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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

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Examination Of The Bureau Of Engraving And Printing Fund's Financial Statements For The 15 Months Ended September 30, 1976, And For Fiscal Year 1977

The financial statements present fairly the financial position of the Bureau of Engraving and Printing Fund at September 30, 1977 and 1976, and results of its operations and the changes in its financial position for the periods then ended in conformity with principles of accounting prescribed by the Comptroller General.

In performing its audit, GAO noted that the Bureau could save interest costs by borrowing funds from the Treasury to buy machinery and equipment. This, however, will require legislation. The Bureau has drafted a legislative proposal to that effect. The Congress should favorably consider legislation authorizing the Bureau to borrow from the Treasury for capital equipment needs.

UNITED STATES GENERAL ACCOUNTING OFFICE

GGD 78-67

JULY 5, 1978

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report summarizes our examination of the financial statements of the Bureau of Engraving and Printing Fund for the 15 months ended September 30, 1976, and for fiscal year 1977.

Our examination is required by the act of August 4, 1950 (31 U.S.C. 181), which established the Bureau of Engraving and Printing Fund.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of the Treasury.

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

EXAMINATION OF THE BUREAU OF ENGRAVING AND PRINTING FUND'S FINANCIAL STATEMENTS FOR THE 15 MONTHS ENDED SEPTEMBER 30, 1976, AND FOR FISCAL YEAR 1977

D I G E S T

The Bureau of Engraving and Printing, Department of the Treasury, manufactures U.S. paper currency, various public debt instruments, postage and revenue stamps, food coupons, and miscellaneous security items. These operations are financed through the Bureau of Engraving and Printing Fund. Costs of operations are recovered from agencies using the Bureau's services.

This report (1) provides information on the Bureau's currency, data processing, and food coupon operations, (2) suggests that the Bureau borrow money from the Treasury to pay for equipment and machinery, thus incurring lower interest costs, and (3) analyzes the Bureau's financial statements.

OPERATIONS

The paper for U.S. currency is produced by one contractor and has been for some time. One other firm has also manufactured this paper in prior years for the Bureau, but it cannot produce a yearly supply without significantly altering its commercial business.

Although procurement competition for this paper is almost nonexistent, the Bureau's cost reviews have found the contractor's negotiated price reasonable. The latest contract is for an estimated 27.7 million pounds of paper at $32 million. (See pp. 3 and 4.)

During fiscal year 1977, 1.9 billion food coupons were printed. The Bureau, at the direction of the Office of Management and Budget, contracts out the printing of coupons and bills the Department of Agriculture for the cost. (See pp. 5 and 6.)

BORROWING AUTHORITY NEEDED FOR MACHINERY AND EQUIPMENT

The Bureau does not have the authority to borrow from the Treasury to finance machinery and equipment. It does, however, have authority to include a surcharge in the selling price of its products to set up a reserve to replace capital equipment. The need for equipment occurs faster than capital accumulates, so the Bureau uses lease-purchase agreements. These arrangements provide the equipment when needed but will cost about $3.4 million in interest over the life of the agreements.

GAO believes interest costs will decrease if the Bureau borrows from the Treasury's general fund. The Bureau has drafted legislation to obtain the borrowing authority. (See ch. 3.)

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion, the accompanying financial statements (schs. 1, 2, and 3) present fairly the financial position of the Bureau of Engraving and Printing Fund at September 30, 1976 and 1977, and the results of its operations and changes in its financial position for the periods then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States. (See p. 10.)

MATTER FOR CONSIDERATION BY THE CONGRESS

To minimize interest costs, GAO suggests the Congress favorably consider legislation authorizing the Bureau to borrow money for the Treasury for capital equipment. (See p. 8.)

AGENCY COMMENTS

Bureau personnel have reviewed this report and concur with the facts and conclusions.

Contents

		Page
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
2	OPERATIONS	3
	Procurement of currency paper	3
	Data processing plans	5
	Food coupon production	5
3	MACHINERY AND EQUIPMENT MODERNIZATION PROGRAM	7
	Financing capital improvements	7
	Matter for consideration by the Congress	8
4	INTERNAL AUDIT	9
5	SCOPE OF EXAMINATION AND OPINION ON FINANCIAL STATEMENTS	10
	Scope of examination	10
	Opinion on financial statements	10
FINANCIAL STATEMENTS		
Schedule		
1	Statement of financial condition September 30, 1977 and 1976	11
2	Statement of income and expense for the fiscal years ended September 30, 1977 and 1976	12
3	Statement of changes in financial position for the fiscal years ended September 30, 1977 and 1976	13
	Notes to the financial statements	
APPENDIX		
I	Principal officials of the Bureau of Engraving and Printing responsible for the activities discussed in this report	21

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CHAPTER 1

INTRODUCTION

The Bureau of Engraving and Printing, Department of the Treasury, manufactures U.S. paper currency; various public debt instruments; postage and revenue stamps; food coupons; and various other items, such as commissions, certificates of awards, and permits. Its products are produced for Government departments and independent agencies, the Board of Governors of the Federal Reserve System, and U.S.-administered territories. The Bureau's principal customers are the Federal Reserve System, the Department of Agriculture, the U.S. Postal Service, and the Bureau of Alcohol, Tobacco and Firearms.

The Bureau does extensive research and development to improve the quality of products, reduce manufacturing costs, and strengthen deterrents to counterfeiting Government securities. It purchases equipment, materials, and supplies; manufactures ink and gum used for its products; provides maintenance service for its buildings and plant machinery and equipment; and stores and delivers its products in accordance with requirements of customer agencies. The Bureau also provides services for Government agencies which include (1) destroying mutilated securities and confidential papers and (2) providing custodial and elevator services in areas of its buildings occupied by other branches of the Treasury.

The Bureau is headed by a Director, appointed by the Secretary of the Treasury. The Director reports to the Under Secretary of the Treasury.

The century-old Bureau has grown to a modern industrial establishment employing over 3,000 people. The Bureau is housed in two buildings in Washington, D.C., and rents additional space in a warehouse at Lorton, Virginia.

The basic legislation authorizing the Bureau's operation dates back to the act of July 11, 1862 (12 Stat. 532). This legislation has been supplemented by the act of March 3, 1877 (19 Stat. 353), and the act of June 4, 1897 (30 Stat. 18).

Operations are financed through the Bureau of Engraving and Printing Fund, a revolving fund established in fiscal year 1951. Capital requirements, such as exterior stonework, air conditioning, and modernizing and purchasing new equipment, have been provided through congressional appropriations.

Legislation approving the fiscal year 1978 appropriation also authorizes the Bureau (1) to adjust its prices to generate enough funds so capital equipment can be acquired and future working capital provided and (2) to retain, as additional capital, the funds collected for these purposes since July 1, 1974. Since July 1974 the Bureau has collected funds to acquire capital equipment only. On October 1, 1977, it began collecting funds for working capital.

The Accounting and Auditing Act of 1950 (31 U.S.C. 66(a)) places responsibility for establishing and maintaining adequate systems of accounting and internal control with the head of each executive agency. These systems are required to meet the accounting principles, standards, and related requirements prescribed by the Comptroller General of the United States.

The act also requires the Comptroller General to approve accounting systems when they are deemed adequate and conform to prescribed principles, standards, and related requirements. The Comptroller General approved the Bureau's accounting system on July 9, 1952.

CHAPTER 2

OPERATIONS

The Bureau's operations are financed by the Bureau of Engraving and Printing Fund. Agencies using the Bureau's services pay prices considered adequate to recover the Bureau's costs of producing the items.

During fiscal years 1976 and 1977, the Bureau delivered the following finished goods to its customers.

Item	Number of pieces FY 1976 (note a)	Number of pieces FY 1977	Face value FY 1977
Currency	3,490,080,116	2,997,120,106	$ 19,546,720,000
Bonds, notes, bills, certificates, and debentures	5,755,605	2,454,895	153,922,125,000
Stamps	44,759,533,124	32,218,545,069	11,871,565,000
Miscellaneous	10,756,395	4,793,842	-
Total	48,265,125,240	35,222,913,912	$185,340,410,000

a/Fiscal year 1976 includes the 15-month period from July 1, 1975, to September 30, 1976.

In fiscal years 1976 and 1977, revenue from products the Bureau sold was $136,268,403 and $115,613,4[illegible] respectively. The Bureau reported a net profit of $466,845 in fiscal year 1976 and a net loss of $904,075 in fiscal year 1977. The fiscal year 1976 profit was used to reduce the accumulated loss from prior years' operations, which was $722,017 at June 30, 1975. To insure that losses are recovered, the Bureau periodically reviews the cost of making products and adjusts selling prices.

PROCUREMENT OF CURRENCY PAPER

To print U.S. currency, the Bureau uses paper manufactured according to the Secretary of the Treasury's rigid specifications. The paper has small segments of colored fiber incorporated during manufacture. Although procurement competition for this special paper is almost nonexistent, the Bureau's cost reviews have found the contractor's negotiated costs reasonable.

The current supplier has manufactured currency paper for the Bureau for almost 100 years. Although another firm has manufactured this paper for the Bureau in prior years, it cannot produce a yearly supply without significantly altering its commercial business. Contract competition, then, is essentially nonexistent.

The contract awarded to produce the currency paper from August 13, 1973, to June 30, 1975, contained an option to extend the contract through fiscal years 1976 and 1977. Effective July 1, 1975, the Bureau exercised this option and the contract was extended through June 1977. Effective July 1, 1977, the contract was extended through December 31, 1977, to place the contract on a calendar year basis, which would coincide with the supplier's accounting year. Bureau officials believed this would provide better comparative cost data to serve as the basis of negotiation and would more accurately portray contract costs. In addition, the extension would give the Bureau more time to explore other possible sources of paper. The contract was extended again until January 31, 1978, to permit additional time to award a new contract.

The contract's standard price adjustment clause provided that the price for currency paper can be increased or decreased proportionately with increases or decreases in the supplier's cost. The contracted unit cost per pound for currency paper increased from $0.671 on August 13, 1973, to $1.090 on October 17, 1977, about a 62-percent increase. The increase was primarily attributable to increases in the supplier's costs of raw materials; manufacturing overhead, of which energy costs are a significant element; and others, such as laboratory and plant protection costs.

The Bureau's Office of Audit reviewed the contractor's costs of producing the distinctive paper and nondistinctive experimental paper from August 13, 1973, through June 30, 1977. The Office of Audit found the costs reasonable.

On February 21, 1978, the Bureau awarded a $32 million fixed-price-with-escalation contract, effective February 1, 1978, through December 31, 1981. This contract is for an estimated 27.7 million pounds of currency paper at $1.163 per pound--a $0.073 per pound increase over the prior contract price of $1.090 per pound.

DATA PROCESSING PLANS

In 1972 the Bureau began a program for developing and using a computerized system that will provide and integrate information on its manufacturing and financial activities. As the initial step, the Bureau converted its payroll and personnel processing from punched card equipment to computer processing. The Bureau does not have its own computer, and uses a payroll and personnel system developed by the Department of the Interior. However, Treasury has recently developed its own payroll and personnel system, and has directed that all Treasury organizations use it. The Bureau is evaluating the impact of this change on its operations.

To improve its data processing capabilities, the Bureau has

--reorganized its Tabulation Machine Section into a Data Processing Division,

--trained personnel in the use of modern data processing equipment for data entry and computer time sharing, and

--established an Automatic Data Processing Management Committee to make sure the Bureau's information systems (1) will meet the goals and long-range requirements of the Bureau's top management and (2) are automated in an orderly and cost-effective manner.

FOOD COUPON PRODUCTION

In fiscal year 1961 the Bureau began printing food coupons for the Food Stamp Program, administered by the Department of Agriculture's Food and Nutrition Service. Food coupon printing has increased from 7.9 million coupons in 1961 to over 3 billion coupons in fiscal year 1975. Coupon production for fiscal years 1976 and 1977 was 2.9 and 1.9 billion, respectively.

Because of increasing demands on equipment, space, and personnel, in November 1971 the Bureau awarded a contract to a private company to produce about half of the food coupons each year. For fiscal year 1974, the Office of Management and Budget directed the Bureau to contract out the entire food coupon production. Since the only two available private companies could not meet the total demand, the Bureau continued to produce some coupons until March 1976. At that time, the Department of Agriculture advised the Bureau to stop production on April 15, 1976, because the Food Stamp

Program was cut back and the contractors could then print enough coupons. However, the Bureau was later authorized to continue limited production until September 30, 1976.

For fiscal year 1977 the Bureau contracted with the American Bank Note Company to manufacture approximately 80 percent of the food coupons and to maintain a central distribution center for all food coupons. The United States Banknote Company manufactures about 20 percent of the coupons.

The Bureau pays the contractors' invoiced manufacturing costs when the finished coupons are delivered to the distribution center. The Bureau does not, however, bill Agriculture until the finished food coupons are shipped out of the distribution center. The Bureau recovers the contracted manufacturing and distribution center costs, along with a 2-percent administrative charge, through monthly billings to Agriculture

CHAPTER 3

MACHINERY AND EQUIPMENT MODERNIZATION PROGRAM

Based on its analysis of immediate and predictable needs, the Bureau started a program in 1972 to acquire modern machinery and equipment. The program is to (1) maintain the Bureau's productivity as its workload increases, (2) improve operations, and (3) mechanize some manual processing operations.

Because the cost of specialized machinery and equipment greatly exceeds available funds, in fiscal year 1972 the Bureau received a $3 million appropriation to begin the modernization program. Estimated program cost was $17 million.

For fiscal year 1973 the Bureau requested $6 million more, but the Congress appropriated only $3 million. In recommending this appropriation, the House Committee on Appropriations directed the Treasury and the Bureau to review their pricing policies. This review was ordered so the Bureau could establish prices which would generate enough funds, at least over the long run, to cover direct and indirect operating costs and to accumulate an adequate reserve for replacing capital equipment.

After reviewing pricing policies, the Bureau began including a surcharge in the selling price of its products in fiscal year 1975. From July 1, 1974, to September 30, 1977, the Bureau charged its customers surcharges totaling $14,832,961. Of this amount, $12,963,729 was used to acquire capital equipment and the $1,869,232 balance was allocated to equipment on order but not yet received.

FINANCING CAPITAL IMPROVEMENTS

The Bureau recognized that cash from a reasonable surcharge would not accumulate fast enough to pay for current machinery and equipment purchases. Therefore, it entered into lease-purchase agreements during fiscal years 1974 and 1975 for 13 pieces of equipment. This financing arrangement permits the Bureau to pay for equipment as funds from the surcharge become available during a 5-year period after the Bureau accepts the equipment. Twelve of the 13 pieces of equipment were accepted during fiscal year 1976, and title to this equipment will pass to the Bureau in fiscal year 1981.

Under this financing arrangement, the accepted equipment will cost $13,501,956. The price for outright purchase of this equipment, however, would have been $10,160,307. The additional cost is equivalent to an average annual interest rate of 11.6 percent. We believe that borrowing from the Treasury's general fund to purchase this equipment would be less expensive and result in lower costs to the Bureau's customers.

In our March 7, 1977, report to the Congress (FOD-76-22) which examined the Bureau's financial statements for fiscal years 1974-75, we recommended that the Secretary of the Treasury obtain legislative authority for the Bureau to borrow funds from the Treasury for this purpose. The Bureau has drafted proposed legislation. If the proposed legislation is approved by the Treasury and Office of Management and Budget officials, it will be sent to the Congress for consideration. The Bureau advised us that the proposed legislation will limit the maximum amount of borrowed funds which can be outstanding at any time and that its proposed capital budget will be included in the information provided to the Congress annually.

MATTER FOR CONSIDERATION BY THE CONGRESS

To keep interest costs to a minimum, we suggest the Congress favorably consider legislation authorizing the Bureau to borrow money from the Treasury for capital equipment needs.

CHAPTER 4

INTERNAL AUDIT

We found that the Bureau's internal audit staff's work was satisfactory and included adequate tests of the areas reviewed. Therefore, we were able to limit our tests of accounting records. Our review of the internal audit staff's work included (1) reviewing the audit program to determine the adequacy of the prescribed procedures, (2) observing the physical inventory of selected items at the end of the fiscal years, and (3) reviewing audit reports and workpapers of accounts.

The objective of the Bureau's internal audit program is to help managers do their work more efficiently by giving them information, analyses, appraisals, suggestions, and formal recommendations on activities reviewed. In doing this, the Office of Audit staff makes financial, operational, and management audits which:

--Examine financial transactions, accounts, and reports, including an evaluation of compliance with laws, regulations, and authorized policies and procedures.

--Review efficiency and economy in the use of resources.

--Review whether desired results are achieved.

The Office of Audit is headed by a Chief who reports directly to the Office of the Director of the Bureau. As of September 30, 1976 and 1977, the internal audit staff had 26 and 23 auditors, respectively. The Office of Audit issued 63 reports containing 341 recommendations in fiscal year 1976 and 84 reports containing 552 recommendations in fiscal year 1977.

The audits' recommendations were designed to reduce operating costs; strengthen internal controls; improve safety and security; make better use of personnel, materials, and equipment; improve procurement, warehousing, and use of space; identify obsolete stock and equipment; and improve accounting and reporting systems.

CHAPTER 5

SCOPE OF EXAMINATION AND OPINION

ON FINANCIAL STATEMENTS

SCOPE OF EXAMINATION

We examined the Bureau's statement of financial condition as of September 30, 1977 and 1976, its related statements of income and expenses for the 12-month period ended September 30, 1977, and the 15-month period ended September 30, 1976, and changes in financial position for the years then ended.

These statements do not include (1) interest on the investment of the Government in the Bureau of Engraving and Printing Fund, (2) depreciation on the Bureau's buildings excluded from the assets of the fund by the act of August 4, 1950 (31 U.S.C. §181-181e (1970)) and (3) costs of certain services performed by other agencies for the Bureau, such as check preparation and external audit. The amount of these costs is not readily determinable.

Our examination of the accompanying financial statements was made in accordance with the Comptroller General's standards for auditing financial transactions, accounts, and reports of governmental activities. These standards include generally accepted auditing standards. Our examination included such tests of the accounting records and such auditing procedures as we considered necessary in the circumstances.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements (schs. 1, 2, and 3, present fairly the financial position of the Bureau of Engraving and Printing Fund at September 30, 1976 and 1977, and the results of its operations and changes in its financial position for the periods then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

SCHEDULE 1 SCHEDULE 1

DEPARTMENT OF THE TREASURY

BUREAU OF ENGRAVING AND PRINTING FUND

STATEMENT OF FINANCIAL CONDITION

SEPTEMBER 30, 1977 AND 1976

	September 30, 1977	September 30, 1976
ASSETS		
CURRENT ASSETS:		
Cash with the Treasury	$11,461,574	$ 7,726,627
Accounts receivable	11,583,860	10,274,395
Inventories (notes 1 and 2)	23,744,860	26,376,656
Prepaid expenses	184,506	203,559
Total current assets	46,974,800	44,581,237
PLANT AND EQUIPMENT (notes 1 and 3)	57,820,946	54,617,226
Less accumulated depreciation (notes 1 and 3)	31,545,645	29,233,832
Net plant and equipment	26,275,301	25,383,394
DEFERRED CHARGES (notes 1 and 4)	2,824,348	3,082,772
Total assets	$76,074,449	$73,047,403
LIABILITIES AND INVESTMENT OF THE U.S. GOVERNMENT		
CURRENT LIABILITIES:		
Accounts payable	$ 2,015,783	$ 2,752,850
Accrued liabilities (note 5)	10,817,854	9,086,099
Trust and deposit liabilities	357,409	342,480
Advances from others (note 6)	14,650,000	14,000,000
Current installments of capitalized lease-purchase contracts (note 1)	3,022,840	4,619,638
Total current liabilities	30,863,886	30,801,067
LONG-TERM LIABILITIES:		
Capitalized lease-purchase contracts less current installments (note 1)	4,241,880	6,502,755
Total liabilities (note 7)	35,105,766	37,303,822
INVESTMENT OF THE U.S. GOVERNMENT:		
Appropriation from U.S. Treasury	9,250,000	9,250,000
Donated assets, net	18,044,969	18,044,969
Provision for capital improvements (notes 1 and 8)	14,832,961	8,703,784
Accumulated earnings or deficit (-) (note 1)	-1,159,247	-255,172
Total investment of the U.S. Government	40,968,683	35,743,581
Total liabilities and investment of the U.S. Government	$76,074,449	$73,047,403

The notes following schedule 3 are an integral part of this statement.

SCHEDULE 2 | SCHEDULE 2

DEPARTMENT OF THE TREASURY

BUREAU OF ENGRAVING AND PRINTING FUND

STATEMENT OF INCOME AND EXPENSE

FOR THE FISCAL YEARS ENDED

SEPTEMBER 30, 1977 AND 1976

	1977	1976 (note a)
OPERATING REVENUE: SALES OF ENGRAVING AND PRINTING	$115,613,475	$136,268,403
OPERATING COSTS:		
Cost of sales:		
Direct labor (note 9)	35,444,354	45,770,565
Direct materials used	14,453,267	16,712,448
Contract printing (food coupons)	20,056,986	25,454,221
Prime cost	69,954,607	87,937,234
Overhead costs:		
Salaries and indirect labor (note 9)	25,411,719	31,923,148
Factory supplies	4,361,978	5,589,915
Repair parts and supplies	1,400,015	1,436,648
Employer's share personnel benefits	6,092,767	6,862,094
Rents, communications and utilities	3,279,707	3,598,180
Other services	2,174,148	2,065,066
Distribution charges (food coupons)	959,895	1,024,407
Depreciation and amortization (note 1)	2,954,681	2,564,719
Cost of financing lease-purchase contracts (note 1)	1 090,015	578,482
Gains (-) or losses on disposal or retirement of fixed assets	9,029	22,695
Minor equipment	530,711	997,773
Transportation of things	228,015	360,432
Sundry expense (net)	168,969	211,018
Total overhead	48,661,649	57,234,577
Total costs	118,616,256	145,171,811
Less:		
Nonproduction costs:		
Shop costs capitalized	1,904,440	1,945,077
Cost of miscellaneous services rendered other agencies	2,055,042	2,283,990
Cost of production	114,656,774	140,942,744
Net increase(-) or decrease in finished goods and work in process inventories from operations	1,879,834	-5,161,824
Cost of sales	$116,536,608	$135,780,920
OPERATING PROFIT OR LOSS (-)	-923,133	487,483
NONOPERATING REVENUE:		
Operation and maintenance of incinerator and space utilized by other agencies	1,421,275	1,545,649
Other direct charges for miscellaneous services	652,825	717,704
NONOPERATING COSTS:		
Cost of miscellaneous services rendered other agencies	2,055,042	2,283,991
NONOPERATING PROFIT OR LOSS (-)	19,058	-20,638
NET PROFIT OR LOSS (-) FOR THE YEAR (note 1)	$ -904,075	$ 466,845

a/Fiscal year 1976 includes the 15-month period from July 1, 1975, to September 30, 1976.

The notes following schedule 3 are an integral part of this statement.

 SCHEDULE 3

DEPARTMENT OF THE TREASURY

BUREAU OF ENGRAVING AND PRINTING FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 1977 AND 1976

	1977	1976 (note a)
SOURCES OF WORKING CAPITAL:		
From operations:		
Net profit or loss (-)	$ -904,075	$ 466,845
Charges to operations not requiring use of working capital:		
Depreciation and amortization	2,954,681	2,564,719
Cost of financing lease-purchase contracts	1,090,015	578,483
Disposal or retirement of fixed assets	9,029	26,193
Proceeds from sales of surplus or obsolete fixed assets	1,999	2,094
Provision for capital improvements	6,129,177	6,575,413
Long-term financing through lease-purchase contracts	1,596,797	8,882,318
Decrease in working capital	-	2,434,167
Total sources	$10,877,623	$21,530,232
APPLICATION OF WORKING CAPITAL:		
Additions to plant and equipment (includes $10,100,307 of equipment acquired through lease-purchase contracts in fiscal year 1976)	$ 4,689,206	$15,749,020
Deferred cost of financing lease-purchase contracts	-	3,401,649
Payments made on lease-purchase contracts	3,857,673	2,379,563
Increase in working capital	2,330,744	-
Total application	$10,877,623	$21,530,232

a/Fiscal year 1976 includes the 15-month period from July 1, 1975, to September 30, 1976.

The notes following schedule 3 are an integral part of this statement.

SCHEDULE 3

SCHEDULE 3

Analysis of changes in working capital

	September 30, 1977		September 30, 1976	
	Increase	Decrease	Increase	Decrease
Current assets:				
Cash	$3,734,947			$ 4,948,629
Accounts receivable	1,309,465			640,086
Inventories		$2,631,796	$4,576,023	
Prepaid expenses		19,052	55,701	
Liabilities:				
Accounts payable	737,067		636,659	
Accrued liabilities		1,731,755	963,554	
Trust and deposit liabilities		14,929		34,503
Advances from others		650,000	1,576,751	
Other liabilities	1,596,797			4,619,637
	7,378,276	5,047,532	7,808,688	10,242,855
Increase or decrease (-) in working capital		2,330,744		-2,434,167
	$7,378,276	$7,378,276	$7,808,688	$ 7,808,688

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Inventories--Finished goods and work-in-process inventories are valued at cost, including administrative and service overhead. Except for the distinctive paper, which is valued at the acquisition cost, raw materials and stores inventories are valued at the average cost of the materials and supplies on hand.

Plant and equipment--Machinery and equipment, furniture and fixtures, office machines and motor vehicles acquired on or before June 30, 1950, are stated at appraised values as at that date. Additions since June 30, 1950, and all building appurtenances are valued at acquisition cost. The act that established the Bureau of Engraving and Printing Fund specifically excluded land and buildings costing about $9,000,000 from the assets of the fund. Also excluded are appropriated funds of about $7,184,000 for extraordinary uncapitalized building repairs and air conditioning.

Lease-purchase contracts capitalized--Certain long-term lease-purchase contracts relating to the financing of equipment are accounted for as installment purchases of property. Upon payment of the required amounts, the equipment covered by these contracts becomes the property of the Bureau, and accordingly, for financial reporting purposes this equipment is being capitalized on the basis of the outright purchase price per contract. The difference between the total contract amounts, which are recorded as either current or long-term liabilities, and the capitalized equipment costs, represent an implicit amount of interest and contractor risk, because of Bureau termination without liability privileges. This difference is accounted for as a deferred lease cost. Amortization of this lease cost is based on the ratio of each monthly lease payment to the total contract price.

Depreciation--Depreciation is computed under the straight-line method. The depreciation rates used are based on the following useful lives: 6 to 30 years for machinery and equipment, 6 to 20 years for motor vehicles, 10 years for office machines, 10 years for furniture and fixtures, and 3 to 20 years for building appurtenances.

Surcharge--In accordance with Public Law 95-81, dated July 31, 1977, the Bureau includes in its selling prices a surcharge which is used for financing capital improvements.

This surcharge is being accounted for as a direct addition to the investment of the U.S. Government on the statement of financial condition

Earnings--Customer agencies make payments at prices deemed adequate by the Bureau to recover costs Because of variations between prices charged and actual costs, the Bureau could earn a profit or incur a loss in any fiscal year. All profit is to be paid into the general fund of the Treasury except that required to offset any accumulated loss from prior years operations.

2. INVENTORIES

	September 30, 1977	September 30, 1976
Finished goods	$11,503,848	$12,310,005
Work in process	7,356,974	8,430,651
Raw materials	1,842,989	2,813,280
Stores	3,041,049	2,822,720
Total	$23,744,860	$26,376,656

3. PLANT AND EQUIPMENT

	September 30, 1977	September 30, 1976
Machinery and equipment:		
Lease-purchase contracts	$10,100,307	$10,100,307
Outright purchases	38,190,077	34,020,463
Motor vehicles	370,061	234,822
Office machines	468,575	474,249
Furniture and fixtures	719,258	706,268
Building appurtenances	6,487,619	6,302,792
Total	56,335,897	51,838,901
Less accumulated depreciation	31,545,645	29,233,832
Net	24,790,252	22,605,069
Construction in progress	1,485,049	2,778,325
Total	$26,275,301	$25,383,394

Construction in progress on September 30, 1977, consists of $1,091,961 for various items of machinery and equipment and $393,088 for various building appurtenances.

The September 30, 1977, total of $56,335,897 includes $21,027,641 of fully depreciated assets still in use. The amounts by class are:

Machinery and equipment	$16,205,339
Motor vehicles	80,704
Office machines	130,314
Furniture and fixtures	290,854
Building appurtenances	4,320,380
Total	$21,027,641

4. DEFERRED CHARGES

	September 30, 1977	September 30, 1976
Lease-purchase financing costs	$1,733,152	$2,823,166
Alterations and maintenance	813,672	184,295
Experimental equipment	4,333	7,833
Other	273,191	67,478
Total	$2,824,348	$3,082,772

5. ACCRUED LIABILITIES

	September 30, 1977	September 30, 1976
Payroll	$ 3,816,192	$3,448,508
Accrued leave	3,352,985	3,012,373
Constructive receipts	1,705,368	1,223,087
Other	1,943,309	1,402,131
Total	$10,817,854	$9,086,099

The accrual for constructive receipts is the estimated value of work performed by contractors to Government specifications, which had not been delivered to or accepted by the Bureau at the statement date. Excluded from this amount is the value of any lease-purchase equipment which has not been accepted by the Bureau because of contractual language contained in the contracts limiting Bureau liability in the event of cancellation. For September 30, 1977, the offsetting entries are to machinery and equipment, $173,518; raw materials, $193,864; stores, $42,915; and work in process, $1,295,071.

6. ADVANCES

The following agencies have advanced funds to the Bureau which are being used to finance increased inventories needed for future deliveries or site preparation costs for processing facilities for alien registration identification cards:

	September 30, 1977	September 30, 1976
Department of Agriculture (food coupon books)	$14,000,000	$14,000,000
Department of Justice (site preparation)	650,000	-
Total	$14,650,000	$14,000,000

7. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments with suppliers for unperformed contracts and undelivered purchase orders total $9,904,848 as of September 30, 1977, and $12,282,409 as of September 30, 1976.

A lease agreement for the rental of a closed circuit television system provides for payments averaging about $101,502 for fiscal year 1978, $59,509 for fiscal year 1979, $27,253 for fiscal years 1980 and 1981, and $2,271 for fiscal year 1982. At the end of payment, the Bureau will assume ownership of the equipment. Under the agreement the Bureau could be liable for a termination charge if it suspends or discontinues making rental payments. This charge was computed at $59,049 as of September 30, 1977. The Bureau has no plans to suspend or discontinue this system.

8. SURCHARGE

The provision for capital improvements, resulting from the Bureau's need to obtain modern equipment, is funded by the use of a surcharge included in the selling price of Bureau products. The surcharge is computed to equitably identify the needed funds to a specific program or overall Bureau requirements for which the capital expenditure is to be utilized.

The value of capital improvements considered as being acquired with surcharge funds is computed on the basis of a ratio of the surcharge generated during the period to the total funds available for capital expenditures (depreciation and surcharge), times the cost of all equipment purchased during the period involve For those items of equipment identified as being pu ..ased entirely with surcharge funds, the actual cost of .. equipment and not the foregoing ratio method is used in determining the value of capital improvements acquired with surcharge funds.

An analysis of the provision for capital improvements is as follows:

	Provision for capital improvements		
	Pending projects	Authorized projects	Total
Surcharge (7-1-74 through 9-30-76	$8,703,784	$	$ 8,703,784
Capital improvements acquired with surcharge funds (7-1-74 through 9-30-76)	-6,506,755	6,506,755	
Balance 9-30-76	2,197,029	6,506,755	8,703,784
Surcharge (FY 1977)	6,129,177	-	6,129,177
Total	8,326,206	6,506,755	14,832,961
Capital improvements acquired with surcharge funds (FY 1977)	-6,456,974	6,456,974	-
Balance 9-30-77	$1,869,232	$12,963,729	$14,832,961

9. RECLASSIFICATION OF DIRECT AND INDIRECT LABOR COSTS

Effective October 1, 1976, the Bureau changed its classification of direct and indirect labor costs in order to present the Bureau's published financial statements on a basis consistent with that of published budgetary statement

Accordingly, amounts previously reported as salaries and indirect labor for fiscal year 1976 have been reclassified as follows:

	Amounts previously reported	Amount reclassified	Adjusted amount
Direct labor	$42,449,783	$+3,320,782	$45,770,565
Salaries and indirect labor	35,243,930	-3,320,782	31,923,148

PRINCIPAL OFFICIALS OF

THE BUREAU OF ENGRAVING AND PRINTING

RESPONSIBLE FOR THE ACTIVITIES

DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DIRECTOR:		
Seymour Berry (note a)	July 1977	Present
James A. Conlon	Oct. 1967	July 1977
DEPUTY DIRECTOR:		
Everett J. Prescott (note b)	Nov. 1977	Present
Kenneth A. DeHart	July 1974	July 1977
CHIEF, OFFICE OF AUDIT:		
Jay L. Esserman	Feb. 1973	Present
ASSISTANT DIRECTOR OF ADMINISTRATION:		
Vacant	July 1977	Present
Seymour Berry (note a)	Aug. 1975	June 1977
CHIEF, OFFICE OF ADMINISTRATIVE SERVICES:		
Jules C. Rieder	Feb. 1975	Present
CHIEF, OFFICE OF FINANCIAL MANAGEMENT:		
Maurice M. Schneider	June 1974	Present

a/Mr. Berry became Acting Director in July 1977 after Mr. Conlon's retirement July 1, 1977, and has been temporarily promoted to Director, effective November 28, 1977.

b/Mr. DeHart retired on July 1, 1977, and Mr. Prescott has been temporarily promoted to Deputy Director, effective November 28, 1977.

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