

UNITED STATES MINT



1 9 9 6 A N N U A L R E P O R T

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FOUNDED IN 1792 BY THOMAS JEFFERSON AND ALEXANDER HAMILTON, THE UNITED STATES MINT BECAME A BUREAU OF THE DEPARTMENT OF THE TREASURY IN 1893 AND TODAY IS THE WORLD'S LARGEST COIN MANUFACTURER, WITH OPERATIONS IN CALIFORNIA, COLORADO, KENTUCKY, MARYLAND, NEW YORK, PENNSYLVANIA, AND WASHINGTON, D.C. OUR MISSIONS ARE TO PRODUCE THE NATION'S CIRCULATING COINAGE, TO MANUFACTURE AND MARKET COIN AND MEDAL PRODUCTS WORLDWIDE, AND TO SAFEGUARD THE NATION'S BULLION RESERVES AT FT. KNOX. THESE MISSIONS AND OUR EFFECTIVENESS IN EXECUTING THEM MAKE THE UNITED STATES MINT ONE OF THE FEW FEDERAL AGENCIES THAT PRODUCES A BUSINESS PROFIT. OUR YEARLY OPERATIONS GENERATE \$1 BILLION IN REVENUES FOR THE AMERICAN PEOPLE, CONTRIBUTE \$100 MILLION IN SALARIES TO ECONOMIES OF CITIES WHERE WE OPERATE, AND CONTRACT \$100 MILLION WITH PRIVATE SECTOR FIRMS.

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DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, DC 20220



DIRECTOR

To Our Customers and Colleagues:

At the close of last year's annual report we said our goal for 1996 was to hit a firm, steady stride of progress following our most remarkable year of achievement in two centuries. In my third report to you as Director of the United States Mint, I am proud to say we've done exactly that.

For the first time in our 204-year history, we functioned in fiscal 1996 entirely with our own operating revenues instead of governmental appropriations, and this financial self-reliance allowed us to set in motion major investments in our people and our production processes. To assure that we meet projected demand for 24 billion circulating coins by 2002 and requirements for coins we sell to the world's collectors and investors, we have approved a five-year, \$100 million-plus modernization plan for our Denver, Philadelphia, San Francisco, and West Point facilities. And so employees cultivate job skills and reach their potential, we have made every Mint employee eligible for individual development plans that include tuition assistance for job-related and mission-related education.

I believe that producing an actionable capital investment plan and a formal program of career development is this fiscal year's legacy-class achievement. But also, the strategic planning process we launched two years ago yielded a Mintwide blueprint to take us into the next century. We now are moving to reduce costs, expand markets, erect information systems, and launch products made possible by completing an ambitious legislative agenda during the year. In short, during fiscal 1996 we put a long-term foundation under our operations and evolved into a more strategically positioned business, and we did so while dealing with formidable challenges in our daily operating environment.

Having run at peak capacity for three years, in fiscal 1996 we set our second consecutive record for production of circulating coinage. We reversed the slide in numismatic sales with several impressive marketing successes. Sales for American Eagles were dampened by several factors, but we foresee global opportunities from newly granted authority to produce platinum coins and four-nines-fine gold coins.

Above all, during the year we triumphed again as the federal agency others emulate in making government work better and cost less. We earned our fourth and fifth successive Hammer Awards for government reinvention from Vice President Gore's National Performance Review. The Philadelphia Mint earned our second consecutive National Partnership Award for superb labor-management collaboration. And for the second year in a row, a National Quality Research Center survey of our numismatic customers confirmed that we are unrivaled among government agencies and stand head-to-head with world-class businesses in providing customer satisfaction.

These are high awards. Any agency would be proud to have received any of them even once. That we earn them time and again, year-in-and-year-out, shows what we mean by "Mint Condition"—and it shows the condition we've reached as we end one year of achievement and move confidently into another.

Philip N. Diehl

Building a Better Business

Throughout fiscal 1996 we followed a fierce determination to improve our operating efficiencies. At this stage of our growth as the world's largest manufacturer of coinage, one of the nation's oldest federal agencies, and a leader in bringing private sector methods to government, we realize we must build the operating infrastructure and procedures to be efficient, cost effective, and competitive. We made excellent progress, but there was—and is—much to be done. In many instances, our activities during the year brought our capabilities up to standards that have been customary in American business for years. In other instances, our efforts opened a portal for improvements that will bring us up to world-class standing within several years.

Above all, during the year we invested in our employees because it's essential that they have leadership and operating skills for guiding a more productive and technologically advanced Mint. By December 1996 most supervisors and union stewards at every facility have completed phase one of Front Line Leadership Training, a two-phase, 16-session leadership skills course that we inaugurated this year. And

so employees can realize their full personal and professional potential, we instituted late in the fiscal year one of the most progressive personnel policies in our history: every one of our employees is now eligible for an individual development plan that includes tuition assistance for job-related and mission-related education. Every employee



Mint Director Philip N. Diehl speaks to gold dealers at a New York forum. We expect that authority to produce platinum and four-nines gold coins will invigorate our bullion sales worldwide.

now has available a formal mechanism for charting his and her career path with the Mint, and if education or training is required for greater responsibilities, we'll underwrite all or part of it. We are proud to have made such a commitment to our employees.

The catalyst for fiscal 1996's extraordinary level of business-building was Congress's approval in 1995 of a Mintwide revolving fund and its simultaneous vote of confidence in freeing us from governmental procurement regulations. Enactment of the Treasury



In 1996 we added this tenth-ounce American Eagle crystal and gold pendant to our selection of brooches, cuff links, watches, ear rings, and money clips featuring circulating, commemorative, and bullion coins.

Appropriations Bill in 1995 allowed us to plan for capital improvements, eliminate our convoluted multiple-fund structure, improve cash flow management, simplify accounting and preparation of financial statements, and generally operate in a more businesslike manner.

Now funded with our own operating revenues, we have approved a five-year, \$50 million modernization and automation of circulating coinage operations at our Denver and Philadelphia facilities. At Philadelphia, the world's largest coin plant, we will modernize presses and install dedicated lines for producing each denomination of coinage by 2001. Additional investments will augment the Denver plant, our most technologically advanced, by automating bagging-and-stacking and intraplant transport of coins.

The Federal Reserve has estimated that the nation's economy will require 24 billion coins a year by 2002, a projection that matches our internal strategic planning estimate of future coin demand. Accordingly, our capital investment scenario includes adding presses for extra capacity when needed.

During the year our procurement office re-evaluated every one of its processes and by revising, simplifying, or eliminating procedures reduced lead time for major contracts from nine months to two months. To streamline purchases of coinage metals we eliminated the time-consuming and expensive practice of opening supplier bids in public and instituted bidding via secured telefax. The change reduced administrative burden and expense for us and our suppliers and slashed from 40 days to four the average time it now takes to process metals bids and award contracts. Further reducing time and paperwork, we're now paying for office supplies and general services with credit cards instead of vouchers, and we have streamlined employee payments by using electronic funds transfers and certification systems.

We're also paying suppliers faster. By improving our ability to track invoices and identify problems we reduced late payments—those taking longer than 30 days—to one-in-a-hundred. This achievement obviously enhances our working relationships with suppliers. So much so, in fact, that we have been able to foster a supplier partnership program that will make our suppliers full colleagues in improving quality of critical production materials.

Our procurement office has earned a reputation for innovation throughout the federal government, and in fiscal 1996 we received our fourth Hammer Award from Vice President Gore's National Performance Review for helping to develop a procurement measurement model endorsed by President Clinton's Management Council and already adopted by many agencies.

One of our foremost strategic planning goals is to reduce operating and production costs, and one barrier to that goal has been lack of clear-cut standards for apportioning general and administrative costs across our three lines of business. Therefore, in fiscal 1996 we took that obstacle head-on. During the year we started and finished a comprehensive appraisal of our costing methods. Heading into fiscal 1997, we have completely revamped formulas to allocate costs among broad categories of business and among specific coin programs. Now that we categorize costs more precisely and consistently, we're becoming more confident about our ability to reduce costs, more certain about our ability to gauge profitability of programs, and more committed to applying the discipline of profit-loss analysis in our decision-making.

What's more, we have tackled an even larger challenge, one with profound implications for future efficiency: establishing a fast, accurate, integrated enterprise information system for the Mint. Our present information management system is inadequate for both current and future needs, and during fiscal 1996 we began plans to replace and improve *every* existing financial, manufacturing, customer service, ordering, and data management system with a consolidated information system, nicknamed COINS.

The first stage of this effort was to devise and agree upon comprehensive requirements for an integrated business information system. Over three months, we held 49 joint application design sessions with employees and managers across the Mint to identify present and future information requirements. From this basis, we invited computer companies to demonstrate their systems and how they can satisfy our requirements. Early in fiscal 1997 we will select the software and supplier that best serve our requirements. Mint-wide implementation of COINS is scheduled to begin in 1998.

After closing San Francisco's Old Mint in December 1994, we relocated its computer system operations to headquarters in Washington. During fiscal 1996 we modernized our computer hardware and converted all Mint computer operations, including our Numismatic Coin Ordering System activities. Following the upgrade and centralization, we also formulated new crisis contingency plans to assure continuous operation of the Mint's data center. Further, we made comprehensive progress in replacing outmoded personal computers and installing more advanced software in offices at each of our locations. We converted the Philadelphia and San Francisco Mints to a network operating system and were bringing those same enhancements to Denver, West Point, and headquarters as the fiscal year closed.



We reversed declining sales of Proof Sets and Silver Proof Sets by offering customers bulk discounts and early purchase incentives.



State-of-the-art business computer capabilities are indispensable in our organization, and so is advanced telecommunication capability. Here, we found many deficiencies to correct. Accordingly, in fiscal 1996 we enhanced the telephone system at our Fort Knox Bullion Depository and finalized plans for major telecommunication enhancements at other facilities. Philadelphia and Denver Mints will have state-of-the-art integrated services digital network (ISDN) telecommunications systems before fiscal 1997 ends. ISDN is the state-of-the-art telecommunications system which enables voice, data, and video to be transmitted at high speeds simultaneously over a single digital telephone line. The technology permits multiple computer and communications functions to work at the same time over the same line at speeds up to 10 times faster than earlier configurations. We also will install a digital switch at the West Point Mint and complete further telecommunications improvements there before fiscal 1998. By that time, we will have replaced the entire telecommunication system at the San Francisco Mint.

For quite some time it had been apparent that our eleven year-old Customer Service Center needed more space and substantially augmented computer and telecommunications facilities in order to provide customers the prompt and premier attention we have promised. We selected a satisfactory site, designed the facility's internal layout, and relocated the entire operation to Derekwood Lane in Lanham, MD, during a single July 4th weekend. Thanks to the procurement freedom granted us by Congress in 1995, we brought the relocation of this key facility from idea to implementation in fewer than nine months with minimal disruption of its critical operation. In fact, the Customer Service Center was off-line one day in that entire time. Streamlined procurement waivers and redesigned administrative procedures greatly facilitated this performance, but our employees made it happen with an extraordinary effort.

Along with the move we improved the center's telephone and voice support systems. We installed an inbound telemarketing subsystem in the Numismatic Coin Ordering System, which enables customer service representatives to enter orders and answer inquiries while customers stay on the phone. Before this, representatives took orders and inquiries by hand and then entered information manually in a separate system later. We also expanded the center's automated customer call-and-response system and established a toll-free 800-number.

We launched these improvements in facilities, computer capabilities, and telecommunications systems to get where we need to go. To get out of our own way getting there, we continued to overhaul our internal regulations. A 1993 executive order required all federal agencies to reduce the number of their internal management regulations by 50 percent before September 1996. By summer 1994, we had carved our internal regulation by 59 percent and increased that figure to 62 percent during fiscal 1996.

To amplify this accomplishment, we simplified the format for all Mint directives, prescribed stricter content guidelines, and effected an expedited review-and-approval process. In further action to improve reporting and process management, we developed an Automated Reports Tracking System (ARTS) to help reduce reporting burdens on our operating units. A Mintwide work group identified those forms which produce the most benefits through automation and purchased off-the-shelf software to implement the tracking system. After a 1996 review by the National Archives and Records Administration, we also published and implemented a plan for improving overall records management.

Revisions, modifications, and outright purges of our administrative procedures and paperwork signify nothing less than a scorched-earth attitude toward bureaucracy. We do not exist for the sake of perpetuating



Mint Conventions Manager Darryl Davis helps Rachel and Joshua Weese of Lakewood, CO, complete World Mint Passports at the American Numismatic Association meeting in Denver. We donated cents from Denver and Philadelphia in our ongoing effort to interest children in coins.

our own processes. We exist to serve the American people and the world's numismatists, and our processes exist so that we serve them as best we can. Perpetuating process is never the point, and that's why we volunteered a few years ago as a pilot bureau under the Government Performance and Results Act. During fiscal 1996, we incorporated GPRA requirements into our Mint strategic planning and budgeting, placing the Mint more than a year ahead of schedule in meeting the legislation's government-wide mandates.

An active part of our business-building effort has been a series of legislative changes allowing greater flexibility to control costs and to expand markets as a Fortune 500 equivalent public sector enterprise. Fiscal 1996 brought to a successful conclusion several initiatives in that agenda, and we're pleased to report that the President and Congress enacted measures that have enlarged our product line, brought more professional management to our production facilities, and reformed our commemorative coin program.

Opening dramatic new possibilities for us in bullion coin markets, one provision of the 1997 Treasury appropriations bill enacted in the closing days of the 104th Congress permits us to produce platinum and 24 karat gold coins in addition to our 22-karat gold American Eagle. This authority expands our opportunities in key domestic and international bullion markets, and we are proceeding at all due speed with production and sales plans.

LEGISLATIVE ADVANCES



Also in eleventh hour legislative action, Congress ordered a feasibility study of the project that most excited numismatists during 1996—a 10-year series of circulating commemorative coins, most likely quarters, honoring each state. Issued in groups of five, the coins would be the first circulating commems since the bicentennial quarter in 1975-76. Numismatists believe that the new quarters would reinvigorate Americans' attention to everyday coinage and spark coin collecting as a hobby. Even so, changing the nation's coinage creates cost, logistical, and production concerns that the study, due by June 1, 1997, must address.

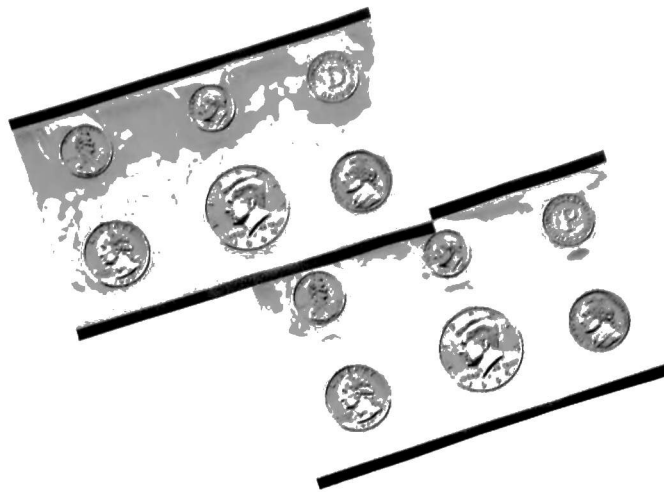
Our goal of streamlining management and eliminating outmoded jobs also got a boost from the 1997 Treasury appropriations bill by abolishing nine presidential appointee positions at our production facilities. Clearly a change for good government and good business, eliminating political positions allowed us to name professional managers as superintendents and to abolish unneeded chief engraver and assayer positions. The Clinton Administration has never filled these positions, and experienced field managers have been directing our mints as acting superintendents. Their performance during three record breaking years proves the merit of putting professionals in charge of our plants.

Another provision in the appropriations bill, now law, requires us to withhold surcharges from coin program beneficiaries until we recover all production and marketing costs and until they have raised other monies equal to surcharges from coin sales. These requirements make beneficiaries fuller partners in bearing our costs, risks, and marketplace realities. In addition, maximum mintages for the eight coin programs enacted by the 104th Congress for 1996 through 1999 were markedly lower than previous years. Total maximum mintages for 1997-1999 are fewer than 1.2 million coins yearly, 90 percent below totals for 1994-1996. We believe these lower mintages reflect the success of our efforts with Congress on behalf of the collector.

CIRCULATING COIN PRODUCTION

The world record we set for circulating coin production in fiscal 1995 didn't stand. Strong economic growth again generated extraordinary demand at our Denver and Philadelphia facilities, and they responded with another record for manufacturing circulating coinage—20,235,305,000 coins compared to 19,519,253,440 in fiscal 1995.

It seems there's nothing we can ask of our production people that they can't do. But three years at maximum output brought frequent breakdowns of aging equipment during fiscal 1996 and underscored why we approved this year an aggressive program of capital investment for circulating coinage operations. At Philadelphia, the world's largest coin plant, we will modernize presses and install dedicated lines for producing each denomination of coinage by 2001. Additional investments at the Denver plant, our most technologically advanced, will automate bagging-and-stacking and intraplant transport of coins. Our capital investment plans include adding presses for extra capacity when needed.



Sales surged when we included a dime from West Point in this year's Uncirculated Set. The special "W" mint mark commemorated the FDR dime's 50th anniversary.

Since starting operation in May 1996, the new die shop at Denver has produced more than 5,000 dies for circulating and commemorative coins, averaging more than 400 dies per week. The Denver die shop's quick rise to this level of production confirms the high caliber of our production staff and reinforces our investment of \$11.3 million to augment die-making capacity.

We were pleased that in our 1996 survey of key customers, every one of the 12 Federal Reserve Banks rated us excellent or very good as a supplier of circulating coins. Fed banks also unanimously awarded us excellent or very good ratings for coin quality and caliber of our service staff, and 91 percent rated us excellent or very good in every other surveyed category.

MARKETING

During fiscal 1996 our marketing department redoubled its efforts to increase sales and expand markets while mounting initiatives to enhance its capabilities. Following fiscal 1995's record breaking expansion into new markets, creation of new coin options, and introduction of new products, our marketing department was stretched to capacity managing 1995 and 1996 coin programs, planning for 1997 programs, and developing business competencies essential to future sales and profitability. Even so, marketing posted impressive achievements while streamlining, computerizing, re-aligning, and finding a new future.

Although individual coin programs registered positive results, profit performance in our commemorative, numismatic, and bullion category was disappointing. Much of the less-than-hoped-for performance came about because retail sales for 1995-96 Olympic coins were far below projections. Strong international sales, innovative marketing approaches, and the most aggressive retail effort we've ever mounted weren't enough to overcome a market saturated with Olympic memorabilia and burdened by three years of excessive authorized mintages for U.S. commemorative coins.



RECURRING PROGRAMS

	COINS OR SETS SOLD	
	FISCAL '96	TOTAL PROGRAM*
1995 FIVE COIN PROOF SET	180,724	2,022,750
1996 FIVE COIN PROOF SET	1,944,256	1,944,256
1995 FIVE COIN SILVER PROOF SET	90,568	679,985
1996 FIVE COIN SILVER PROOF SET	711,838	711,838
1995 TEN COIN UNCIRCULATED SET	118,042	1,053,384
1996 TEN COIN UNCIRCULATED SET	1,189,129	1,189,129
GOLD EAGLE JEWELRY	10,483	10,483
SILVER EAGLE JEWELRY	30,726	30,726
MISCELLANEOUS	7,602	7,602

**Final program sales or September 30, 1996, for ongoing programs*

NUMISMATIC COIN SETS

In a gratifying fiscal 1996 marketing success we reversed declining sales trends in three of our major collector products—proof sets, silver proof sets, and the uncirculated set.

By the close of fiscal 1996 with three months of sales remaining, we had sold 1,944,256 proof sets and posted revenues of \$23.3 million, compared with sales of 1,842,026 sets and \$22.9 million in revenues at the close of fiscal 1995. We brought home this improvement by expanding our bulk purchase program for proof sets, offering discounts of 28 percent for customers who ordered 100,000 or more sets and lesser discounts for customers who ordered fewer sets. Aggressively expanding our bulk terms not only brought us more sales and revenues but also reduced program costs by paring shipping expenses.

We posted equally lustrous silver proof sales by promising the initial 10,000 customers a free Kennedy half-dollar key chain with their order. Customers surprised us with their enthusiasm: we received 37,000 orders the first day of sales. The tidal wave of early orders also swept sales far beyond 1995 program totals with months until calendar year-end. By September 30, 1996, we had sold 802,406 sets and registered \$16.4 million in sales compared with 657,946 sets sold and \$13.4 million in revenues by September 1995.

The 1996 uncirculated coin set—production coins from Denver and Philadelphia in each denomination—was another runaway seller, approaching 1.3 million sets and \$10.4 in revenues compared with one million sets and \$8.78 million the previous fiscal year. Sales jumped from their longstanding downward trend because we included an eleventh coin in this year's set, a dime minted at West Point and bearing the W mintmark, which we struck to observe the fiftieth anniversary of the Roosevelt dime. The uncirculated set is an important product because it's often the one life-long collectors buy first, buy every year, and give as gifts to future life-long collectors.

Sales of American Eagle gold and silver bullion coins suffered when the price of gold faltered in a thin trading range for most of the year despite sharp price increases early in 1996. In addition, stock and bond markets continued to offer profitable alternatives to bullion. We reacted with a national promotional campaign, *Add Balance To Your Portfolio*, featuring advertisements in investment magazines. We sold 606,019 gold Eagles and 3,748,825 silver Eagles in fiscal 1996, generating \$108.2 million and \$24.37 million in revenues, respectively. That compared to 576,050 gold Eagles with revenues of \$118.2 million and 5,065,500 silver Eagles with revenues of \$30.14 million for the 1995 Eagle program.

Sales of individual proof American Eagles also lagged the 1995 proof Eagle program. We sold 186,351 proof gold Eagles and 475,315 proof silver Eagles to produce total revenues of \$53.87 million for the 1996 Eagle program. That compares with 341,910 gold coins, 664,956 silver coins, and \$96.17 million in revenues for the 1995 proof Eagle program. Sales of American Eagle Four Coin Sets were off dramatically. During fiscal 1996 we sold 22,650 four-coin sets, generating revenues of \$22.7 million.

Now in its eleventh year, our Eagle product clearly is maturing, and we expected sales to abate from 1995, when we offered a special Tenth Anniversary Proof Eagle Set celebrating the first decade of Eagle sales. Our strategy for turning this situation around has two parts—improved partnerships and new products.

Bullion Eagles are sold to the public by coin dealers, not by the Mint, and we are cooperating more closely with dealers to heighten investors' interest in Eagles and to make American Eagles synonymous with the decision to buy gold and silver. Although price movements in gold and silver will always be the chief determinant of each year's bullion Eagle sales, we can do more to assure investors "think Eagles when they think bullion." In particular, we can make American Eagles the easiest, most convenient, most dependable bullion coins to own.

In addition we're certain that adding platinum bullion and proof coins to our Eagle line will draw worldwide interest and customers to our bullion lines. And as we have long said, we believe a four-nines gold Eagle will be well received in international markets. Our newly granted authority to add platinum and four-nines gold to our family of Eagles gives us a clear competitive course.

AMERICAN EAGLES

	COINS OR SETS SOLD	
	FISCAL '96	TOTAL PROGRAM*
1995 PROOF GOLD EAGLES		
OUNCE	2,279	7,548
HALF-OUNCE	1,871	6,568
QUARTER-OUNCE	2,911	8,706
TENTH-OUNCE	8,153	23,847
1995 FOUR COIN SET	1,609	8,718
1995 10TH ANNIVERSARY SET	8,320	30,102
1995 PROOF SILVER EAGLES	114,246**	407,822**
1996 PROOF GOLD EAGLES		
OUNCE	7,555	7,555
HALF-OUNCE	7,104	7,104
QUARTER-OUNCE	9,127	9,127
TENTH-OUNCE	23,471	23,471
1996 FOUR COIN SET	21,041	21,041
1996 PROOF SILVER EAGLES	352,749	352,749
FY96 UNCIRCULATED (BULLION) GOLD EAGLES		
OUNCE	198,004	198,004
HALF-OUNCE	43,002	43,002
QUARTER-OUNCE	70,006	70,006
TENTH-OUNCE	295,007	295,007
FY96 UNCIRCULATED (BULLION)		
SILVER EAGLES	3,748,825	3,748,825

**Final program sales or September 30, 1996, for ongoing programs*

***Philadelphia mint mark only*

Figures exclude Eagles used in jewelry

During the year we wound down the 1995-96 Olympic commemorative coin program and launched programs celebrating National Community Service and the 150th anniversary of the founding of the Smithsonian Institution. All three programs were punctuated by sell-outs of selectively tailored special products.

The two-year Olympic program hasn't closed yet, but at fiscal year-end program sales had approached \$100 million on 2,223,867 coins sold from the 16-coin program. We were pleased by sell-outs of Young Collectors Editions of the baseball and basketball Olympic clad half-dollars. Because of disappointing retail sales, however, it is unlikely the 1995-96 Olympic program will produce a profit for the Mint even though all direct costs of the program will be fully covered, as will most of the overhead costs allocated to it. Nonetheless, we are proud that the Atlanta coin program benefitted the Games, U.S. Olympians, and the American people: at September 30, sales had raised \$24,388,040 in surcharges for America's athletes and the Atlanta Games, and we had contributed \$3,548,781 to the treasury from purchases of excess silver from the nation's stockpiles.

As we reported in fiscal 1994 and 1995, our Olympic program efforts have increased our domestic retail sales and distribution capabilities, spread our sales presence to all seven continents, and nearly doubled the number of international distributors with whom we now have relationships. These are resources we can summon when suited to future commemorative programs.

With the National Community Service Silver Dollar we revived the design heritage that made American numismatics great by selecting an obverse design paying tribute to engraver Augustus Saint-Gaudens. A coin descended from the master artist of American numismatics deserved a presentation specifically for numismatists. So we introduced a 25,000 limited-edition Saint-Gaudens Coin and Stamp Set containing a proof coin with an *original* 1940s Saint-Gaudens three-cent stamp. Collectors responded ardently to a design that venerates the history of American numismatics and to the historic coin-stamp ensemble: the limited edition set sold out before the pre-issue period closed. Launched July 12, 1996, the program ends around July 1997.

The bust of James Smithson from the Smithsonian program also stands in the classic heritage of numismatic design, and we believe collectors will appreciate the two-coin program—one gold, one silver—even more because part of its surcharges support the



Olympic mascot Izzy and pupils at Frankfurt International School near Frankfurt, Germany, show off Olympic coin medallions they received during the Mint's Central European promotion. Worldwide 1995-96 Olympic coin sales raised more than \$24 million for the Centennial Games.

Fiscal 1996 Commemorative Coin Programs

**1995-96
COINS OF THE
ATLANTA
CENTENNIAL
OLYMPIC GAMES**



*TOTAL REVENUES: \$94,051,831
TOTAL SURCHARGES: \$24,388,040
BENEFICIARY: ATLANTA CENTENNIAL OLYMPIC PROPERTIES

GOLD \$5 PROOF.....	170,052
GOLD \$5 UNCIRCULATED.....	42,479
SILVER \$1 PROOF.....	930,100
SILVER \$1 UNCIRCULATED.....	173,826
CLAD PROOF.....	476,616
CLAD UNCIRCULATED.....	430,794



*Figures through September 30, 1996

*TOTAL REVENUES: \$9,972,758
 TOTAL SURCHARGES: \$2,383,495
 BENEFICIARY: SMITHSONIAN INSTITUTION

GOLD \$5 PROOF20,308
 GOLD \$5 UNCIRCULATED8,381
 SILVER \$1 PROOF111,158
 SILVER \$1 UNCIRCULATED26,780

SMITHSONIAN
 SESQUICENTENNIAL
 COMMEMORATIVE
 COIN PROGRAM



*TOTAL REVENUES: \$3,979,503
 TOTAL SURCHARGES: \$1,169,700
 BENEFICIARY: NATIONAL COMMUNITY SERVICE TRUST

SILVER \$1 PROOF95,944
 SILVER \$1 UNCIRCULATED21,026

NATIONAL
 COMMUNITY
 SERVICE
 COMMEMORATIVE
 SILVER DOLLAR





national numismatic collection at the Smithsonian Institution. The Mint was a friend of the Smithsonian before there was a Smithsonian, for we took custody of the gold coins that embodied Englishman James Smithson's bequest for its founding. We are proud to bring collectors a coin program tied to our history and to American numismatics, and we believe their response accounts for the early sell-out of the program's 5,000 limited-edition set of two proof and two uncirculated coins. The program is slated at present to end in July 1997.

Collectors account for the sweeping majority of commemorative coin purchases, and by advocating numismatically significant coin designs and programs we're working to serve their preferences. Beyond serving collectors, we're working to delight them with initiatives like the 50th anniversary dime included in the uncirculated set at no charge and thank-yous like the free JFK key chain with proof set purchases. During fiscal 1996 we received a second confirmation that our customers are responding. In a 1995 survey by the National Quality Research Center at the University of Michigan, our commemorative customers gave us the highest rating for satisfaction ever awarded any government agency anywhere, a rating equal to the world's most highly regarded corporations. In a follow-up survey in 1996, our customers again accorded us best-in-government and world-class stature in providing customer satisfaction. There's greater reason to be proud of this year's rating: in 1995, customer response rate for the survey was 85 percent; this year, it was 95 percent—same high marks, more people awarding them to us.

Nor do our accolades end there. Our *1995 Gift Collection Catalog* took first place for best new consumer product catalog design in the 1996 Ozzie Awards competition sponsored by *Catalog Age* and *FOLIO*, the definitive publications of the mail order industry. The judges called our catalog "sparkling" and praised its "strong, clean, bold graphics and high production values" in classing it ahead of entries from the world's best known catalog retailers. We are honored to have won an Ozzie and worldwide recognition from the advertising and mail order industries.

The Kennedy half-dollar Christmas tree ornament is the latest product in our growing line of coin jewelry and accessories for home and office.



To exploit the favorable reception 1995's catalogs enjoyed, we hired the top catalog consultant in the country to assist with the 1996 catalog. Our object is a year-end catalog that reaches our numismatic customer, lures new jewelry customers, reduces costs, and maximizes revenues by positioning products in the catalog based on sales potential. Besides reaching out to longstanding customers, our marketing staff has continued to open new markets and solicit new customers. Mounting sales of our coin-derived jewelry and personal accessories, which we began to market in earnest with 1995's two holiday gift catalogs, confirm our decision to develop product lines of coins featured in watches, cuff links, money clips, necklaces, brooches, pendants, pins, and home or office items.

Another ongoing enterprise that provided further potential during the year was our premium-incentive business—sales to corporations and nonprofit organizations of commemorative, numismatic, and bullion coins and coin products offered to motivate employees, thank supporters, or generate sales and contributions. The great attraction of premium-incentive business for us is its potential for large returns on slight operating expenses. Our attendance at one industry trade show last year, for instance, brought \$1 million in sales. And as with so many of our efforts, our premium-incentive endeavors also earned laurels from professional industry groups: at the giant New York Premium-Incentive Show in May, for example, our Olympic Torch Runner \$5 gold coin in gift box with lapel pin and a Four-Coin Olympic Set won trophies and placement in the show's Gold Star Gallery of New Products.

The parade of awards and recognitions earned by our marketing department for 1996 was completed by our international marketing team's earning the Mint's fifth Hammer Award from Vice President Gore's National Performance Review. Using practices befitting the best private sector operations, the nine-member team expanded distribution of commemorative coins to 26 distributors in 45 countries on seven continents, accounting for 30 percent of the Mint's worldwide sales.

We will vie in every sales venue practicable, and one that's global in scope, free of the clock, and increasingly fetching customers is the World Wide Web. In fiscal 1996 we branched provisionally onto the Web while studying the best route to a fully viable and profitable presence.

Even this early foray—we put 1995's *Holiday Gift Collection Catalog* on-line—brought more than 500 sales and quick kudos. *Washingtonian Magazine* named ours the best government Web site of 1996, and the *Citizens Guide to the Internet* designated us one of the best hobby sites. This reaction gave us a hint of the sales, customer service, market growth, and communication possibilities available from the Web. We intend to be fully on-line in fiscal 1997 with one of the finest Web sites anywhere, not merely in government or the hobby industry.

However, increasing sales and developing new customers are merely two factors in the complete marketing equation, and during the year we moved to bolster two other components in the equation—reduced costs and improved resource management. Central to both are gathering information that better



In 1996 we inaugurated our new 27,000 square foot customer service center with dramatically improved telecommunication and computer capabilities. Presiding at the ribbon cutting were Earl Channer, Mint Director Philip N. Diehl, Angela Hicks, and Barbara Johnson.

BUSINESS COMPETENCIES

\$355 MILLION SUPPORT FOR U.S. INDUSTRY

Besides producing more than \$1 billion in coinage for our nation's economy in fiscal 1996, the Mint also...

- purchased 345,441 ounces of newly mined American gold for \$135.9 million
- generated \$22.8 million for the U.S. Treasury through purchases of stockpiled American silver
- paid \$100 million in salary and benefits to 2,150 employees in six states and Washington, D.C.
- paid \$83.5 million in contracts with fabricators of raw materials
- commissioned \$12.8 million in services from accountants, advertising agencies, printers, designers, and shipping firms

helps us serve customers and making more focused use of it. By knowing what individual customers have and have not purchased, for example, we're more able to pinpoint product mailings, thereby reducing our formidable postage expense, our processing costs, and the clutter in customers' mailboxes. By knowing which media customers listen to, watch, and read, we can target our advertising more precisely and curtail unproductive advertising expense. By knowing customers' other interests, we discover

alternate avenues for introducing them to our products. In short, through improved database marketing we will be more able to distinguish people likely to buy coin products, frame more persuasive sales messages presented in more pertinent media, increase response rates while reducing expense and effort, improve sales forecasting, and concentrate limited budgets and energies where they yield the highest return.



Congress honored Rev. and Mrs. Billy Graham with this U.S. Mint medal in 1996 for their contributions to our nation's spiritual enrichment.



For all these reasons, enhancing our database marketing capability is arguably the most important step our marketing department can take for accelerating our profitability and evolution as an efficient organization. Not surprisingly, then, marketing moved ahead with its database marketing project during fiscal 1996. Database marketing is a technical field requiring us to acquire analytical methods and personnel not now on-staff. Implementation also will require manual conversion of existing records into a clean, accessible format. Nonetheless, we expect to have professional database marketing capabilities in place and functioning by fiscal 1997 and to be making effective use of carefully modeled profiles of each customer category.

As we do so, we will continue to reduce marketing costs through stricter cost controls, insisting on specific standards for return on investment, counseling commemorative coin program beneficiaries toward realistic surcharge expectations, and reducing postage through continuous culling of our mailing list.

Ever since the Mint assumed custody of the nation's bullion reserves in 1937, four generations of Americans have said "safe as the gold in Fort Knox" when they mean something is indisputably secure and protected. A lot in our language has changed since then. But Americans still know what it means to say something is as safe as Fort Knox.

The 274 Mint security personnel assigned to Fort Knox, Mint headquarters, and production facilities in Denver, Philadelphia, San Francisco, and West Point do more than assure that \$100 billion in gold, silver—and now platinum—stays put. As potential threats to the Mint's facilities become more extensive and consequences of not foreseeing them become more serious, Mint security personnel have become a police force with a specialty mission. They process and protect our 500,000 visitors yearly. They investigate and defend against assaults upon our facilities, misappropriation of our records and artifacts, and diversion of millions of dollars yearly in receipts. They guard nearly \$1 billion in coinage that we produce yearly. And they protect our most valuable asset—more than 2,000 Mint employees—around the clock every day.

Through their presence and their performance, Mint police preserve, protect, and defend. They achieve their mission when we are able to report that nothing of note happened in their field of responsibility. For fiscal 1996, nothing happened.

We are delighted to announce four appointments of historic significance for the Mint—veteran manufacturing and production executives who have become the first career civil servants to hold the full title of superintendent at our production facilities: Augustine A. Albino as superintendent of the Philadelphia Mint, Bradford F. Cooper as superintendent at the West Point

SECURITY

STAFF ADDITIONS,
STRATEGIC
PLANNING,
PARTNERSHIP

Mint, Raymond (Jack) DeBroekert as superintendent of the Denver Mint, and Dale B. DeVries as superintendent at the San Francisco Mint. We also were pleased to have welcomed during the year Paula Spedden as deputy associate director of marketing and Lynn Parrish as director of public information.

When we launched our strategic planning initiative in fall of 1994, we defined goals, identified strengths and weaknesses and opportunities and threats, found alternatives, set measurements, and got moving. And since then we have slashed turnaround-times on customer orders from months to days...marketed products on all seven continents...set, broken, and re-broken world records for circulating coin production ...earned a clean audit opinion ahead of schedule...earned five Hammer Awards from the Vice President...earned back to back National Partnership Awards...earned the highest customer service ranking ever awarded any government agency...freed ourselves from the appropriations process and unnecessary procurement restraints...began formally to communicate our news and goals with managers, union stewards, and employees...began a multi-million-dollar program of capital investment...began to restrict the supply of commemorative coins...and more. Our partnership teams are cooperating as never before. We have not only management at the Mint, but leadership — leadership that is spreading at all levels, and increasingly is becoming leadership of a more committed and better informed workforce.

Further demonstrating the caliber of our relationship with the American Federation of Government Employees, Philadelphia became our second facility honored with a National Partnership Award from Vice President Gore's National Partnership Council. The awards committee cited the Philadelphia Mint's history of participative decision-making and its multi-year emphasis on improving operating efficiencies every day, thereby producing millions of dollars in savings. Denver received this honor last year for its remarkable turnaround in labor-management relationships, one of the most dramatic in government. The National Partnership Council has presented only nine nationwide awards since initiating its recognitions in fiscal 1995. We have received two of them.

The Philadelphia Mint's superb labor-management relations earned our second National Partnership Award from Vice President Gore. Superintendent Gus Albino, U.S. Treasurer Mary Ellen Withrow (right), Mint Director Philip N. Diehl, AFGE Local President Bruce Dickerson and members of the Philadelphia Mint Partnership Council pose with the award outside the White House.



Two years ago we set out to make the United States Mint the most vigorous, competitive, efficient, and well run public sector enterprise we could create for the American people. Since writing our mission statement, we have become more than a Mint with a mission; we have become a Mint that is its mission. Since writing our vision statement we have done more than shape a vision for the Mint; we have begun to live that vision. And since we decreed our guiding principles, we have found that they guide us in more productive directions every day.

During fiscal 1996 we began putting in place much-needed and long overdue capital investment plans, computer systems, administrative practices, personnel policies, and business capabilities. We are proud of how far we've come. We are determined to go further.





Facilities and Functions

San Francisco Mint

San Francisco, CA

- MANUFACTURES AND PACKAGES REGULAR AND SILVER PROOF COIN SETS
- MANUFACTURES AND PACKAGES UNCIRCULATED SILVER BULLION COINS
- MANUFACTURES, PACKAGES, AND SHIPS COMMEMORATIVE COINS
- STORES SILVER BULLION

West Point Mint

West Point, NY

- MANUFACTURES AND PACKAGES UNCIRCULATED SILVER COINS
- MANUFACTURES AND PACKAGES PROOF AND UNCIRCULATED GOLD COINS
- MANUFACTURES, PACKAGES, AND SHIPS COMMEMORATIVE COINS
- PACKAGES FOUR-COIN AMERICAN EAGLE PROOF SETS
- STORES GOLD AND SILVER BULLION



Denver Mint

Denver, CO

- MANUFACTURES GENERAL CIRCULATION COINAGE
- MANUFACTURES COIN AND MEDAL DIES
- MANUFACTURES MINIATURE MEDALS
- MANUFACTURES AND PACKAGES REGULAR UNCIRCULATED COIN SETS
- MANUFACTURES AND PACKAGES COMMEMORATIVE COINS
- STORES GOLD AND SILVER BULLION

Fort Knox

Fort Knox, KY

- PROTECTS GOLD BULLION AND ASSETS OF OTHER AGENCIES

Headquarters

Washington, D.C.

- FORMULATES POLICY
- MANAGES PROGRAMS AND MARKETS COINS
- PROVIDES ADMINISTRATIVE GUIDANCE
- CONDUCTS RESEARCH AND DEVELOPMENT
- PROVIDES ADP OPERATIONS

Philadelphia Mint

Philadelphia, PA

- MANUFACTURES GENERAL CIRCULATION COINAGE
- ENGRAVES ALL U.S. COINS AND MEDALS
- MANUFACTURES COIN AND MEDAL DIES
- MANUFACTURES MINIATURE AND MULTI-STRIKE MEDALS
- MANUFACTURES, PACKAGES, AND SHIPS REGULAR UNCIRCULATED COIN SETS
- MANUFACTURES, PACKAGES, AND SHIPS COMMEMORATIVE COINS
- MANUFACTURES AND PACKAGES AMERICAN EAGLE PROOF SILVER DOLLARS

Customer Service Center

Lanham, MD

- PROCESSES ORDERS
- PROVIDES CUSTOMER SERVICE

Management Discussion and Analysis

FEDERAL MANAGERS FINANCIAL INTEGRITY ACT HIGHLIGHTS

The Federal Managers Financial Integrity Act (FMFIA) requires the Mint each year to review its internal controls and financial management systems and to report results of that review to the Secretary of the Treasury. Items reviewed and reported under FMFIA are incorporated in the examination and findings of the independent auditor of the Mint's financial statements each year.

In fiscal 1996 the Mint's independent auditor awarded us an unqualified opinion for public enterprise fund statements and consolidated financial statements covering fiscal 1995. The audit identified one new Section 4 deficiency and two Section 4 deficiencies that existed from previous years. Public Law 104-52 established the United States Mint Public Enterprise Fund and thereby ended our longest standing FMFIA deficiency—a cumbersome and inadequate funding structure—in November 1995. By developing further written guidance and enlarging management scrutiny we resolved the two other fiscal 1995 FMFIA deficiencies, which related to need for better accounting of inventory closeout costs and non-precious metals.

FMFIA findings resulting from the fiscal 1996 audit of financial statements indicated no weaknesses in internal controls that should be reported as deficiencies under Section 2 of the FMFIA. However, one deficiency remained in which Mint financial systems did not satisfy standards prescribed by Section 4 of the FMFIA. Therefore, the Mint's FMFIA report to the Secretary did not guarantee that during fiscal year 1996 our overall financial system met the objectives of Section 4.

Even so, by early fiscal year 1997 two of those remaining Section 4 deficiencies were corrected. First, we completed procedures for consolidating data into financial statements. These procedures recognize the general ledger as the primary source of financial information to be used for preparing statements. Second, account reconciliation procedures needed tightening, so we implemented more comprehensive and timely reconciliation procedures.

The third Section 4 deficiency cited in the FY 1996 FMFIA remains: the Mint's financial management system is comprised of diverse mainframe, manual, and PC-based systems that are not integrated and do not provide management with useful and timely information. Correcting this shortcoming is now our greatest financial

and administrative priority. We intend to have an integrated, enterprise-wide, management information system operating by fiscal year 1999. During fiscal year 1996 we analyzed requirements for such a system exhaustively, issued a request for proposal asking vendors to assess their off-the-shelf software in relation to the Mint's requirements, and evaluated responding firms' offerings. We believe we are on course to implement our new system and will select software in early 1997.

IMPROVEMENTS IN FINANCIAL OPERATIONS

Fiscal 1996 was our first full year operating under a single Mintwide revolving fund that included all of our primary activities—circulating coin production, numismatic production and sales, and protection. The single fund streamlines financial operations and replaces an unwieldy multiple fund structure that contributed to past audit deficiencies. Also, the revolving fund better allows us to manage cash flow and plan capital improvements. With a simplified fund structure greatly simplifying our financial processes, we aggressively improved the following areas of financial management and accounting.

G&A and Overhead Expense Allocations

In the fourth quarter of fiscal year 1996 we completed, with assistance of a Big Six accounting firm, phase one of a comprehensive review of how we allocate security and overhead expenses among principle lines of business. This project appeared in our 1996 strategic plan as a prerequisite for managing our business more effectively.

Following this review, we have restructured our operating budgets to reflect our three missions: production of circulating coins, production and sale of numismatic and bullion coins, and the protection of \$100 billion in bullion and other assets. Protection costs, previously subsumed under the circulating and numismatic lines-of-business, are now separately identified and subject to better analysis and control. This revision is an important improvement in an era of rising security costs and increasing security risks at federal facilities.

Second, the review prompted us to revise how we allocate general and administrative (G&A) expenses among lines of business. For many years, we have struggled with how best to allocate G&A to give program managers suitable financial information about performance of their programs and to assure equitable allocation of overhead among programs. As a result of this review, we will implement in fiscal year 1997 a revenue-based allocation methodology.

The first phase of the project identified opportunities for greater consistency in allocation methodologies from one facility to another. In fiscal year 1997 we will conduct phase two of the project, reviewing and standardizing G&A/overhead allocations at Mint field locations. Consistent information will permit meaningful comparisons and evaluations of facilities' production costs and efficiencies.

Prompt Payments

During fiscal year 1996 we reviewed procedures and practices governing our entire payment process. As a result, we developed and implemented more stringent policies for defining late payments so as to be more business-like in revolving fund operations and to comply with the spirit of the Prompt Payment Act. Despite a higher late payment rate in the first quarter caused by the definitional change, remarkable improvement during fiscal year 1996 is evidenced by consecutive quarterly declines in the late payment rate.

<u>Quarter</u>	<u>% of Invoices Paid Late</u>
1st	9%
2nd	8%
3rd	4%
4th	0.4%

Cash Management Improvements

Having collected more than \$300 million from sales of numismatic and investment products in each of the past three fiscal years, we intend to improve cash management of all receipts and payments. Methods of handling receipts have been improved by using lock boxes to speed deposits, using federal wire transfers to receive distributors' payments for bulk and bullion purchases; and accepting credit cards at retail sales centers to reduce handling cash.

Methods of handling payments have been improved through use of the Electronic Certification System (ECS) at all Mint locations and by continual use of electronic funds transfers (EFT) for vendor payments. Benefits of ECS include significant reduction in manual form preparation, error corrections, mail processing time, postage, and reconciliation items. Benefits of EFT include reduction in paper checks, expedited payments to vendors, increased control over cash, and reduction in reconciliation items. Further, we curtailed use of imprest funds by expanding use of credit cards for small purchases and use of personal American Express cards for employees. This practice also defers use of government funds and related interest on borrowings. During fiscal year 1996 changes to procedures for processing travel vouchers sped processing and required fewer resources.

We progressed in fiscal year 1996 toward rectifying a critical shortcoming—lack of a reliable, comprehensive enterprise information system that integrates manufacturing, marketing, and financial data. We are developing Consolidated Information System (COINS) to replace several existing operating information systems and to provide more accurate, meaningful, and timely information for decisions at all levels.

COINS will integrate all the Mint's finance, marketing, and manufacturing functions. In addition, COINS will bring about long-needed improvements in imaging, provide marketing data support, improve production automation, and provide end-user computing and graphically oriented interfaces.

An extensive series of Joint Application Development (JAD) sessions during the fiscal year produced a comprehensive set of user requirements that we ranked as critical, important, or optional. The Mint built those requirements into a request for proposal to leading software vendors. We ranked responses and asked three vendors to demonstrate their software. By the end of 1996 we had completed vendor demonstrations and our evaluation of software. We will select software in early 1997. Major elements of COINS are scheduled to be in place by October 1, 1998.

COINS has strong support from Mint senior management. Support among our workforce, primary users of the system, has arisen from their role in development of COINS. For example, 200 employees from every Mint facility attended 49 JAD sessions to help define the system's requirements. Moreover, 50 employees from all Mint facilities attended vendor demonstrations and made recommendations about the system. Their involvement and more communication about COINS will contribute to its effective implementation.

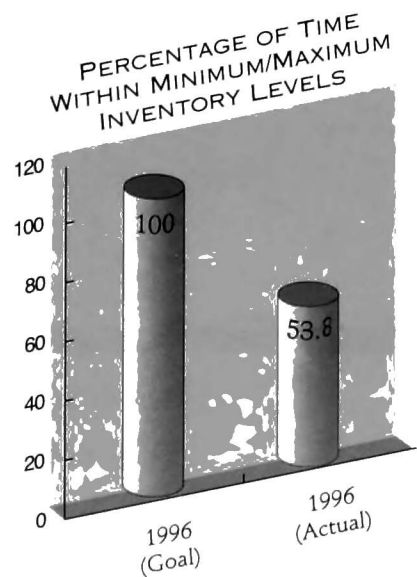
PERFORMANCE MEASURES

The Mint developed performance measures to assess the results and progress we produce in meeting our three missions. Our performance measures are linked to outcomes, capture significant variables, and address the multiple priorities involved in completing our mission. But most important, they benchmark previous years' performance so that we may improve. During fiscal year 1996 the Mint reviewed and discontinued several performance measures included in the 1995 annual report and added new measures that emphasize results. These measures are consistent with the performance plan we filed with the Office of Management and Budget.

Circulating Coinage

The goal of circulating coinage operations is to meet Federal Reserve Board (FRB) requirements for coinage at the lowest possible cost. Shipments of coins to the FRB equaled the quantity demanded. Our exact matching of shipments and demand assured that the FRB had adequate inventory during a year of record demand for circulating coinage in fiscal 1996.

The measure Percentage of Time Within Minimum-Maximum Inventory Levels reflects the amount of time that circulating coin inventories at the FRB fell within



optimal levels. Inventories fell within this range 53.8 percent of the time in fiscal year 1996. During January unexpectedly strong economic growth brought increased demand for coinage and caused a draw-down of FRB inventories below optimal minimums. Continued production in the fourth quarter occasioned a slight excess of inventories over established maximum levels. These results are consistent with continuing record demand for circulating coinage during fiscal year 1995 and fiscal year 1996. We will adjust and refine this measurement as continued data collection establishes trends for benchmarking.

Numismatic Coins

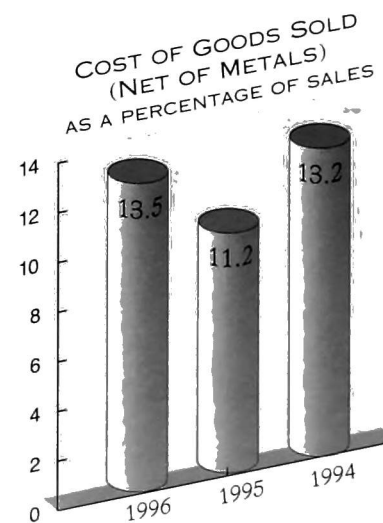
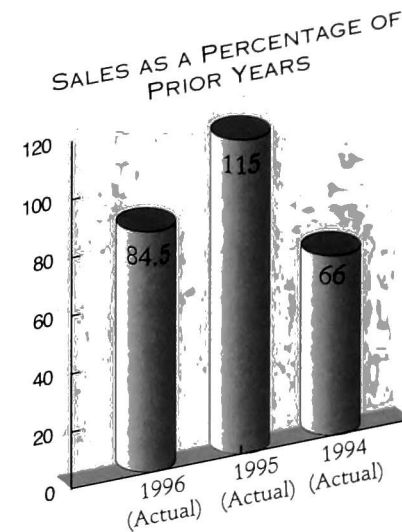
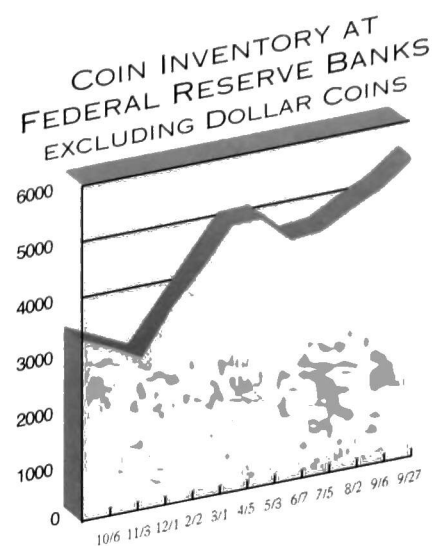
The goals of our numismatic and investment operations are to maximize sales and minimize sales returns and production costs. Three measures assess effectiveness in reaching these goals: Sales as a Percentage of Prior Year's Sales, Cost of Goods Sold as a Percentage of Sales, and Profits & Surcharges as a Percentage of Sales.

Measuring sales as a percentage of the previous year's sales is the most straightforward assessment of sales performance. Fiscal year 1996 sales were 84.5 percent of fiscal year 1995 sales. By comparison, fiscal year 1995 sales were 15 percent higher than fiscal year 1994 sales, and fiscal year 1994 sales were 66 percent of fiscal year 1993 sales. We attribute the decline to a number of well discussed circumstances in our operating environment, including the swelling number of coin programs authorized during the past several years, a declining number of regular buyers of commemorative coins, and growing competition overall in collectibles markets.

Cost of Goods Sold (Net of Metals) as a Percentage of Sales identifies direct labor and overhead costs as a percentage of sales for the purpose of monitoring costs. Standing at 13.5 percent for fiscal year 1996, 11.2 percent in fiscal year 1995, and 13.2 percent in fiscal year 1994, these results surpass the Mint's goal of 18 percent and indicate continued positive performance in controlling manufacturing costs for numismatic products. Our extended record of besting the 18 percent goal now indicates we must strengthen our goal for this performance measure.

Returns and replacements were 0.04 percent of sales for fiscal year 1996, well below the Mint's ceiling of 0.1 percent of sales. This measure stood at 0.05 percent in fiscal year 1995 and 0.01 percent in fiscal year 1994, giving clear evidence we are exceeding performance goals and are ready to set higher standards. The low ratio of returns and replacements to sales also testifies to the high caliber of Mint products, the excellence of our coin manufacturing, and customers' satisfaction with our products.

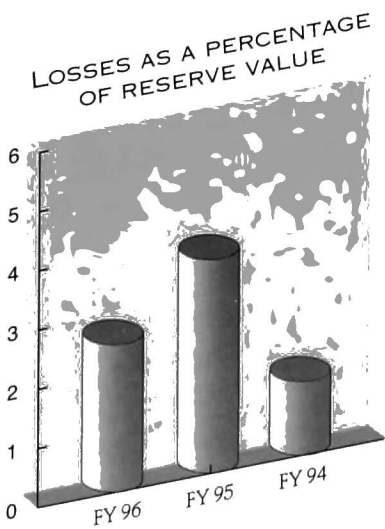
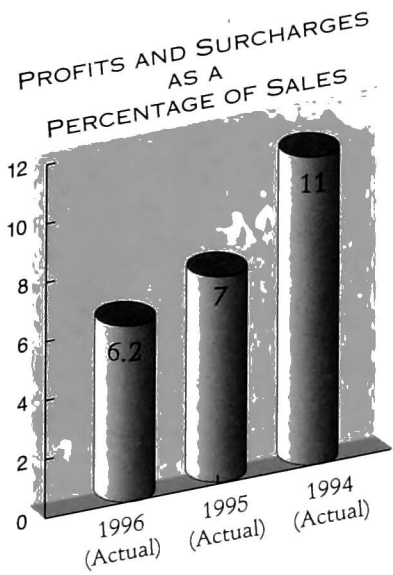
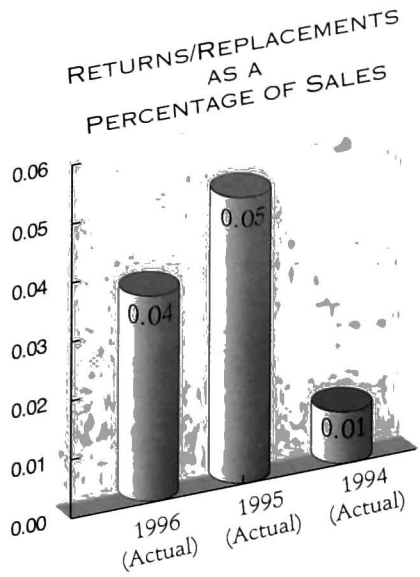
Profits and surcharges were 6.2 percent of sales for fiscal year 1996, compared to 7 percent in fiscal year 1995 and 11 percent in fiscal year 1994. Our goal is 7 percent. This measure combines two operational goals of equal importance—



namely, the internal return generated by our numismatic businesses and surcharge income we provide to Congressionally-designated beneficiaries of coin programs.

Safeguarding Assets

Losses as a Percentage of Reserve Value—the total value of all physical assets under our custody—is the standard of our performance in safeguarding assets. By necessity an estimate, reserve losses remain infinitesimal—0.00005 percent, or \$50 for each \$1 million entrusted to us. Fiscal year 1996 results compare to 0.0006 in fiscal year 1995 and 0.0002 percent in fiscal year 1994.



Reports of Independent Accountants

**INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS**

UNITED STATES DEPARTMENT OF THE TREASURY
Office of Inspector General

We have audited the accompanying statements of financial position of the United States Mint (Mint), a bureau of the Department of the Treasury, as of September 30, 1996 and 1995, and the related statements of operations and changes in net position, and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Mint's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the United States' gold and silver reserves (Custodial Gold and Silver Reserves) for which the Mint serves as custodian. These reserves were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to these reserves, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. These standards 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 audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Mint as of September 30, 1996 and 1995, the results of its operations, the changes in its net position, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 10, 1997 on our consideration of the Mint's internal control structure and a report dated January 10, 1997 on its compliance with laws and regulations.

Urbach Kahn & Werlin PC

Washington, DC
January 10, 1997

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL STRUCTURE**

UNITED STATES DEPARTMENT OF THE TREASURY
Office of Inspector General

We have audited the financial statements of the United States Mint (Mint), a bureau of the Department of Treasury, as of and for the year ended September 30, 1996, and have issued our report thereon dated January 10, 1997. The United States' gold and silver reserves, for which the Mint serves as custodian, were audited by other auditors.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Mint is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Mint for the year ended September 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, including those policies and procedures designed to determine that data that support reported performance measures in the "Management Discussion and Analysis" section are properly recorded and accounted for to permit preparation of reliable and complete performance information. We assessed control risk and performed tests of the Mint's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL STRUCTURE, CONTINUED**

We noted a matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the Mint's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

EDP SYSTEM IMPROVEMENTS REQUIRED

Systems integration project needs to be prioritized: The Mint's financial management system is comprised of diverse mainframe, manual and PC based systems. The various systems are not integrated and do not provide management with useful, timely information. The current system cannot generate consolidated financial information, and management must rely upon manual cost accumulation and reconciliation procedures for reporting financial information. As a result, management may be precluded from effectively measuring operating goals and monitoring progress in achieving them. The Mint is aware of the deficiencies in its current financial management system and has redefined system requirements, and is implementing a new integrated financial management system. The Mint has established October 1998 the completion date for implementation of the new system.

We recommend the Mint ensure sufficient resources are deployed to allow systems planners to meet the aggressive target date for system integration and to address the Year 2000 modifications. Given the complexity of the planned system integration, it is essential that the detailed project plan be updated and communicated to management monthly to ensure that milestones are met, issues are resolved promptly, and potential delays are identified. We further recommend the Mint's contingency plans for the Year 2000 modifications ensure the financial management systems can function independent of the target dates established for implementation of the new integrated financial management system.

A material weakness is a reportable condition in which the design or operation of one or more internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we consider that the reportable condition referred to above is also a material weakness. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of the Mint for the year ended September 30, 1996.

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL STRUCTURE, CONTINUED

The 1995 report on internal control structure dated March 28, 1996 also identified this item as a material weakness.

We also noted other matters involving the internal control structure and its operation which have been reported to the management of the Mint in a separate letter dated January 10, 1997.

This report is intended for the information of the Office of Inspector General of the United States Department of Treasury and the management of the Mint. However, this report is a matter of public record and its distribution is not limited.

Urbach Kahn & Werlein PC

Washington, DC
January 10, 1997

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS**

UNITED STATES DEPARTMENT OF THE TREASURY
Office of Inspector General

We have audited the financial statements of the United States Mint (Mint), a bureau of the Department of Treasury, as of and for the year ended September 30, 1996, and have issued our report thereon dated January 10, 1997. The United States' gold and silver reserves, for which the Mint serves as custodian, were audited by other auditors.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Mint is the responsibility of the Mint's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Mint's compliance with certain provisions of applicable laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such as opinion.

Except as indicated in the following paragraph, the results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

The Mint's financial management system does not meet the requirements of the Federal Managers' Financial Integrity Act. Section 4 of the Federal Managers' Financial Integrity Act (FMFIA) requires the Mint to issue an annual report on whether the Mint's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General of the United States. In its FMFIA report dated November 14, 1996, the Mint reported three material non-conformances of its financial management system. In this connection, the Mint concluded that management controls, taken as a whole, did not provide full assurance the objectives of Section 4 of FMFIA were achieved during fiscal year 1996. The weaknesses, which caused these non-conformance findings, are discussed further in our accompanying internal control report dated January 10, 1997. We concur with the Mint's conclusion that its financial management system does not comply with Section 4 of the FMFIA.

INDEPENDENT AUDITORS REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS, CONTINUED

We considered this instance of noncompliance in forming our opinion on whether the Mint's financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated January 10, 1997, on those financial statements.

This report is intended for the information of the Office of Inspector General of the United States Department of Treasury and the management of the Mint. However, this report is a matter of public record and its distribution is not limited.

Urbach Kahn & Weston PC

Washington, DC
January 10, 1997

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DEPARTMENT OF THE TREASURY
U.S. MINT
STATEMENT OF FINANCIAL POSITION
(IN THOUSANDS)

	September 30,	
	1996	1995
ASSETS		
Current assets		
Fund balances with Treasury (Note 2)	\$121,714	\$92,465
Accounts receivable (Note 3)	1,838	1,201
Operating inventories, net (Note 4)	307,646	184,962
Deferred costs, advances and prepayments (Note 5)	2,035	10,261
Total current assets	433,233	288,879
Non-current assets		
Property, plant and equipment, net (Note 6)	84,637	78,066
Other assets (Note 7)	60,493	237
Total non-current assets	145,130	78,293
Total assets	\$578,363	\$367,172
LIABILITIES & NET POSITION		
Liabilities:		
Current liabilities		
Accounts payable - federal (Note 4)	\$60,160	\$102,064
Accounts payable - non-federal	7,890	15,406
Surcharges payable	2,610	6,027
Unearned revenue	4,697	14,127
Accrued salaries and benefits (Note 1)	4,341	4,081
Total current liabilities	79,698	141,705
Non-current liabilities		
Accrued workers' compensation benefits (Note 1)	24,718	24,330
Accrued annual leave (Note 1)	5,894	5,629
Accounts payable - federal (DLA)	60,267	
Other liabilities	1,189	812
Total non-current liabilities	92,068	30,771
Circulating coinage held for Treasury (Note 4)	---	87,343
Total liabilities	\$171,766	\$259,819
NET POSITION		
Fund balance (Note 10)	406,597	107,353
Total liabilities and net position	\$578,363	\$367,172
CUSTODIAL GOLD AND SILVER RESERVES		
United States' gold and silver reserves (Note 11)	\$10,468,013	\$10,474,569
Custodial liability to Treasury (Note 11)	10,468,013	10,474,569
Net custodial position	\$0	\$0

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
U.S. MINT
STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
(IN THOUSANDS)

	Year Ended September 30,	
	1996	1995
Revenues and 1995 financing sources		
Circulating coinage revenue (Note 1)	\$1,056,990	\$ —
Treasury metals used in production (Note 18)	---	202,221
Appropriations used for coin production (Note 18)	---	67,038
Sales to the public (numismatic sales) (Note 1)	325,682	385,350
Surcharges collected for beneficiary organizations (Note 15)	(19,816)	(22,453)
Other revenue (Note 1)	469	203
Total revenues and 1995 financing sources	1,363,325	632,359
Costs and expenses		
Cost of goods sold (Note 12)	620,252	512,970
Selling, general and administrative expenses (Notes 13 and 14)	101,230	114,448
Other costs and expenses (Note 18)	5,499	203
Total costs and expenses	726,981	627,621
Excess of revenues over total costs and expenses before protection cost and General Fund transfer	636,344	---
Excess of revenues and financing sources over total costs and expenses (Note 18)	---	4,738
Protection cost (Note 1)	(11,943)	---
Net position, beginning of year	107,353	118,025
Non-operating changes	---	(5,410)
Invested capital (Note 10)	261,596	---
Transfers to Treasury's General Fund (Note 18)	(586,753)	(10,000)
Net position, end of year	\$408,597	\$107,353

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
U.S. MINT
STATEMENT OF CASH FLOWS
(IN THOUSANDS)

	Year Ended September 30,	
	1996	1995
Cash flows from operating activities:		
Excess of revenues and 1995 financing sources over total costs and expenses	\$624,401	\$4,738
Adjustments affecting cash flows:		
Appropriations Expensed	—	(67,038)
Increase in accounts receivable	(637)	(402)
Decrease in other assets	86,872	9,759
Increase (decrease) in accounts payable	13,908	(7,891)
Increase (decrease) in other liabilities	(101,961)	11,152
Depreciation and amortization	8,413	265
Other unfunded expenses	—	513
Total adjustments	6,595	(53,642)
Net cash provided (used) by operating activities	630,996	(48,904)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(14,994)	(6,424)
Net cash used by investing activities	(14,994)	(6,424)
Cash flows from financing activities:		
Appropriation (current warrants)	—	62,929
Withdrawals	—	(1,300)
Funds transferred to Treasury	(586,753)	(10,000)
Net cash provided (used) by financing activities	(586,753)	51,629
Net cash used by operating, investing and financing activities	29,249	(3,699)
Fund balances with Treasury at beginning of year	92,465	96,164
Fund balances with Treasury at end of year	\$121,714	\$92,465

SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:

Invested capital transferred from Treasury (Note 10)	\$261,596	\$ —
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**DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 1996**

(Dollars in thousands except Fine Troy Ounce information)

Note 1 Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report the financial position, results of operations, and cash flows of the U.S. Mint (the Mint), a bureau of Department of the Treasury (the Treasury). The statements have been prepared from books and records of the Mint in accordance with private sector generally accepted accounting principles.

B. Reporting Entity

Established in 1792, the Mint is an integral part of the Treasury. The mission of the Mint is to manufacture coins for general circulation, to manufacture and sell numismatic products for benefit of the federal government and various beneficiary organizations, and to protect federal custodial assets. Numismatic products include medals, proof coins, uncirculated coins, gold and silver bullion coins, and commemorative coins. Custodial assets consist primarily of the United States' gold and silver metal reserves. These custodial reserves are reported in the custodial segment of the Statement of Financial Position. Beginning with FY 1996, costs related to protection of reserves, as well as other protection services provided by the Mint, are reported under Protection Cost in the Statement of Operations and Changes in Net Position, as these costs directly relate to protection of federal custodial assets and not to production of circulating and numismatic coins.

Manufacture of numismatic products is financed principally through sales to the public. Manufacture of circulating coinage is financed through receipts at face value resulting from shipment of coins to the Federal Reserve System. Activities related to protection of federal custodial assets are funded by revenues of the Mint's Public Enterprise Fund (PEF).

Early in FY 1996 and pursuant to the Public Law 104-52, the U.S. Mint Public Enterprise Fund (PEF) was established. This fund, which became operationally effective October 1, 1995, replaced the previous multiple fund structure of the Mint and is used to account for all revenues and expenses related to production and sale of numismatic products and circulating coinage and protection activities. Expenses accounted for in this fund include cost of metals used in circulating coin production, fabrication and transportation-in costs for metals used in circulating coinage and

numismatic products, and costs of transporting circulating coinage between Mint production facilities and Federal Reserve banks. Other costs/expenses accounted for in this fund include those related to research and development and purchases of equipment as well as capital improvements. Public Law 104-52 states that “any amount in the Fund (PEF) that is determined to be in excess of the amount required by the Fund shall be transferred to the Treasury.”

Treasury’s Bullion Fund (Bullion Fund) is used to account for and to purchase Treasury’s precious metals used in numismatic coin production. Cost of these metals remain in the accounts of the Bullion Fund until products are shipped to customers. The Bullion Fund is subsequently reimbursed by the PEF for the precious metal cost portion of the products sold. The United States’ gold and silver reserves are also accounted for in this fund.

C. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. This basis conforms with private sector generally accepted accounting principles.

D. Revenues and Other Financing Sources

Circulating Coinage: Public Law 104-52, establishing the U.S. Mint Public Enterprise Fund, provides for the sale of circulating coinage at face value to the Federal Reserve System. Revenue from circulating coinage is recognized as the product is shipped to the Federal Reserve System.

Numismatic Sales: Revenue is recognized as earned based on product shipments to customers during the year.

Other Revenues: These are amounts received principally from security services the Mint provides to other agencies.

E. Fund Balances with Treasury

Except for an imprest fund at each Mint facility, all cash is maintained at the Treasury. The Mint has disbursement authority for Treasury’s Bullion Fund, but actual disbursements for this fund are recorded in accounts of the Treasury and not the Mint.

F. Accounts Receivable

Pursuant to legislation authorizing production of commemorative coins and other numismatic products, the Mint does not ship products to non-government customers

until full payment is received by check, credit card, cash, or consignment agreement.

The PEF's accounts receivable consist primarily of amounts due from Eastern National Park and Monument Association, a not-for-profit organization responsible for the Philadelphia Mint's sales area. The establishment of an allowance for uncollectible accounts receivable is not warranted due to minimal historical loss experience.

G. Operating Inventories

Inventories of circulating coinage and numismatic products are valued at the lower of average cost or market value. Absent historical cost records to determine acquisition cost of the gold and silver over the decades, statutory rates of \$42.2222 per fine troy ounce (FTO) of gold and \$1.292929292 per FTO of silver are used.

All work in process gold and silver inventories have been included in the Mint's financial statements to fully present the Mint's numismatic operations. Reimbursements for precious metal costs used in numismatic operations are made to Treasury's Bullion Fund when resulting products are sold and shipped to customers. Accordingly, an offsetting Accounts Payable-Federal exists at the end of the fiscal year, that includes work in process precious metal costs which will subsequently be reimbursed to Treasury's Bullion Fund when the resulting products are sold and shipped.

H. Deferred Costs, Advances, and Prepayments

Payments in advance of the receipt of goods and services are recorded as prepaid expenses at the time of prepayment and are expensed when related goods and services are received. Prepayments also include payments made to the U.S. Postal Service for services to be incurred the following year. Advances consist primarily of advances to Treasury's Working Capital Fund and travel advances.

I. Property, Plant, and Equipment

Mint facilities used in manufacture of circulating coinage and numismatic products are owned by the Mint and located in San Francisco, CA, Philadelphia, PA, Denver, CO, and West Point, NY. In addition, the Mint owns the land and buildings at Fort Knox Bullion Depository. Upon establishment of the U.S. Mint Public Enterprise Fund (PEF) in FY 1996, property, plant, and equipment used in production of numismatic products, circulating coinage and asset protection were transferred to the PEF at net book value.

Cost and related depreciation of existing plant and equipment assets, used jointly in numismatic and circulating coinage production, are allocated to each activity based on historical usage percentages. Cost and related depreciation of new purchases are allocated between the two activities based on actual usage.

The Mint leases its headquarters building and warehouse space from General Services Administration (GSA), which charges a fee that approximates commercial rental rates for similar properties. The building is recorded on the books of GSA.

Property, plant, and equipment items are stated at cost and are depreciated on the straight-line method over estimated useful lives of the assets as follows:

ADP Software	1 to 15 years
Machinery and equipment	1 to 20 years
Structures, facilities, and leasehold improvements	6 to 30 years

Major alterations and renovations are capitalized over the shorter of a 10-year period or the remaining life of the lease and depreciated on the straight-line method, while maintenance and repair costs are charged to expense as incurred.

J. Surcharges

Legislation authorizing commemorative programs often requires that the U.S. Mint Public Enterprise Fund remit a portion of the sales price to beneficiary organizations. These amounts are referred to as "surcharges." Surcharges are generally remitted monthly, based upon program receipts for the prior month. A surcharges payable is established for surcharges received and not yet remitted.

K. Annual, Sick, and Other Leave

Annual leave is accrued when earned and reduced as leave is taken. The balance in the accrued leave account is calculated using current pay rates. Sick leave and other types of nonvested leave are charged to operating costs as they are used.

L. Accrued Workers Compensation

A liability is recorded for estimated future payments to be made for workers compensation pursuant to the Federal Employees' Compensation Act (FECA). The liability is based on the net present value of estimated future payments. Estimated future payments to be made by the Treasury are calculated by Department of Labor, which tracks and pays the claims and receives subsequent reimbursements from the Treasury. A portion of Treasury's liability is allocated to the Mint based on prior claims payment experience.

M. Other Liabilities

Other liabilities consist primarily of undeliverable numismatic products and amounts attributable to items under capital lease.

N. Custodial Gold and Silver Reserves

The Mint is a custodian of a significant portion of the United States' gold and silver reserves. These resources are reported in the custodial segment of the Statement of Financial Position at the lower of cost or market value. Absent historical cost records to determine the acquisition cost of the gold and silver over the decades, statutory rates of \$42.2222 per FTO of gold and \$1.292929292 per FTO of silver are used to value the entire custodial reserves held by the Mint. An offsetting custodial liability is also reported for these assets.

O. Receipts Transferred to Treasury

Public law 104-52, establishing the U.S. Mint Public Enterprise Fund (PEF), mandates that amounts in excess of the PEF's needs are to be transferred to the Treasury's General Fund at the discretion of the Secretary of the Treasury. Transfers to the Treasury during FY 1996 amounted to \$587 million. In prior years, revolving fund (Numismatic Public Enterprise Fund--NPEF) operations encompassed numismatic operations only (circulating coinage operations were funded through the appropriations process). As prior year transfers were based on NPEF activity, transfers to the Treasury during FY 1995 amounted to \$10 million.

Note 2 Fund Balances with Treasury

Components of fund balances with Treasury at September 30 are:

	<u>1996</u>	<u>1995</u>
Revolving fund (1)	\$121,678	\$71,063
Other funds (2)	0	21,364
Imprest funds	<u>36</u>	<u>38</u>
	<u>\$ 121,714</u>	<u>\$ 92,465</u>

(1) At September 30, 1996 and 1995, revolving fund balances included \$2.61 million and \$6.03 million, respectively, in restricted amounts for payment of surcharges to beneficiary organizations. Revolving fund balances also include amounts in suspense and budgetary clearing accounts.

(2) At September 30, 1995, other funds consisted of various appropriated, non-appropriated, and salary and expense funds. This multiple fund structure was replaced in FY 1996 with the U.S. Mint Public Enterprise Fund (PEF).

Note 3 Accounts Receivable

Components of accounts receivable at September 30 are:

	<u>1996</u>	<u>1995</u>
Accounts receivable, federal	\$ 185	\$ 37
Accounts receivable, non-federal	<u>1,653</u>	<u>1,164</u>
	<u>\$ 1,838</u>	<u>\$ 1,201</u>

Note 4 Operating Inventories, Net

Components of operating inventories at September 30 are as detailed below:

	<u>1996</u>	<u>1995</u>
Numismatic Programs:		
Operating components	\$73,378	\$74,295
Supplies	12,978	14,920
Dies	2,265	2,836
Allowance for program closeout	<u>(4,648)</u>	<u>(1,927)</u>
Sub-Total Numismatic	<u>\$83,973</u>	<u>\$90,124</u>
Circulating Coinage Program:		
Operating components	\$215,062	\$89,198
Supplies	8,053	5,300
Dies	<u>558</u>	<u>330</u>
Sub-Total Circulating Coinage	<u>\$223,673</u>	<u>\$94,828</u>
	<u>\$307,646</u>	<u>\$184,952</u>

Operating components of inventories include direct materials, direct labor, and overhead for work in process and finished goods inventories. Direct materials consist of metals, fabrication costs, and transportation-in costs (costs related to shipment of metals from fabricators and between Mint facilities). Direct labor consists of direct factory labor costs, and overhead consists of indirect labor costs, indirect materials, utilities, and depreciation. Cost of metals (including fabrication and transportation-in costs) in the operating components at September 30 is as follows:

	<u>1996</u>	<u>1995</u>
Gold	\$42,395	\$41,999
Silver	16,151	18,751
Clad (non-precious)	91,901	69,227
Platinum	<u>43</u>	<u>-0-</u>
	<u>\$150,490</u>	<u>\$129,977</u>

Non-precious metals are recorded in accounts of the PEF. Precious metals are recorded in accounts of Treasury's Bullion Fund (Note 1). The operating portion of gold and silver, also referred to as work in process and finished goods, is reflected in these statements to present numismatic operations fully. Because the PEF does not reimburse the Bullion Fund for precious metal operating costs until the resulting products are shipped to customers, these costs are also included in Accounts Payable-Federal to reflect amounts that will be paid when products are sold and shipped.

With enactment of the PEF in FY 1996, both operating and nonoperating costs of non-precious metals are recorded in accounts of the PEF. Accordingly, no corresponding federal liability is established for the operating portion of these costs. In FY 1995, prior to enactment of the PEF, the operating portion of non-precious metals was kept in accounts of the Bullion Fund. Accordingly, FY 1995 non-precious operating costs were shown as a federal liability-circulating coinage held for Treasury.

With exception of Susan B. Anthony dollars (SBAs), finished domestic coins (included in the operating components of the circulating coinage program) are valued at cost. The number of SBAs included in the operating components in FY 1996 and FY 1995 is 123,132,542 and 219,021,382, respectively. When SBAs were originally produced, an amount equal to face value less associated costs was transferred to the General Fund. Public Law 104-52 establishing the U.S. Mint Public Enterprise Fund (PEF) provides for the sale of circulating coinage at face value to the Federal Reserve System. To accommodate this change without duplicating the net of face value amounts previously transferred to the General Fund, those SBAs remaining in inventory after October 1, 1995, (effective date of the PEF) have been valued at face (Note 10).

Note 5 Deferred Costs, Advances, and Prepayments

The components of deferred costs, advances and prepayments at September 30 are:

	<u>1996</u>	<u>1995</u>
Federal:		
Prepaid postage services	\$1,165	\$7,760
Advances to others	<u>570</u>	<u>-0-</u>
	<u>\$1,735</u>	<u>\$7,760</u>

	<u>1996</u>	<u>1995</u>
Non-federal:		
Deferred advertising costs	\$ 229	\$1,926
Advances to others	<u>71</u>	<u>575</u>
	\$ <u>300</u>	\$2,501
	<u>\$2,035</u>	<u>\$10,261</u>

Note 6 Property, Plant, and Equipment, Net

Components of property, plant and equipment at September 30 are:

	<u>1996</u>	<u>1995</u>
Land	\$ 2,527	\$ 2,527
Structure, facilities and leasehold improvements	72,516	69,037
ADP software	1,286	563
Machinery and equipment	98,106	87,955
Assets under capital lease	<u>692</u>	<u>50</u>
	175,127	160,132
Accumulated depreciation and amortization	<u>(90,490)</u>	<u>(82,076)</u>
	<u>\$84,637</u>	<u>\$78,056</u>

Depreciation and amortization expense charged to operations for FY 1996 and FY 1995 were \$8,603 and \$8,176, respectively.

Note 7 Other Assets

Other assets consists primarily of \$60,267 due from the Defense Logistics Agency (DLA) for silver that DLA owed to the Treasury. In FY 1996, the advance was transferred to accounts of the Mint to be consistent with the existing practice of having the Mint report usage of silver reserves. The advance was previously recorded in accounts of the Financial Management Service, a Treasury bureau.

Note 8 Displays and Archives

The Mint has a display area at each of its facilities and maintains archives at its headquarters in Washington, D.C. These displays and archives include valuable coins and commemoratives minted domestically and internationally and other artifacts related to minting operations. These items are not included in inventory balances reported in these financial statements. Records are maintained of all coins, commemoratives, and valuable artifacts. Physical inspections are performed annually to assure accountability.

Note 9 Contingencies

The Mint is involved in various lawsuits incidental to its operations. Judgments, if any, resulting from pending litigation against the Mint generally would be satisfied from the Department of the Treasury Judgment Fund. In the opinion of management, the ultimate resolution of pending litigation issues will have no material effect on financial statements of the Mint.

Note 10 Fund Balance

The composition and relevant changes in FY 1996 and FY 1995 net position are as follows:

	<u>1996</u>	<u>1995</u>
Cumulative results of operations	\$ 624,401	\$ 4,738
Fund balance, beginning of year	107,353 (1)	118,025
Invested capital	261,596 (2)	----
Non-operating changes	----	(5,410) (4)
Transfers to the General Fund	<u>(586,753) (3)</u>	<u>(10,000)</u>
	<u>\$ 406,597</u>	<u>\$ 107,353</u>

(1) Fund balance consists of unexpended balances and undelivered orders from prior years' appropriated funds, and the cumulative results of operations of the prior years' public enterprise fund, the Numismatic Public Enterprise Fund. In FY 1996, these fund balances were transferred to the Mint's new Public Enterprise Fund (PEF), whose operations became effective October 1, 1995.

(2) Invested capital represents the value of circulating coinage inventory (raw materials and finished coins, principally Susan B. Anthony dollars) that was transferred from the accounts of the Treasury to the Mint's Public Enterprise Fund (PEF). The transfer of these assets was made in early FY 1996 with the establishment of the PEF.

(3) Transfers to the General Fund represent the amount of transfers made during FY 1996 for amounts determined to be in excess of the PEF's needs.

(4) Non-operating changes consists of the net change in undelivered orders and unobligated balances, and budgetary expense adjustments incurred for circulating coin production.

Note 11 Custodial Gold and Silver Reserves

Custodial gold and silver reserves are reported in the custodial segment of the Statement of Financial Position at the lower of cost or market value. Absent any historical cost records to determine the acquisition cost of the gold and silver over the decades, the statutory rates of \$42.2222 per FTO of gold and \$1.292929292 per FTO of silver are used to value the entire

custodial reserves held by the Mint. For purposes of comparison, the market value of these assets is disclosed in this footnote.

Amounts and values of custodial gold and silver, in the custody of the Mint, at September 30 are:

	<u>1996</u>	<u>1995</u>
Gold:		
Inventories (FTO)*	247,531,465	247,570,393
Market Value (per FTO)	\$379.00	\$384.00
Market Value (in \$ Thousands)	\$93,814,425	\$95,067,031
Statutory Value (in \$ Thousands)	\$10,451,323	\$10,452,967
Silver:		
Inventories (FTO)*	12,908,975	16,708,017
Market Value (per FTO)	\$4.88	\$5.53
Market Value (in \$ Thousands)	\$62,996	\$92,395
Statutory Value (in \$ Thousands)	\$16,690	\$21,602
Total Market Value of Custodial Gold and Silver Reserves (in \$ Thousands)		
	\$93,877,421	\$95,159,426

* The change in number of gold and silver FTOs between the years is due to use of these metals in the Mint's numismatic operations. Upon shipment of products to its customers, the Mint reimburses the Treasury for metals used in its numismatic operations at market values.

Note 12 Cost of Goods Sold

Following are components of cost of goods sold for years ended September 30, 1996 and 1995:

	<u>1996</u>	<u>1995</u>
Finished goods, beginning inventory	<u>\$7,937</u>	<u>\$5,888</u>
Cost of goods manufactured:		
Work in process, beginning inventory	9,042	10,540
Metals, fabrication, and transportation-in	540,030	435,090
Direct Labor	10,086	9,913
Manufacturing overhead Work in process, ending inventory	66,933	68,518
	<u>(7,203)</u>	<u>(9,042)</u>

Total cost of goods manufactured	<u>\$618,888</u>	<u>\$515,019</u>
Cost of goods available for sale	\$626,825	\$520,907
Finished goods, ending inventory	<u>(6,573)</u>	<u>(7,937)</u>
Cost of goods sold	<u>\$620,252</u>	<u>\$512,970</u>

The increase in the metal cost portion of cost of goods sold is primarily due to approximately 94 million SBAs which were shipped in FY 1996 and valued at face. In prior years, these coins would have been valued at a metal cost of approximately \$1.5 million.

Note 13 Selling Expenses

Following are marketing and security expenses for the years ended September 30, 1996 and 1995:

	<u>1996</u>	<u>1995</u>
Marketing	\$36,527	\$41,534
Security	<u>2,110</u>	<u>2,159</u>
	<u>\$38,637</u>	<u>\$43,693</u>

In FY 1996, costs related to protection of federal custodial assets are reported under Protection Cost in the Statement of Operations and Changes in Net Position. FY 1995 costs of protection, which amount to \$11,247, are reported in the Statement of Operations and Changes in Net Position as selling, general, and administrative expenses.

Note 14 General and Administrative Expenses

The following list the components of general and administrative expenses for the years ended September 30, 1996 and 1995:

	<u>1996</u>	<u>1995</u>
Other salaries and benefits	\$30,569	\$27,864
Computer services	4,149	4,259
Transportation, communication, and training	7,927	7,087
Supplies	2,323	2,520
Depreciation	1,126	1,294
Maintenance	5,334	4,206
Utilities	1,327	910

Rent and other admin. services	3,855	3,352
Research and development	3,145	3,372
Transportation to Federal Reserve System (FRB)	<u>2,838</u>	<u>4,644</u>
	<u>\$62,593</u>	<u>\$59,508</u>

Note 15 Surcharges Collected

The following list components of incurred surcharges by product and beneficiary organization for FY 1996 and FY 1995.

<u>Commemorative Program</u>	<u>Beneficiary Organization</u>	<u>1996</u>	<u>1995</u>
Smithsonian	Smithsonian Institution	\$ 2,384	\$ -0-
National Service	National Community Service Trust	1,170	-0-
Civil War	The Civil War Trust	483	5,427
1996 Olympic Games	Atlanta Committee for the Olympic Games	13,168	11,220
Special Olympics	1995 Special Olympics	2,596	1,815
World War II	World War II Veterans Memorial Fund	-0-	12
	Battle of Normandy Foundation	-0-	12
Yosemite Medal	National Park Foundation	3	5
Franklin Medal	National Association of State Fire Marshals	-0-	4
	The National Fire Protection Association Learn Not to Burn Foundation	-0-	4
	International Association of Arson Investigators	-0-	4
	Educational Fund Institute For Life Safety	-0-	4

	Technical and Emergency Management Education	-0-	4
	National Volunteer Fire Council Foundation	-0-	4
	International Association of Fire Chiefs Foundation	-0-	4
	The Franklin Institute	-0-	4
World Cup	World Cup USA 1994, Inc.	-0-	239
U.S. Capitol	Capital Preservation Commission	-0-	2,290
U.S. Veterans	Andersonville Prisoner-of-War Museum	4	467
	Vietnam Veterans Memorial Fund	4	467
	Women in Military Service	<u>4</u>	<u>467</u>
		<u>\$19,816</u>	<u>\$22,453</u>

Note 16 Retirement Plan

Approximately 36% of the Mint's employees participate in the Civil Service Retirement System (CSRS), to which the PEF makes a matching contribution equal to 7 percent of pay. On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired on or after January 1, 1984, are automatically covered by FERS and the Social Security System. Employees hired prior to January 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is a savings plan to which the Mint automatically contributes 1 percent of pay and then matches any employee contribution up to an additional 4 percent of pay. For most employees hired on or after January 1, 1984, the Mint also contributes the employer's matching share for Social Security. The Mint also contributes the employer's matching share for Social Security for employees hired before January 1, 1984 who have converted to FERS.

Although the Mint funds a portion of the benefits under FERS and CSRS relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report CSRS, FERS, or FICA assets, accumulated plan benefits, or unfunded liabilities applicable to its employees. These amounts are reported by the Office of Personnel Management and are not allocated to individual employers.

The following table shows the amounts that the PEF contributed to the retirement plans and Social Security in FY 1996 and FY 1995, respectively:

	<u>1996</u>	<u>1995</u>
Civil Service Retirement System	\$ 2,371	\$ 2,511
Federal Employees Retirement System (Retirement & Thrift Savings Plan)	6,145	5,507
Social Security	<u>4,082</u>	<u>3,878</u>
	<u>\$12,598</u>	<u>\$11,896</u>

Note 17 Related Parties

The Mint is subject to management control by the Secretary of the Treasury.

The U.S. Mint Public Enterprise Fund does not reimburse the Bullion Fund for precious metal used for numismatic production until finished goods are shipped to customers. Hence, the cost of capital associated with carrying these inventories is borne by the Treasury. As an offsetting matter, the Mint does not receive interest on its cash account at Treasury.

The Mint is required by legislation to obtain silver to be used in minting of commemoratives from the Defense Logistics Agency's (DLA) stockpiles. The Mint (U.S. Mint Public Enterprise Fund) reimburses the DLA at the market price for silver, less the statutory rate of \$1.292929292 per FTO. The \$1.292929292 per FTO is paid by the Mint to the Treasury.

During FY 1996 and FY 1995, payments were made to the following government entities:

	<u>1996</u> (\$ mill.)	<u>1995</u> (\$ mill.)
Government Printing Office	\$ 1.6	\$ 1.7
U.S. Postal Service	14.3	16.6
General Services Administration	<u>3.6</u>	<u>4.0</u>
	<u>\$19.5</u>	<u>\$22.3</u>

The Mint shipped approximately \$1,057 million in coins (face value) to the FRB in FY 1996. This amount represents a 1% increase over FY 1995 shipments which approximated \$1,049 million in coins. This increase is directly correlated to the increase in FY 1996 over FY 1995 in circulating coins produced; circulating coins produced in FY 1996 and FY 1995 were 20.2 and 19.5 billion, respectively.

Numismatic orders, checks, and credit card orders are processed by Mellon Bank. Fees associated with these services are absorbed by the Treasury and are not reflected in the Mint's financial statements.

Note 18 FY 1996 Comparisons to FY 1995 Statement of Operations and Changes in Net Position and Statement of Cash Flows

Under the previous appropriation fund structure, FY 1995 circulating coinage revenue was reported in FY 1995 financial statements at the cost of production (metal cost plus amounts appropriated for related salary and expenses), with no resulting transfers to the General Fund. With enactment of the PEF in FY 1996, the FRB began paying the Mint face value for circulating coinage. Accordingly, FY 1996 circulating coinage revenue is reported at face value, with resulting transfers to the General Fund (Note 1). In addition, expenses related to processing of mutilated circulating coinage are now accounted for in the PEF and, as such, are reflected in FY 1996 financial statements as other expenses. FY 1995 financial statement and footnote amounts have not been restated. This presentation provides for a complete illustration of the effects of the change in fund structure between FY 1996 and FY 1995.



February 27, 1997

INSPECTOR GENERAL

MEMORANDUM FOR PHILIP N. DIEHL
DIRECTOR OF THE UNITED STATES MINT

FROM: Valerie Lau *Valerie Lau*
Inspector General

SUBJECT: Audited Statements of Custodial Gold and Silver Reserves for the
United States Mint as of September 30, 1996 and 1995

Attached is our report on the Mint's Statements of Custodial Gold and Silver Reserves (custodial statements) as of September 30, 1996 and 1995, which are incorporated in Section III. We have submitted a copy of the attached package to the Secretary of the Treasury and to the Assistant Secretary for Management/Chief Financial Officer for transmission to the Office of Management and Budget.

The audit objectives were to provide reasonable assurance that the Mint's custodial statements are free from material misstatement, significant controls have been designed and placed into operation, and the Mint complied with applicable laws and regulations. The results of our audit of the custodial statements will be relied upon by Urbach Kahn & Werlin PC, an Independent Public Accountant, who conducted the audit of the Mint's Fiscal Year 1996 financial statements.

Our report includes an unqualified opinion on the Mint's custodial statements. Our report contains no reportable conditions related to the internal control structure. We noted no instances of reportable noncompliance with laws and regulations. In accordance with generally accepted government auditing standards, the opinion on the custodial statements is dated as of the last day of audit field work.

Should you have any questions, please contact me at (202) 622-1090 or a member of your staff may contact Danny L. Athanasaw, Director, Financial Audits at (202) 927-5791.

Attachment

SECTION I - REPORT OF THE INSPECTOR GENERAL

To the Director of the United States Mint

We have audited the accompanying Statements of Custodial Gold and Silver Reserves (custodial statements) of the United States Mint (U.S. Mint) as of September 30, 1996 and 1995. This report presents our unqualified opinion on these statements. Our audit disclosed no material weaknesses in the internal control structure and no reportable instances of noncompliance with laws and regulations.

This report describes our responsibility for examining these statements, and management's responsibilities for financial reporting, maintaining an internal control structure, and complying with certain applicable laws and regulations.

AUDITOR'S RESPONSIBILITIES

We conducted our audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the custodial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the custodial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall custodial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We obtained an understanding of the internal control structure. Specifically, our consideration included: obtaining an understanding of significant internal control policies and procedures; assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances; and performing tests of the internal control structure.

We also performed tests of the U.S. Mint's compliance with certain laws and regulations that may directly affect the custodial statements. However, the objective of our audit of the custodial statements was not to provide an opinion on overall compliance with such laws and regulations. The independent public accountant auditing the U.S. Mint's entity financial statements is responsible for testing overall compliance with laws and regulations.

SECTION I - REPORT OF THE INSPECTOR GENERAL

MANAGEMENT'S RESPONSIBILITIES

Management is responsible for

- preparing the custodial statements in conformity with the accounting policies described in Note 1 to the accompanying custodial statements.
- establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of internal accounting policies and procedures.
- complying with laws and regulations applicable to the U.S. Mint's custodial responsibilities for the gold and silver reserves.

OPINION ON THE CUSTODIAL STATEMENTS

In our opinion, the custodial statements referred to above present fairly, in all material respects, the value of the United States' gold and silver reserves in the custody of the U.S. Mint as of September 30, 1996 and 1995, in conformity with the accounting policies described in Note 1 to the statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

INTERNAL CONTROL STRUCTURE

In planning and performing our audit of the custodial statements for the year ended September 30, 1996, we obtained an understanding of the Mint's internal control structure. Specifically, we obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation. We assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the custodial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion. Our consideration included: obtaining an understanding of the significant internal control structure policies and procedures; assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances; and performing tests of the internal control structure.

The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that

- transactions, including those related to obligations and costs, are executed in accordance with laws and regulations that could have a direct and material effect on

SECTION I - REPORT OF THE INSPECTOR GENERAL

the custodial statements that the OMB, entity management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated.

- funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and
- transactions are properly recorded and accounted for to permit the preparation of the custodial statements in accordance with applicable accounting policies and to maintain accountability over the assets.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants and OMB Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the custodial 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 the internal control structure and its operation that we consider to be material weaknesses as defined above.

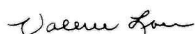
COMPLIANCE WITH LAWS AND REGULATIONS

As part of obtaining reasonable assurance about whether the custodial statements are free of material misstatement, we tested compliance with those laws and regulations directly affecting the custodial statements and certain other laws and regulations designated by the OMB and the U.S. Mint. However, as stated previously, our objective was not to provide an opinion on overall compliance with laws and regulations.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein by the *Government Auditing Standards*.

SECTION I - REPORT OF THE INSPECTOR GENERAL

This report is intended for the information and use of the management of the U.S. Mint, the Department of the Treasury, the OMB, and the Congress. However, this report is a matter of public record, and its distribution is not limited.



Valerie Lau
Inspector General

January 10, 1997

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 1996 AND 1995
(IN THOUSANDS)

	1996	1995
CUSTODIAL GOLD AND SILVER RESERVES		
United States' gold and silver reserves (Note 2)	\$ 10,468,013	\$ 10,474,569
Custodial liability to Treasury (Note 2)	10,468,013	10,474,569
Net gold and silver reserves custodial position	\$ 0	\$ 0

The accompanying notes are an integral part of these statements

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 1996 and 1995

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The United States Mint (U.S. Mint), established in 1792, is an integral part of the Department of the Treasury. The mission of the U.S. Mint is to manufacture coins for general circulation. In addition to manufacturing circulating coins, the U.S. Mint manufactures numismatic products, which include medals, proof coins, uncirculated coins, gold and silver bullion coins, and commemorative coins. These manufacturing operations are reported in the manufacturing segment of the U.S. Mint's consolidated financial statements. The U.S. Mint is also the custodian of a significant portion of the United States' gold and silver reserves, which are presented in the custodial segment of the U.S. Mint's Statements of Financial Position.

The U.S. Mint's custodial activities, including the protection of the United States' gold and silver reserves in its custody, are funded by the U.S. Mint's Public Enterprise Fund (PEF).

B. Basis of Presentation

These custodial statements have been prepared to report the net gold and silver reserves custodial position of the U.S. Mint. The books and records of the U.S. Mint have served as the source of the information contained herein. The statements have been prepared in accordance with the guidance specified by the Office of Management and Budget (OMB) in Bulletin No. 94-01, *Form and Content of Agency Financial Statements*, Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, agreed to and published by the Principals of the Joint Financial Management Improvement Program, and the U.S. Mint's accounting policies, which constitute a comprehensive basis of accounting other than generally accepted accounting principles.

These custodial statements include all gold and silver classified by the U.S. Mint as "custodial reserves" as defined in Note 2. These statements do not include gold and silver withdrawn from the "custodial reserves" for use in the operations of the U.S. Mint's PEF. The U.S. Mint's PEF occasionally uses gold and silver from the custodial reserves to support its numismatic operations. The PEF later replenishes the reserves with newly mined gold. These statements do not reflect any of the United States' gold and silver being used by the U.S. Mint in its operating inventory or any reserve amounts due to be replenished by the PEF.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 1996 and 1995

Note 2. Custodial Gold and Silver Reserves

Gold and silver are classified as reserves if in bar form. The custodial reserves also include foreign gold coins held by the Treasury for many years.

The gold and silver reserves are reported in these custodial statements at the lower of cost or market value, as required by SFFAS No. 3. Absent historical cost records to determine the acquisition cost of the gold and silver over the decades, the reserves are valued at the rates stated in U.S. Code Title 31, Sections 5116 and 5117 (statutory rates) which are \$42.2222 per Fine Troy Ounce (FTO) of gold and \$1.292929292 per FTO of silver. An offsetting custodial liability is also reported for these assets.

At September 30, 1996 and 1995 the market value of gold was \$379 per FTO and \$384 per FTO, respectively. Gold inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
1996	247,531,465.307	\$10,451,323,035	\$93,814,425,351
1995	247,570,393.366	\$10,452,966,663	\$95,067,031,053

At September 30, 1996 and 1995, the market value of silver was \$4.88 per FTO and \$5.53 per FTO, respectively. Silver inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
1996	12,908,975.14	\$16,690,392	\$62,995,799
1995	16,708,016.82	\$21,602,284	\$92,395,333

The combined gold and silver reserves consisted of the following at September 30:

	Statutory Value	Market Value
1996	\$10,468,013,427	\$93,877,421,150
1995	\$10,474,568,947	\$95,159,426,386

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 1996 and 1995

The change in the number of gold and silver FTOs between years is due to the use of these metals in the U.S. Mint's numismatic operations (the PEF). Upon shipment of products to its customers, the U.S. Mint's PEF replenishes the reserves for metals used in its operations.

**UNITED
STATES
MINT
SENIOR
MANAGEMENT**

PHILIP N. DIEHL	<i>Director</i>
JOHN P. MITCHELL	<i>Deputy Director</i>
ANDREW J. COSGAREA, JR.	<i>Chief Operating Officer</i>
DAVID PICKENS	<i>Director of Marketing</i>
JAY M. WEINSTEIN	<i>Chief Financial Officer</i>
WILLIAM F. DADDIO	<i>Chief Security Officer</i>
KENNETH B. GUBIN	<i>Chief Legal Counsel</i>
AUGUSTINE A. ALBINO	<i>Philadelphia Mint</i>
BRADFORD F. COOPER.....	<i>West Point Mint</i>
JAMES M. CURTIS	<i>U.S. Bullion Depository</i>
RAYMOND J. DEBROEKERT	<i>Denver Mint</i>
DALE B. DEVRIES.....	<i>San Francisco Mint</i>

*For further information contact:
U.S. Mint Office of Public Affairs
202-874-6450*

