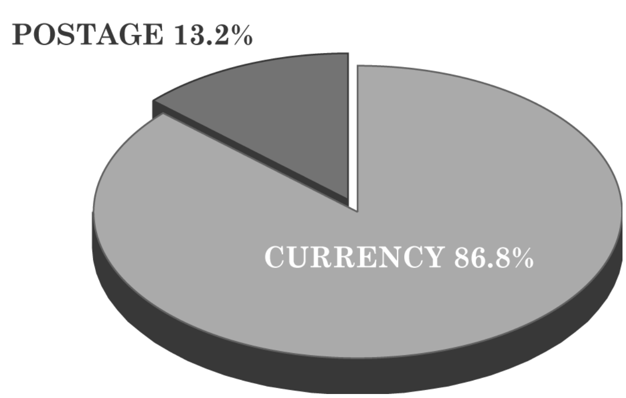
Deferred Revenue

Deferred revenue, which is revenue received prior to product delivery, increased by $346 thousand in 2001. The deferred revenue should be recognized in 2002.

Workers' Compensation Liabilities

The workers' compensation liability (nonactuarial) increased slightly from $5.2 million in 2000, to $5.8 million in 2001. The actuarial workers' compensation liability increased from almost $50 million to $54 million. The increase in the actuarial liability is primarily due to changes in the discount rate used to estimate this liability. In 2001, the Bureau contracted with an actuary to calculate its actuarial workers' compensation liability. In 2000, the Department of Labor made an actuarial calculation for the Department of Treasury as a whole, which was then allocated to Treasury bureaus based on past claims.

2001
Revenue by Program



Revenue From Sales

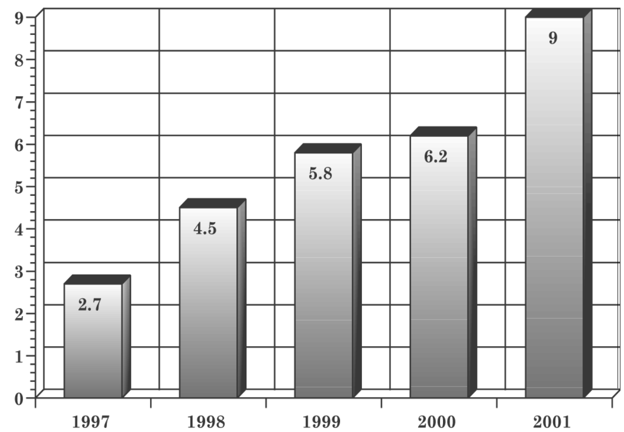
Overall sales revenue decreased by $85 million in 2001 to $391 million. This was primarily due to a reduction in the currency order.

Cost of Goods Sold

Cost of goods sold decreased from $417 million in 2000 to $387 million in 2001. As a percentage of sales revenue, cost of goods sold increased from 88 to 99 percent. The decrease in cost of goods sold is due to the reduced currency and postage programs. The reduction in gross margin is the result of the Bureau's decision not to revise currency billing rates when the Federal Reserve Board reduced its order during the year.

Research and Development Costs

Millions of Dollars



Operating Costs

The Bureau's total operating costs increased by about $5 million in 2001 primarily due to increases in the cost of services related to computer security and other information technology costs. Research and development expenses increased by $3 million due to continuing research into currency counterfeit deterrence and increased developmental work on the next generation of currency designs.

Joseph Parchment (left) and Robert L. Bush apply the final preparation to a $1 currency printing plate.

Report of Management on Internal Control Over Financial Reporting

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

The Bureau assessed its internal control as of September 30, 2001 based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123, "Management Accountability and Control," insofar as such criteria related to financial reporting. Based on this assessment, we assert that the Bureau maintained effective internal control over financial reporting as of September 30, 2001 based on the specified criteria.

October 12, 2001

Gregory D. Carper
Associate Director
(Chief Financial Officer)

Thomas A. Ferguson
Director

Report of Independent Accountants on Internal Control Over Financial Reporting

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

We have examined management's assertion, included in the accompanying "Report of Management on Internal Control Over Financial Reporting," that the Bureau maintained effective internal control over financial reporting as of September 30, 2001, based on criteria established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget (OMB) Circular A-123, "*Management Accountability and Control*." Management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of internal control based on our examination.

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

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

In our opinion, management's assertion that the Bureau of Engraving and Printing, a bureau of the Department of the Treasury, maintained effective internal control over financial reporting as of September 30, 2001 in all material respects, based upon criteria for effective internal control over financial reporting established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123, *"Management Accountability and Control,"* insofar as such criteria related to financial reporting.

October 12, 2001

Ernst + Young LLP

Report of Independent Auditors

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

We have audited the accompanying balance sheets of the Bureau of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, as of September 30, 2001 and 2000, and the related statements of operations and cumulative results of operations, and cash flows 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as applicable. Those standards and bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau of Engraving and Printing as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have issued a report as of and for the year ended September 30, 2001 dated October 12, 2001 on our consideration of the Bureau's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audits.

October 12, 2001

Ernst & Young LLP

The Department of the Treasury
Bureau of Engraving and Printing

Balance Sheets

	September 30 2001	September 30 2000
	(In Thousands)	
Assets:		
Current assets:		
Cash *(Note 3)*	**$237,948**	$240,469
Accounts receivable *(Note 4)*	**22,034**	43,651
Inventories *(Note 5)*	**72,995**	67,094
Prepaid expenses	**2,633**	3,048
Total current assets	**335,610**	354,262
Net property and equipment *(Note 6)*	**298,582**	320,301
Advances	**7**	15
Other assets, principally machinery repair parts and tools	**21,021**	22,402
Total Assets	**$655,220**	$696,980
Liabilities and equity:		
Current liabilities:		
Accounts payable	**$ 12,611**	$ 13,330
Accrued liabilities *(Note 7)*	**31,420**	32,708
Advances	**2,003**	2,204
Deferred revenue	**347**	1
Total current liabilities *(Note 7)*	**46,381**	48,243
Workers' compensation costs *(Note 8)*	**5,770**	5,236
Workers' compensation actuarial liability *(Note 2)*	**54,047**	49,819
Total liabilities	**106,198**	103,298
Equity:		
Invested capital	**32,435**	32,435
Cumulative results of operations	**516,587**	561,247
Total equity	**549,022**	593,682
Total liabilities and equity	**$655,220**	$696,980

See accompanying notes.

The Department of the Treasury
Bureau of Engraving and Printing

Statements of Operations and Cumulative Results of Operations

	Year ended September 30	
	2001	2000
	(In Thousands)	
Revenue from sales *(Note 9)*	**$390,801**	$476,115
Cost of goods sold	**386,573**	416,753
Gross margin on operations	**4,228**	59,362
Operating costs:		
General and administrative	**39,849**	37,756
Research and development	**9,039**	6,187
	48,888	43,943
Excess of (expenses over revenues) revenues over expenses resulting from operations	**(44,660)**	15,419
Cumulative results of operations at beginning of year	**561,247**	545,828
Cumulative results of operations at end of year	**$516,587**	$561,247

See accompanying notes.

The Department of the Treasury
Bureau of Engraving and Printing

Statements of Cash Flows

	Year ended September 30	
	2001	2000
	(In Thousands)	
Operating activities		
Excess of (expenses over revenues) revenues over expenses	**$ (44,660)**	$ 15,419
Adjustments to reconcile excess of (expenses over revenues) revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	**51,525**	48,444
Changes in assets and liabilities:		
Accounts receivable	**21,617**	7,452
Inventories	**(5,901)**	9,855
Prepaid expenses	**415**	(120)
Other assets	**1,381**	2,273
Accounts payable	**(719)**	(3,273)
Accrued liabilities	**(1,489)**	5,316
Advances	**(201)**	615
Deferred revenue	**346**	(1,956)
Workers' compensation liability	**4,963**	11,001
Net cash provided by operating activities	**27,277**	95,026
Investing activities		
Additions to property and equipment	**(29,806)**	(35,169)
Advances from other Federal agencies	**8**	713
Net cash used in investing activities	**(29,798)**	(34,456)
Net (decrease) increase in cash	**(2,521)**	60,570
Cash at beginning of year	**240,469**	179,899
Cash at end of year	**$237,948**	$240,469

See accompanying notes.

The Department of the Treasury
Bureau of Engraving and Printing

Notes to Financial Statements

1. Reporting Entity

Basis of Presentation

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

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

The financial statements represent the consolidation of two Federal revolving funds. The majority of all amounts and activity (over 99%) is contained in the Bureau of Engraving and Printing Revolving Fund (20X4502), which finances Bureau operations. The other revolving fund, the Mutilated Currency Revolving Fund (20X6875.13), is used to redeem damaged paper currency received from the public.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

2. Summary of Significant Accounting Policies (continued)

consistent with historical reporting, the Bureau of Engraving and Printing financial statements are presented in accordance with accounting standards published by the FASB.

Estimation Process

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

Inventories

Inventories are valued at standard cost, except for finished goods inventories, which are valued at weighted average unit cost. Both methods approximate actual cost. Cost elements included in work-in-process and finished goods inventories are direct materials, direct labor, manufacturing overhead and manufacturing support.

Other Assets

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

Property and Equipment

Property and equipment are recorded at cost. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The capitalization threshold is $50,000.

The Bureau occupies and uses buildings and land owned by the U.S. Government. In accordance with the Act establishing the revolving fund, the Bureau is not charged for the use of the buildings or land, but is responsible for maintenance and repair of all buildings and land improvements. The land and building shell for the Bureau's Western Currency Facility were donated by the City of Fort Worth, Texas to the United States Government (see Note 6).

2. Summary of Significant Accounting Policies (continued)

Depreciation

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

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

Employee Retirement Plans

Bureau employees participate in the contributory Civil Service Retirement System (CSRS) or Federal Employees' Retirement System (FERS), to which the Bureau and employees make contributions according to plan requirements. Employer contributions to the retirement plans for 2001 and 2000 were $13.9 million and $13.5 million, respectively. The cost of pro viding the CSRS benefit is more than the amounts contributed by the Bureau and the employees to the Office of Personnel Management (OPM). The full cost of providing pen sion benefits, including the cost financed by OPM, which is not included in the Bureau's Statement of Operations, totaled $23.0 million and $22.5 million in 2001 and 2000, respec tively. The cost of providing the FERS basic benefit, as provided by OPM, is equal to the amounts contributed by OPM, the Bureau and its employees (i.e., the plan is fully funded).

Consistent with reporting under multi-employer pension plans, the Bureau does not report CSRS and FERS assets, accumulated plan benefits, or future liabilities, if any, appli cable to its employees. This data is reported for plan participants by 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 United States Government. The Bureau does not reimburse OPM for these payments. OPM paid such retirement benefit costs totaling $7.0 million and $6.4 million, as calculated by OPM, for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2001 and 2000, respectively. These costs are not included in the Bureau's Statements of Operations.

2. Summary of Significant Accounting Policies (continued)

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

Workers' Compensation Costs

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for the Bureau's employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the Bureau. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. In 2001 and 2000, the liability was determined using the paid losses extrapolation method calculated over the next 37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the discount rate of 5.21% for 2001; and 6.28% in year one, 6.30% in year two, and thereafter for 2000. In 2001 and 2000, a wage inflation factor and medical inflation factor were applied to the calculation of projected future payments. The Bureau's estimated liability for workers' compensation costs was $54.0 million and $49.8 million as of September 30, 2001 and 2000, respectively.

Annual, Sick and Other Leave

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

Sick leave and other types of nonvested leave are expensed as the leave is taken.

Revenue Recognition

Revenue from sales to the Federal Reserve System and United States Postal Service is recognized when finished goods are delivered to the on-site Federal Reserve Depository Vaults or United States Postal Service Vault, and they are released for shipment. Finished goods are released for shipment in accordance with customer requirements.

Notes to Financial Statements (continued)

3. Cash

The year-end cash balances are as follows:

	September 30 2001	September 30 2000
	(In Thousands)	
Bureau of Engraving and Printing Revolving Fund (20X4502)	**$235,611**	$238,236
Mutilated Currency Revolving Fund (20X6875.13)	**2,003**	2,204
Other	**334**	29
Total	**$237,948**	$240,469

4. Accounts Receivable

Accounts receivable consist of the following:

	September 30 2001	September 30 2000
	(In Thousands)	
Billed	**$ 20,166**	$ 39,321
Unbilled	**1,868**	4,330
Total	**$ 22,034**	$ 43,651

The Bureau had intragovernmental accounts receivable of $1 million and $3.7 million as of September 30, 2001 and 2000, respectively. Of these amounts, $0.7 million and $3.6 million were unbilled. Historical accounts receivable loss experience does not warrant the establishment of an allowance for uncollectible accounts.

Notes to Financial Statements (continued)

5. Inventories

Inventories consist of the following:

	September 30 2001	September 30 2000
	(In Thousands)	
Raw materials and supplies	**$ 40,640**	$ 45,479
Work-in-process	**21,716**	15,046
Finished goods – regular currency	**3,060**	1,122
Finished goods – postage stamps and special products	**1,141**	1,349
Finished goods – uncut currency	**6,438**	4,098
Total	**$ 72,995**	$ 67,094

6. Net Property and Equipment

Property and equipment consists of the following:

	September 30 2001	September 30 2000
	(In Thousands)	
Machinery and equipment	**$470,086**	$457,064
Building and land improvements	**153,236**	142,699
IT equipment and software	**20,714**	15,618
Office machines	**1,495**	1,495
Furniture and fixtures	**3,108**	3,108
Donated assets – art work	**125**	125
Motor vehicles	**272**	336
	649,036	620,445
Less accumulated depreciation	**359,619**	309,332
	289,417	311,113
Construction-in-progress	**9,165**	9,188
Net property and equipment	**$298,582**	$320,301

Fully depreciated assets in use as of September 30, 2001 and 2000, were $95 million and $90 million, respectively.

Notes to Financial Statements (continued)

6. Net Property and Equipment (continued)

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

7. Current Liabilities

All current liabilities are funded and consist of the following:

	September 30 2001	September 30 2000
	(In Thousands)	
Intragovernmental	**$ 7,782**	$ 6,837
Other	**38,599**	41,406
Total	**$46,381**	$48,243

Accrued current liabilities consist of the following:

	September 30 2001	September 30 2000
	(In Thousands)	
Payroll	**$16,796**	$18,547
Annual Leave	**9,168**	9,112
Workers' compensation	**4,248**	4,047
Other	**1,208**	1,002
Total	**$31,420**	$32,708

8. Noncurrent Liabilities

The Bureau has recorded a liability for claims incurred and paid to claimants by the Department of Labor (DOL) as of September 30, 2001 and 2000, but not yet reimbursed to DOL by the Bureau. Such amounts, associated with workers' compensation, which will be paid in subsequent years, are approximately $5.8 million and $5.2 million, respectively (see Note 2).

Notes to Financial Statements (continued)

9. Revenue from Sales

Revenues are derived from the following principal customers:

	September 30			
	2001		2000	
	(In Thousands)			
Federal Reserve System	**$326,801**	**83.6%**	$409,399	86.0%
United States Postal Service	**51,490**	**13.2%**	54,790	11.5%
Other	**12,510**	**3.2%**	11,926	2.5%
Total	**$390,801**	**100.0%**	$476,115	100.0%

10. Principal Suppliers

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

11. Commitments and Contingencies

The Bureau is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Bureau are paid by the Department of the Treasury Judgment Fund. There were only minimal payouts from the Judgment Fund in fiscal years 2001 and 2000. In employee-related cases, the Bureau's liability is limited to the employer's required contribution to the retirement and Medicare funds. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the financial statements.

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

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

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

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

We have audited the financial statements of the Bureau of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, as of and for the year ended September 30, 2001, and have issued our report thereon dated October 12, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as applicable.

Compliance

The management of the Bureau is responsible for complying with laws and regulations applicable to the Bureau. As part of obtaining reasonable assurance about whether the Bureau's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, as applicable. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*, and OMB Bulletin No. 01-02, as applicable.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bureau's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Bureau's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management of the Bureau in a separate letter dated October 12, 2001.

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

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

October 12, 2001

Ernst + Young LLP

Report of Independent Auditors on Other Financial Information

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

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

October 12, 2001

Ernst & Young LLP

The Department of the Treasury
Bureau of Engraving and Printing

Statements of Operations
(By Product Line)
(Unaudited)

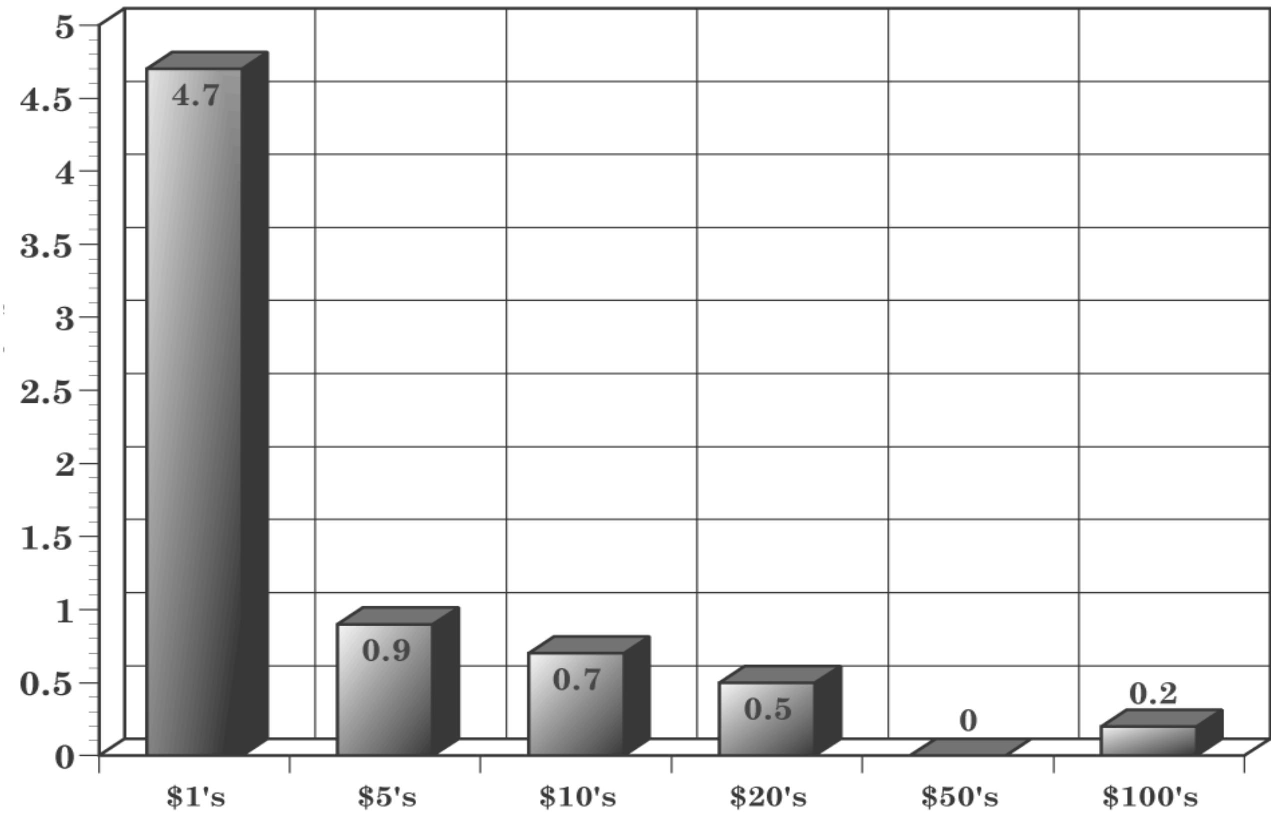
	Year ended September 30	
	2001	2000
	(In Thousands)	
Currency program revenues	$339,311	$421,325
Cost of goods sold	337,442	367,426
Gross margin on operations	1,869	53,899
Operating costs:		
General and administrative	35,947	33,731
Research and development	9,039	6,187
Currency-excess of (expenses over revenues) revenues over expenses	(43,117)	13,981
Postage programs revenue	51,490	54,790
Cost of goods sold	49,131	49,327
Gross margin on operations	2,359	5,463
Operating costs:		
General and administrative	3,902	4,025
Postage-excess of revenues over expenses	(1,543)	1,438
Excess of (expenses over revenues) revenues over expenses	$ (44,660)	$ 15,419

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

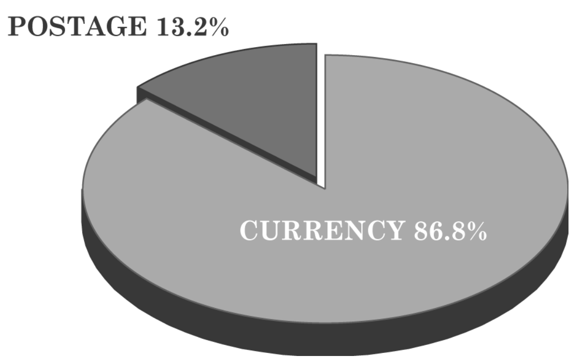
PRODUCT LINE STATEMENT OF OPERATIONS

Currency program revenue fell almost 20 per cent in 2001 due to a one billion note decrease in the currency order during the year. Continued reductions in postage stamp orders resulted in a six per cent decrease in postage program revenue. Superior performance in the manufacturing areas coupled with Bureau wide cost containment efforts resulted in positive gross margins on operations in both the currency and postage programs despite these significant program declines.

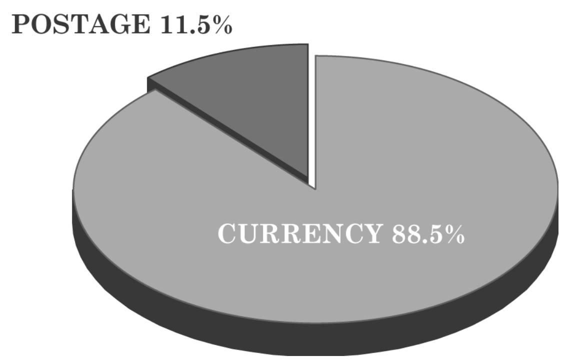
2001 Deliveries by Denomination
Billions of Notes



2001
Revenue by Program



2000
Revenue by Program



PROMPT PAYMENT

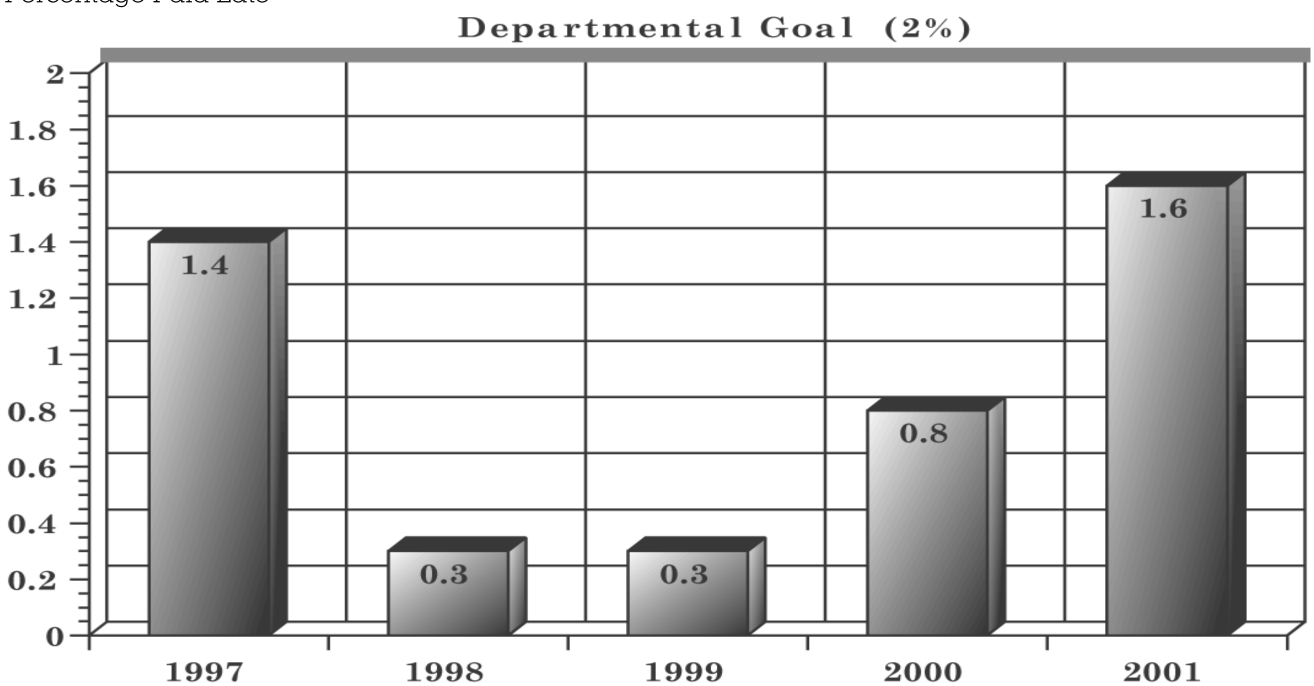
To ensure that Federal agencies pay invoices in a timely manner, Congress passed the Prompt Payment Act and the Office of Management and Budget (OMB) issued Circular A-125, which is now codified as part of the Code of Federal Regulations (CFR). Generally, the CFR requires payment within 30 days from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

The Bureau's prompt payment performance for the past three years is presented below. As the percentages indicate, the Bureau has continued to exceed the Departmental standard for late payments. In 2001, there was an increase in late payments largely due to changes in accounting personnel, including hiring a new manager and several new accounting technicians. In addition, a new Prompt Payment Officer was appointed, who, ultimately, is responsible for ensuring that any late payments issued by the Bureau are identified and for monitoring Bureau compliance with the Prompt Payment rule. Nonetheless, the Bureau's late payment rate continues to exceed the Departmental standard.

	1999	2000	2001
1. Number of Invoices Paid Late	27	70	153
2. Interest Penalties Paid	$291	$1,921	$7,836
3. Percentage of Invoices Paid Late	0.3%	0.8%	1.6%

Late Payment Occurrence Rate

Percentage Paid Late



SUPPLEMENTAL INFORMATION

CAPACITY UTILIZATION

1. Machine Capacity Utilization*	1999	2000	2001
Currency Program Washington			
a. Printing	100%	72%	55%
b. Processing	100%	67%	51%
Currency Program Fort Worth			
a. Printing	100%	71%	56%
b. Processing	100%	69%	54%
Postage Program			
a. Printing	40%	37%	32%
b. Processing	29%	29%	28%

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

2. Machine Capacity Utilization	1999	2000	2001
Currency Program Washington			
a. Printing	100%	72%	55%
b. Processing	100%	67%	51%
Currency Program Fort Worth			
a. Printing	100%	71%	56%
b. Processing	100%	69%	54%

This past year was challenging for the Bureau as the currency order was reduced from an expected level of eight billion notes to seven billion notes. Consequently, capacity utilization in both currency printing and processing decreased. This enabled the Bureau to provide employees with additional quality and safety training, and provided time for comprehensive production tests of possible design features for the currency redesign effort. Capacity utilization and currency demand in 2002 are expected to remain stable.

3. Machine Capacity Utilization	1999	2000	2001
Postage Program			
a. Printing	40%	37%	32%
b. Processing	29%	29%	28%

Machine capacity utilization in the postage program has been trending lower as a result of continued reductions in the annual postage stamp order. While the postage order has decreased, the Bureau has shifted personnel to the currency program and cross-trained others in related technical areas. As a result of staffing reductions, machine capacity now significantly exceeds actual production capacity due to the Bureau's inability to staff all the postage equipment for three shifts, five days a week. In FY 2002, printing and processing capacity utilization is expected to continue its decline due to the ongoing decrease in postage stamp orders.