Report of Management on Internal Control Over Financial Reporting

We, as members of the Bureau of Engraving and Printing, are responsible for establishing and 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 error 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 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, 2003, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 and 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, 2003, based on the specified criteria.

October 10, 2003

Gregory D. Carper
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 of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, maintained effective internal control over financial reporting as of September 30, 2003, based on criteria established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control." The Bureau's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with 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 the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the 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 maintained effective internal control over financial reporting as of September 30, 2003 is fairly stated, in all material respects, based upon criteria for effective internal control over financial reporting established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123, "Management Accountability and Control," insofar as such criteria related to financial reporting.

Ernst & Young LLP

October 10, 2003

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, 2003 and 2002, and the related statements of operations and cumulative results of operations, and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the 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 at September 30, 2003 and 2002, 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 also issued our report as of and for the year ended September 30, 2003 and dated October 10, 2003 on our consideration of the Bureau's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report when considering the results of our audits.

Ernst + Young LLP

October 10, 2003
Washington, DC

The Department of the Treasury
Bureau of Engraving and Printing

Balance Sheets

	September 30 2003	2002
	(In Thousands)	
Assets		
Current assets:		
Cash *(Note 3)*	**$175,613**	$137,329
Accounts receivable *(Note 4)*	**45,324**	71,394
Inventories *(Note 5)*	**94,671**	79,495
Prepaid expenses	**4,538**	3,839
Total current assets	**320,146**	292,057
Net property and equipment *(Notes 2 and 6)*	**284,303**	306,673
Advances to other Federal agencies	**-0-**	5
Other assets, principally machinery repair parts and tools *(Note 2)*	**14,716**	20,660
Total assets	**$619,165**	$619,395
Liabilities and equity		
Current liabilities:		
Accounts payable	**$13,862**	$8,188
Accrued liabilities *(Note 7)*	**28,912**	25,658
Advances	**1,699**	2,472
Total current liabilities *(Note 7)*	**44,473**	36,318
Workers' compensation costs *(Note 8)*	**5,491**	5,972
Workers' compensation actuarial liability *(Note 2)*	**61,291**	57,089
Total liabilities	**111,255**	99,379
Equity		
Invested capital	**32,435**	32,435
Cumulative results of operations	**475,475**	487,581
Total equity	**507,910**	520,016
Total liabilities and equity	**$619,165**	$619,395

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	
	2003	**2002**
	(In Thousands)	
Revenue from sales *(Note 9)*	**$518,085**	$443,439
Cost of goods sold	**468,546**	416,016
Gross margin on operations	**49,539**	27,423
Operating costs:		
General and administrative	**50,283**	46,109
Research and development	**11,362**	10,320
	61,645	56,429
Excess of expenses over revenues resulting from operations	**(12,106)**	(29,006)
Cumulative results of operations at beginning of year	**487,581**	516,587
Cumulative results of operations at end of year	**$475,475**	$487,581

See accompanying notes.

The Department of the Treasury
Bureau of Engraving and Printing

Statements of Cash Flows

	Year Ended September 30	
	2003	**2002**
	(In Thousands)	
Operating activities		
Excess of expenses over revenues	**($12,106)**	($29,006)
Adjustments to reconcile excess of expenses over revenues to net cash provided (used) by operating activities:		
Depreciation and amortization	**51,098**	55,687
Changes in assets and liabilities:		
Accounts receivable	**26,070**	(49,360)
Inventories	**(15,176)**	(6,500)
Prepaid expenses	**(699)**	(1,206)
Other assets	**(1,403)**	361
Accounts payable	**5,674**	(4,423)
Accrued liabilities	**3,254**	(6,130)
Advances	**(773)**	469
Deferred revenue	**-0-**	(347)
Workers' compensation costs	**3,721**	3,612
Net cash provided (used) by operating activities	**59,660**	(36,843)
Investing activities		
Disposal of other assets *(Note 2)*	**7,347**	-0-
Disposal of property and equipment *(Note 2)*	**9,207**	-0-
Additions to property and equipment	**(37,935)**	(63,778)
Advances to other Federal agencies	**5**	2
Net cash (used in) investing activities	**(21,376)**	(63,776)
Net increase (decrease) in cash	**38,284**	(100,619)
Cash at beginning of year	**137,329**	237,948
Cash at end of year	**$175,613**	$137,329

See accompanying notes.

The Department of the Treasury
Bureau of Engraving and Printing

Notes to Financial Statements
Years Ended September 30, 2003 and 2002

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

The Department of the Treasury
Bureau of Engraving and Printing

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Equipment and Spare Parts

In 2003, the disposal of idle equipment and repair parts formerly used to produce U.S. postage stamps was initiated. The equipment and related spare parts will be turned over to the General Services Administration (GSA) for disposal in accordance with applicable government regulations.

The United States Postal Service reimbursed the Bureau $9.2 million and $7.3 million, respectively, for the book value of idle equipment and the book value of repair parts and supplies as of September 30, 2003. The balances in the fixed assets and other assets accounts reflect this reimbursement. The $56.9 million of accumulated depreciation associated with the idle equipment as of September 30, 2003, was also written-off. The $0.8 million reserve for obsolescence on the repair parts and supplies as of September 30, 2003, was also written-off.

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, net of reserve for obsolescence, which approximates actual costs.

Property and Equipment

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

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

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Depreciation

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

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

Employee Retirement Plans

Bureau employees participate in the contributory Civil Service Retirement System (CSRS) or Federal Employees' Retirement System (FERS), to which the Bureau and employees make contributions according to plan requirements. Employer contributions to the retirement plans for 2003 and 2002 were $14.6 million and $14.5 million, respectively. The employer contribution rate for fiscal year 2003 was 7.5% from October through December and 7.0% beginning January, and 8.5% for fiscal year 2002. The cost of providing the CSRS benefit is more than the amounts contributed by the Bureau and the employees to the Office of Personnel Management (OPM). The full cost of providing pension benefits, including the cost financed by OPM which is not included in the Bureau's Statement of Operations, totaled $25.1 million and $23.6 million in 2003 and 2002, respectively. The cost of providing the FERS basic benefit, as provided by OPM, is equal to the amounts contributed by OPM, the Bureau and its employees.

Consistent with reporting under multi-employer pension plans, the Bureau does not report CSRS and FERS assets, accumulated plan benefits or future liabilities, if any, applicable to its employees. This data is reported for plan participants by OPM.

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 $8.5 million and $7.9 million, as calculated by OPM, for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2003 and 2002, respectively. These costs are not included in the Bureau's Statements of Operations.

2. Summary of Significant Accounting Policies (continued)

Postretirement Benefits Other than Pensions (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.

Cost of Employee Pensions and Postretirement Benefits Paid by OPM

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

Workers' Compensation Costs

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for the Bureau's employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the Bureau. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability for future worker's compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the discount rate of 3.84% in year one and 4.85% thereafter. Based on information provided by the DOL, the Department of the Treasury (Treasury) allocated the overall liability to Treasury components based on past claims paid. The Bureau's estimated liability for workers' compensation costs was $61.3 million and $57.1 million as of September 30, 2003 and 2002, 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.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

Advertising Cost

The Bureau incurred $21.1 million in advertising cost in 2003 related to the Next Generation Currency Notes public awareness campaign. Advertising costs are expensed as incurred. Advertising costs in 2002 were insignificant.

3. Cash

The year-end cash balances are as follows:

	September 30	
	2003	**2002**
	(In Thousands)	
Bureau of Engraving and Printing Revolving Fund (20X4502)	**$175,197**	$134,531
Mutilated Currency Revolving Fund (20X6875.13)	**416**	2,472
Other	**-0-**	326
Total	**$175,613**	$137,329

4. Accounts Receivable

Accounts receivable consist of the following:

	September 30	
	2003	**2002**
	(In Thousands)	
Billed	**$43,858**	$70,498
Unbilled	**1,466**	896
Total	**$45,324**	$71,394

The Bureau had intragovernmental accounts receivable of $0.1 million as of September 30, 2003 and 2002. Of these amounts, none were unbilled. Historical accounts receivable loss experience does not warrant the establishment of an allowance for uncollectible accounts.

The Department of the Treasury
Bureau of Engraving and Printing

Notes to Financial Statements (continued)

5. Inventories

Inventories consist of the following:

	September 30	
	2003	**2002**
	(In Thousands)	
Raw materials and supplies	**$47,904**	$39,834
Work-in-process	**37,997**	31,259
Finished goods - regular currency	**2,953**	-0-
Finished goods - postage stamps and special products	**246**	912
Finished goods - uncut currency	**5,571**	7,490
Total	**$94,671**	$79,495

6. Net Property and Equipment

Property and equipment consist of the following:

	September 30	
	2003	**2002**
	(In Thousands)	
Machinery and equipment	**$445,005**	$490,214
Building and land improvements	**202,225**	162,658
IT equipment and software	**22,844**	23,849
Office machines	**1,495**	1,495
Furniture and fixtures	**3,108**	3,108
Donated assets - art work	**125**	125
Motor vehicles	**265**	265
	675,067	681,714
Less accumulated depreciation	**396,889**	414,996
	278,178	266,718
Construction-in-progress	**6,125**	39,955
Net property and equipment	**$284,303**	$306,673

Fully depreciated assets in use as of September 30, 2003 and 2002, were $182 million and $148 million, respectively.

The Department of the Treasury
Bureau of Engraving and Printing

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	
	2003	**2002**
	(In Thousands)	
Intragovernmental	**$6,185**	$4,830
Other	**38,288**	31,488
Total	**$44,473**	$36,318

Accrued current liabilities consist of the following:

	September 30	
	2003	**2002**
	(In Thousands)	
Payroll	**$12,761**	$9,597
Annual leave	**10,084**	9,777
Workers' compensation	**4,778**	4,616
Other	**1,289**	1,668
Total	**$28,912**	$25,658

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, 2003 and 2002, but not yet reimbursed to DOL by the Bureau. Such amounts, associated with workers' compensation, which will be paid in subsequent years, are approximately $5.5 million and $6.0 million, respectively. (See Note 2)

The Department of the Treasury
Bureau of Engraving and Printing

Notes to Financial Statements (continued)

9. Revenue from Sales

Revenues are derived from the following principal customers:

	September 30			
	2003		**2002**	
	(In Thousands)			
Federal Reserve System	**$469,642**	**90.6%**	$383,917	86.6%
United States Postal Service	**37,513**	**7.3%**	46,181	10.4%
Other	**10,930**	**2.1%**	13,341	3.0%
Total	**$518,085**	**100.0%**	$443,439	100.0%

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

10. Principal Suppliers

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

11. Commitments and Contingencies

The Bureau is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Bureau are paid by the Department of the Treasury Judgment Fund. There were no payouts from the Judgment Fund made in fiscal years 2003 and 2002. In employee-related cases, the Bureau’s liability is limited to the employer’s required contribution to the retirement and Medicare funds. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the financial statements.

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

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

12. Restructuring

In 2003, the Bureau announced that employee voluntary separation incentive payments would be offered in 2004 to reduce staffing and better match facility staffing and production requirements. The estimated number of employees expected to accept the incentive is 210 for an estimated cost of $5.3 million. No accrual provision is provided for the estimated restructuring cost in the financial statements because the open period for applying for payments begins in 2004 and employees are not required to provide binding notice of their intention to accept the incentive.

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, 2003, and have issued our report thereon dated October 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as applicable.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bureau's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions or material weaknesses. 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 of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud 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 10, 2003.

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

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

Ernst + Young LLP

October 10, 2003

Report of Independent Auditors
on Other Financial Information

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

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

Ernst + Young LLP

October 10, 2003

The Department of the Treasury
Bureau of Engraving and Printing

Statements of Operations
(By Product Line)
(Unaudited)

	Year Ended September 30	
	2003	**2002**
	(In Thousands)	
Currency program revenues	**$480,572**	$397,258
Cost of goods sold	**436,753**	376,720
Gross margin on operations	**43,819**	20,538
Operating costs:		
General and administrative	**47,693**	41,752
Research and development	**11,362**	10,320
Currency-excess of expenses over revenues	**(15,236)**	(31,534)
Postage programs revenue	**37,513**	46,181
Cost of goods sold	**31,793**	39,296
Gross margin on operations	**5,720**	6,885
Operating costs:		
General and administrative	**2,590**	4,357
Postage-excess of revenues over expenses	**3,130**	2,528
Net results of operations	**($12,106)**	($29,006)

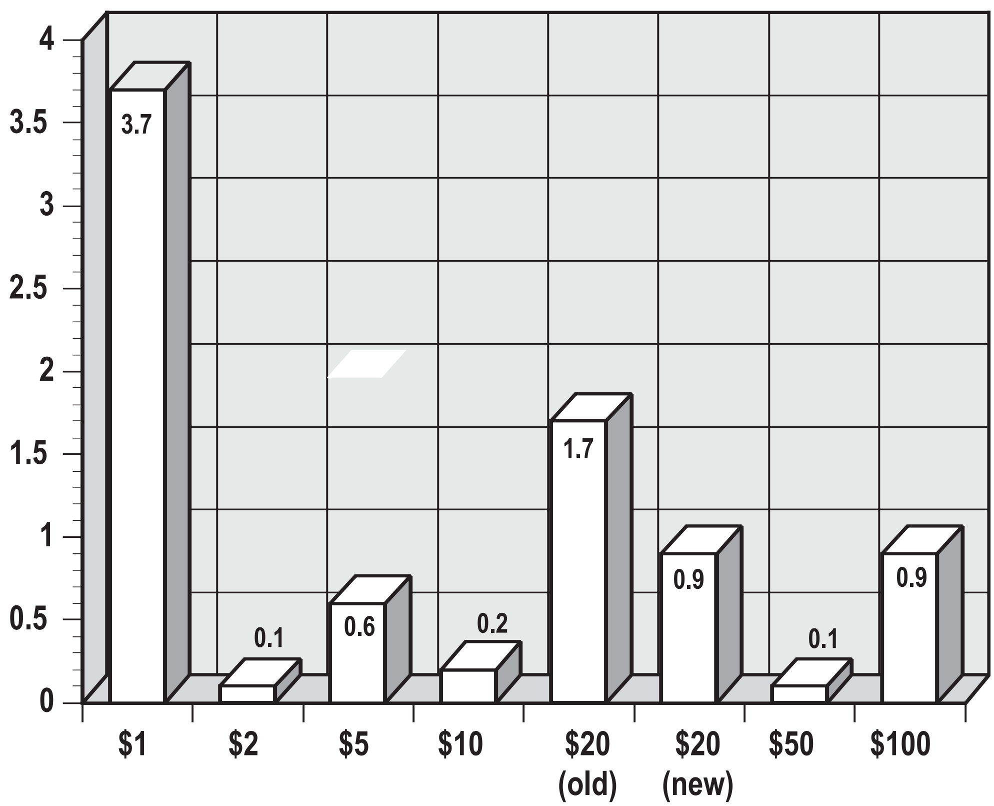
Note:

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

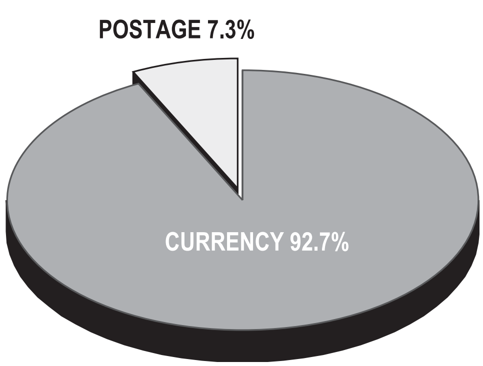
Product Line Statement of Operations

Deliveries of Federal Reserve Notes in 2003 increased by 1.2 billion over 2002 deliveries, while postage stamp deliveries continued to decrease according to plan. Changes in the currency program product mix resulted in a revenue increase of approximately 21 percent in 2003, while postage stamp program revenue decreased approximately 19 percent. Superior performance in the manufacturing areas coupled with Bureau-wide cost containment efforts resulted in positive gross margins on operations in both the currency and postage programs. The net operating loss for the year, while within planned parameters, was less than anticipated because of lower than expected currency spoilage rates and the superior performance in the manufacturing areas noted above.

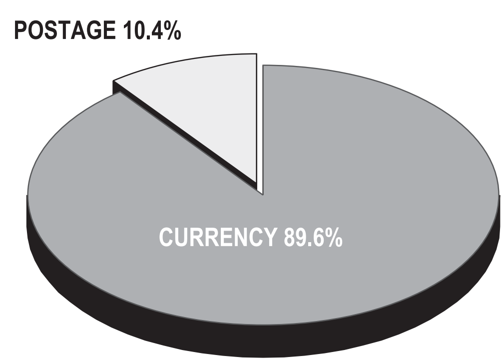
2003 Deliveries by Denomination – Billions of Notes



2003 Revenue by Program



2002 Revenue by Program



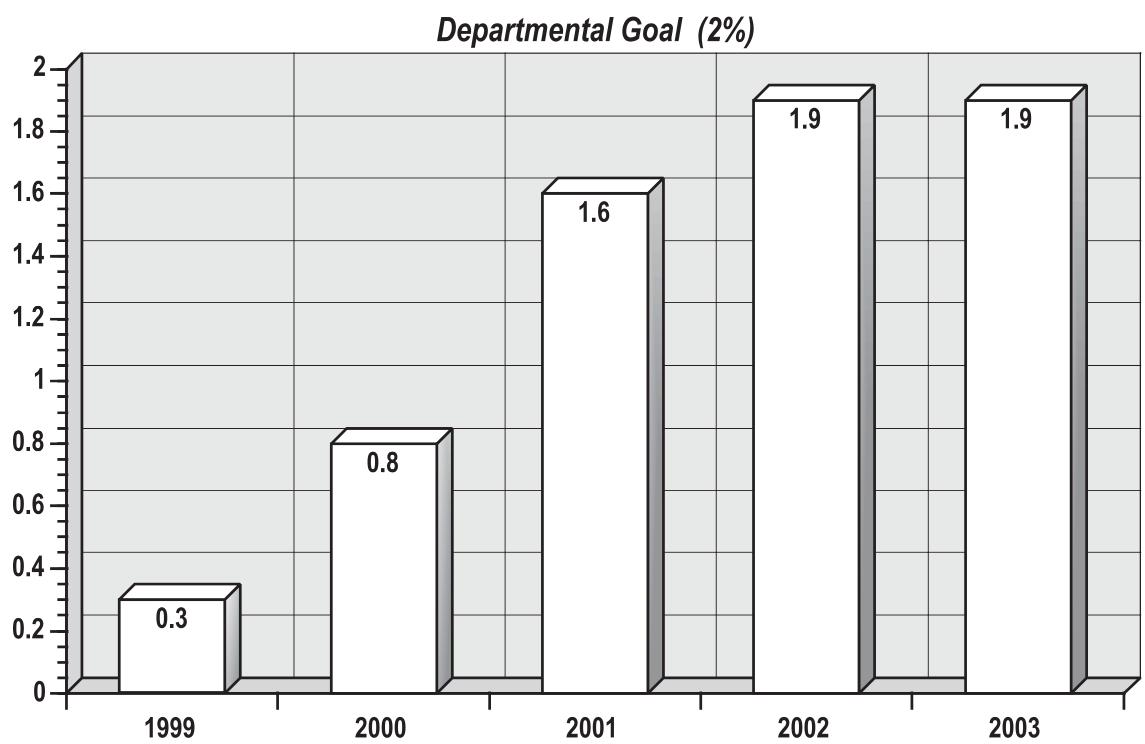
Prompt Payment

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 penalty must be paid to the vendor. Within the Department of Treasury, the standard for the late payment rate is that no more than two percent of the invoices subject to prompt payment shall be paid late (at least 98 percent paid within 30 days.)

The Bureau's prompt payment performance for the past three years is presented below. As the percentages indicate, the Bureau has continued to exceed the Departmental standard for late payments. In 2003, there was a slight decrease in the number of late payments largely due to increased efforts to ensure timely payment of invoices.

	2001	2002	2003
1. Number of Invoices Paid Late	153	154	148
2. Interest Penalties Paid	$7,836	$7,452	$7,741
3. Percentage of Invoices Paid Late	1.6%	1.9%	1.9%

Late Payment Occurrence Rate - Percentage Paid Late



Supplemental Information

Capacity Utilization

Machine Capacity Utilization*	2001	2002	2003
Currency Program Washington			
a. Printing	55%	66%	71%
b. Processing	51%	58%	66%
Currency Program Fort Worth			
a. Printing	56%	67%	77%
b. Processing	54%	61%	68%
Postage Program			
a. Printing	32%	25%	17%
b. Processing	28%	23%	17%

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

Currency Capacity Utilization	2001	2002	2003
Washington Currency Program			
a. Printing	55%	66%	71%
b. Processing	51%	58%	66%
Fort Worth Currency Program			
a. Printing	56%	67%	77%
b. Processing	54%	61%	68%

Capacity utilization in the currency program in 2003 shows an increase over 2001 and 2002 because the currency order increased from 7 billion notes (in 2001 and 2002) to 8.2 billion notes in 2003. Capacity utilization in 2004 is expected to increase slightly as a result of a planned increase in the currency order to 8.7 billion notes.

Postage Capacity Utilization	2001	2002	2003
a. Printing	32%	25%	17%
b. Processing	28%	23%	17%

Machine capacity utilization in the postage program continues to trend lower as a result of continuing production decreases. This is consistent with a five-year agreement between the U.S. Postal Service and the Bureau that plans for the phase-out of postage stamp production at the Bureau in 2005. As the postage stamp order decreases each year, the Bureau has focused its attention on shifting personnel to the currency program and to cross training others in related technical fields. Machine capacity significantly exceeds actual production capacity because of the lower program volume and the Bureau's inability to staff all postage equipment for three shifts, five days a week. In 2004, printing and processing capacity utilization is expected to increase as a result of the disposal of idle equipment used in the production of postage stamps.