

UNITED STATES MINT



1997 ANNUAL REPORT

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The Mission of the United States Mint is to manufacture the highest quality circulating, numismatic, and bullion coins at the lowest possible cost and to deliver them in a timely manner ... to expand our markets through exceptional customer service, product development, and innovative marketing ... to sell numismatic and bullion products at a reasonable price and profit ... and to provide security over assets entrusted to us.

— U.S. Mint Strategic Plan

Founded in 1792,
the United States Mint
became a bureau of the
Treasury Department in 1873
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 manu-
facture and market coin and
medal products worldwide,
and to safeguard the nation's
bullion reserves at
Ft. Knox and elsewhere.
These missions and our
effectiveness in executing
them make the
United States Mint one
of the few federal
agencies that produces an
operating profit.

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DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, DC 20220



To Our Colleagues and Customers:

The United States Mint has undertaken one of the most ambitious overhauls of any agency in government, and our results have been widely recognized as we earned a reputation and repeated awards for our achievements. These achievements and awards continued throughout 1997 as we again improved customer service, cut costs, increased sales, and improved operating and administrative capacities. However, in this year's annual report you'll sense a difference in the



kinds of achievements we discuss and how they occurred. Impressive though they've been in the recent past, our achievements have come from turning around a business facing daunting challenges. Less obvious yet equally important, while dealing with those challenges we also were shaping a strategic plan that looks beyond the task at hand to a future within our reach.

In 1997, the future arrived. The strategic plan we crafted produced its first systematic outcomes. The foundation we laid gave rise to structural change. Instead of reacting to conditions as we found them, we began to shape our business environment. The pieces started to come together with very positive results.

After working throughout two Congressional sessions for legislation authorizing platinum coins and reforming our commemorative programs, 1997 was the first year our long-sought reforms were in effect. Results were as dramatic as we had hoped. Numismatic sales soared on the wings of Platinum American Eagles. We brought customers the benefit of commemorative coin mintage reductions with limited-edition sets that sold out like clockwork. We also reduced mintages of Gold Proof American Eagles closer to historical demand, sparking the first sell-out of a proof Eagle denomination, the tenth-ounce, since 1990.

Our planning in circulating coinage operations likewise began to pay dividends. Among other accomplishments we finalized econometric models that project Federal Reserve coin demand at a 95 percent confidence level, continued to install production technology that's already trimming circulating coinage costs by \$1 million-plus per year, and set time lines on 33 projects portending additional reductions in yearly operating cost of \$16.3 million for circulating coin production by 2002.

Spade work for our Consolidated Operating Information System (COINS) was completed by year-end. To be fully implemented in late 1998, COINS will bring something we've long sought: an integrated, automated system for providing accurate, timely, comprehensive, enterprise-wide data for business decisions. COINS may well be among the first enterprise resources planning system in the public sector in the United States.

Our office of marketing launched its contribution to COINS this year by drawing new information resources into a comprehensive context of customer service. Called MARCUS for

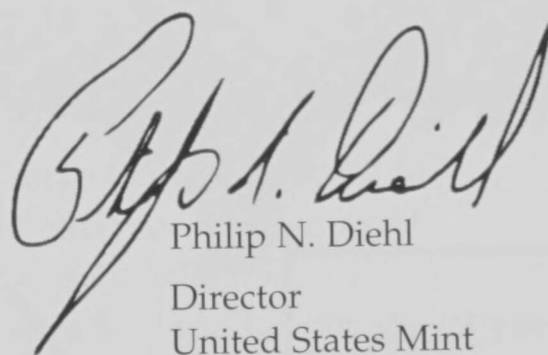
blending Marketing and Customer Service initiatives, the effort will marry best-in-business practices with state-of-the-art technologies for high-tech and high-touch relationships with customers.

COINS and MARCUS are the next generation capabilities in our evolution as a public sector enterprise, and that evolution is accelerating in budgeting & accounting and personnel training & development. Clean audit opinions - our fourth straight in fiscal 97 - are becoming customary for us, as they should at a billion-dollar enterprise. It also is now customary for Mint managers to prioritize and justify operational and capital expenditures by linking them directly to our strategic plan, a quantum leap for a business that only two years ago began operating under its own revenues without taxpayer support.

Employees need greater skills and new mind-sets in the modern organization we're becoming, so we're sponsoring more education and training, and we're urging more people to take part. Last year we gave every employee the option to write Individual Development Plans that enable them to customize training to match their goals and skills with requirements of the new Mint, and we increased budgets to pay for all or part of that training. This year we also instituted an Executive Development Program to prepare promising middle managers for senior management via a multi-year progression of education and work assignments.

In short, fiscal 1997 was a year of landmark personnel programs, ground breaking coin programs, reinvigorated sales, and continued investment in facilities and people who make America's coins. It was a year for revamping information infrastructure and introducing an era of proficiency and professionalism. It was a year in which we stopped bailing and mending canvas and set sail for a future we've envisioned for years. It was a year in which collectors saw changes we've been promising and for which, in this report, we summarize improvements in operations, costs, and service.

What we have planned is now paying off, and what we have promised we're beginning to deliver. While we are making coins, we also are making believers of customers, new business partners, and new markets, and we're making good on our pledge that the U.S. Mint - the world's largest manufacturer-marketer of coins - will also be its best.



Philip N. Diehl
Director
United States Mint

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



Facilities and Functions

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



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

Fort Knox

Fort Knox, KY

- Protects Gold Bullion and Assets of other Agencies

Customer Service Center

Lanham, MD

- Processes Orders
- Provides Customer Service

Headquarters

Washington, DC

- Formulates Policy
- Manages Programs and Markets Coins
- Provides Administrative Guidance
- Conducts Research and Development
- Provides ADP Operations

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

... to manufacture the highest quality circulating, numismatic, and bullion coins at the lowest possible cost and to deliver them in a timely manner ...
— U.S. Mint Strategic Plan

CIRCULATING COINAGE

After three consecutive years of output in the 20 billion range, we struck 14 billion circulating coins with a face value of \$675 million during fiscal 1997. Three years of record circulating production coupled with record commemorative coin requirements had strained our energy and equipment. Therefore, reduced demand allowed greater attention to equipment, facilities, and infrastructure improvements coming on-line as part of a projected multi-year \$89.3 million capital investment program begun in fiscal 1996.

Our goal in producing circulating coinage is to maintain output and inventories sufficient to meet demand from Federal Reserve Banks. We did so during the year and also perfected econometric models that forecast Fed demand at the 95 percent confidence. We now are developing econometric models for each of 37 Fed districts. These refinements do even more to assure we produce quantities of circulating coinage our nation's commerce needs. Tighter projection of Fed demand and reduction of non-value-added processes through automation and re-engineering are elements in a second crucial goal for circulating coinage operations—to reduce average costs 15 percent by 2002.

New Efficiencies

Throughout the year we increased efficiencies and lowered costs by acquiring new technologies, emending procedures that add expense but little value, and reducing cycle times on major processes. A key example is the way we've improved yield from blanking dies, which punch coin blanks from multi-ton coils of cupro-nickel strip. Rearranging die sets has boosted yield per kilogram of strip from 73 percent to 80 percent, reducing tonnage of strip needed for any required coin output. Their introduction saved nearly \$400,000 in fiscal 1997, and full installation in 1998 will save \$2.3 million yearly. Statistical process control training, now under way at three facilities, is expected to cut inspection and failure costs by 20 percent beginning in fiscal 1998. Our new quality improvement plan has the potential to increase process yields by 10 to 15 percent Mintwide.

Two new annealing furnaces came on board at Philadelphia, with three others purchased for Denver. A high-speed blanking press capable of 700 strokes per minute operated at Denver nine months of the year; four others are scheduled for Denver and Philadelphia. At Philly, six new high-speed coin presses are expected early in fiscal 1998. These new and scheduled capital improvements increase the productivity of equipment they replace. They also minimize manual operation and reduce accidents from material handling, promoting a safer workplace.



Coining employee Rudy Gomez inches metal strip through one of Denver's new Schuler presses. This press punches out nickel blanks.

A prototype hammermill operation to destroy reject coins and blanks mechanically instead of by melting proved its worth in 1997, with potential savings of \$352,000 yearly when fully implemented next year. Increased preventive maintenance will reduce down time, parts cost, and energy consumption, saving \$5,000 per coin press yearly. Local manufacturing of parts for Denver's Schuler presses is saving more than \$500,000 yearly. Savings from energy efficiencies amounted to \$117,000 in fiscal 1997 alone, with much larger savings expected in the near future.



Philadelphia press operator Nick Dicesare performs one of our most important production steps — inspecting circulating coinage.

for fewer workers and potential elimination of repetitive motion injury claims associated with manual die polishing will save \$741,000 yearly.

Operating Excellence

Manufacturing Excellence Teams in fiscal 1997 defined, initiated, and set schedules for 58 circulating and numismatic coinage projects which, if successful, will produce savings and cost avoidance of \$19 million yearly by 2002 as well as noteworthy one-time savings and future savings not yet fully estimated. For instance, Denver's plant engineering saved hundreds of thousands of dollars by installing 15 miles of fiber optic cable itself instead of contracting commercially, and Denver's new waste water treatment plant will support round-the-clock shifts while operating only during daylight hours when three of its four modules are up in mid-1998.

Improvements to quality, speed, and cost are important for commemorative and bullion coin production. Efficiency is our best avenue for profitability in low-margin, highly competitive bullion coin markets. Commemorative coin collectors demand limited quantities, and we are working with Congress to limit strictly the number of new programs and mintages; so we have few alternatives for increasing revenues through volume, and we must keep prices low to keep customers and attract new ones. Least cost, high efficiency production must be our stratagem.

Postal Progress

Having posted dramatic improvements in order fulfillment in 1995 and 1996, we took greater strides during fiscal 1997 to speed deliveries and curtail costs. Chief among 1997's improvements, our Office of Mail Management (OMM) signed a pioneering agreement and launched a new era of cooperation with the United States Postal Service (USPS) that speeds shipments, boosts security in transit, and slashes yearly mail costs by more than \$1.4 million.

One example of savings achieved from this agreement: mailing Proof American Silver Eagle shipments



Washington Postmaster David Clark, Postmaster General Marvin Runyon, and Mint Mail Management Officer Kevin O'Toole admire coins and packaging at the National Postal Forum in New Orleans.

by priority mail instead of registered mail saved \$64,000 in postage during calendar 1997. We saved an additional \$180,000 from buying and storing fewer mailers because USPS now provides us, free-of-charge, a customized container of recyclable, water-repellent cardboard with tamper-evident design and easy-opening pull tab.

Quite apart from savings we're producing through our new agreement, the mere fact that we're cooperating more closely with USPS is producing further savings. For example, the San Francisco Mint asked its postmaster to pick up all mail at the Mint's loading dock and now saves \$119,000 annually by avoiding use of armored carriers.

Using nationwide priority mail for all coin programs beginning in 1998 will boost annual savings by another \$700,000. Joining the National Change of Address program will save an additional \$1 million yearly by reducing duplicate mailings and mailings to outdated addresses.

<i>Circulating Coinage Production Totals</i>			
FY1997	PHILADELPHIA	DENVER	TOTAL
Cent	4,902,035,000	4,877,060,000	9,779,095,000
Nickel	487,268,000	477,192,000	964,460,000
Dime	1,038,000,000	1,029,320,000	2,067,320,000
Quarter	610,000,000	597,080,000	1,207,080,000
Half-dollar	<u>20,882,000</u>	<u>20,406,000</u>	<u>41,288,000</u>
TOTAL:	7,058,185,000	7,001,058,000	14,059,243,000

*... to expand our markets through exceptional customer service, product development, and innovative marketing...
— U.S. Mint Strategic Plan*

MARKETING

During fiscal 1997 the Mint unveiled the nation's first platinum coin, came to dominate world gold and silver bullion markets, launched three commemorative programs, sold out eight products, and earned an operating profit of \$18.4 million.

Moreover, in 1997 we proved we have heard and heeded the voice of our collector customers, and we earned the payoff by acting on Congressional authority we had sought for years. In 1994, we began urging Congress to limit the number and size of commemorative coin programs, and collectors have seen our success: between 1994 and 1996, Congress approved programs with authorized mintages averaging 4.3 million coins per program. Under reforms enacted in 1996, the average annual authorized mintages for 1997 through 1999 has fallen to 430,000. What's more, we sought authority from Congress to produce platinum coins, and in 1997 we produced them. We knew our market would welcome stellar product options at reasonable prices in restrained mintages. In 1997, we provided them, and the market responded.



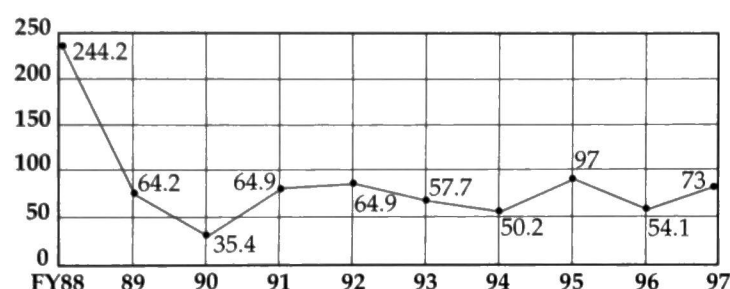
The big reason for our strong financial performance was the resounding success of American Eagle platinum coins in their debut year. We introduced proof versions of platinum in June and bullion versions in September. By December 31, we had sold 114,710 proof and uncirculated ounces, setting a 10-year record for North American platinum coin sales to become the world's leading seller of platinum coinage.

Proof American Eagles

In proof Eagles, the word was *Platinum* with a capital P. Between launch on June 6 and September 30, we sold 33,695 proof ounces, 85 percent of 1997's mintage limit. By December 31, we had orders for approximately 37,056 proof ounces. Serial sell-outs and near-sellouts punctuated that success:

8,000 Four-Coin Proof Platinum Eagle Sets containing ounce, half-ounce, quarter-ounce, and tenth-ounce platinum Eagles: gone in three weeks

Total Revenues - Proof American Eagles
Silver, Gold, Platinum



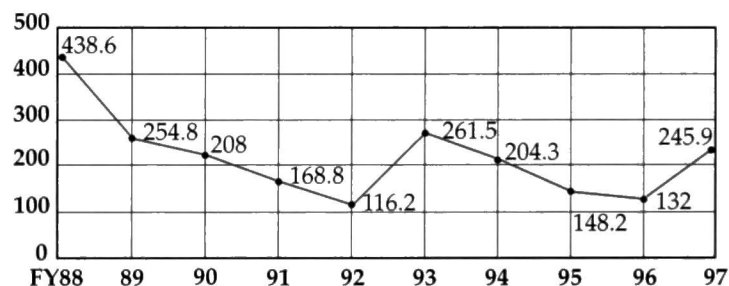
5,000 Impressions of Liberty Sets® of all three one-ounce proof American Eagles: gone in three weeks

8,000 One-Ounce Proof Platinum American Eagles: gone in 15 weeks

28,682 of 30,000 Tenth-Ounce Proof Platinum American Eagles: gone by December 31

Proof Gold American Eagles have been our signature product for 12 years, but this product is maturing. Sales of four-coin sets remained generally at prior years' levels—22,845 in fiscal 1997 and 22,650 in 1996—as did sales of individual Proof Gold Eagles: 8,499 for the one-ounce coin, 7,022 for the half-ounce, 10,153 for the quarter-ounce, and 22,224 for the tenth-ounce.

Total Revenues Uncirculated American Eagle
FY88-97: Silver, Gold, Platinum



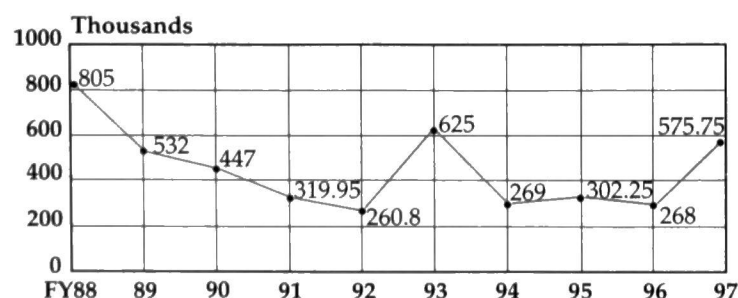
Selling out the 1997-dated tenth-ounce proof, first sell-out of an individual proof gold Eagle since 1990, was gratifying. This year we reduced proof Eagle mintages in line with collectors' preferences for limited quantities. Proved successful, this experiment will continue in 1998 as we adjust supply to demand.

Proof Silver American Eagles reached 482,610 units, compared to 466,995 for fiscal 1996. Several factors color comparisons, but the Eagle clearly is maturing. In response, we're taking advantage of the potential for Proof Silver Eagles in incentive markets and jewelry applications.

Uncirculated American Eagles

Uncirculated Gold American Eagles enjoyed their own gold rush in 1997. Fiscal year sales vaulted to 575,761 ounces, more than doubling 1996 performance and becoming the world market leader. By December 31, we had sold 764,761 ounces, up 175 percent compared to the same period last year and the best yearly total since the first full calendar year of the Eagle program in 1987. We attribute this rebound to two factors. First, gold prices sagged throughout the year, and investors stepped up purchases at what they viewed as bargain prices. Second, we have worked diligently over the past two years to build sales through closer partnerships with our wholesale distributors. Cumulative sales of uncirculated Eagles since 1986 passed the 7 million ounce milestone in fiscal 1997.

Uncirculated Gold Eagle Sales in Ounces
per FY88-97

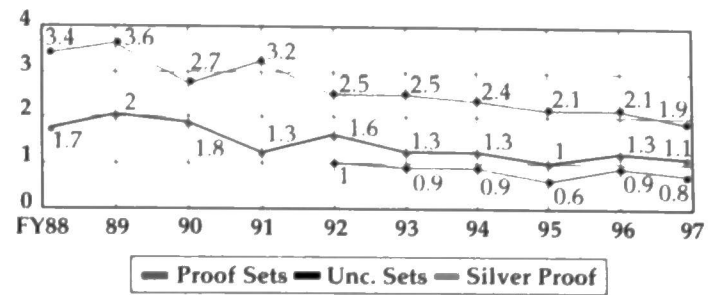


Sales of Uncirculated Silver American Eagles rebounded 16 percent from 1996 to 4,354,560 ounces as prices rose from July lows. Eagles long have been the world's top silver coin, and first place standing serves us well when investors add silver coinage to portfolios. Uncirculated Silver Eagles with customized finishes like gold-highlighted Walking Liberty Pendants or antiqued Silver Eagle Pocket Knives also fared well in 1997's Holiday Collection Catalog.

Collector interest in the first U.S. platinum coinage was so high that we sold 28,100 ounces of individual Uncirculated Platinum Eagles the first day of sales. By the end of fiscal 1997 we had sold 28,686 ounces. By the end of calendar 1997 we had sold 77,914 ounces of Uncirculated Platinum American Eagles.

The first year of a program like platinum is a chart-buster that will be difficult to repeat, but we're optimistic about sustained sales because Platinum Eagles have so much going for them. They offer investors portfolio diversification plus quality and purity backed by the U.S. government. In August, the Taxpayer Relief Act of 1997 created additional demand by approving them for Individual Retirement Accounts beginning in 1998. Craftsmanship, the Portrait of Liberty obverse, and a specialty finish commend platinum Eagles for jewelry, including our own platinum Eagle cuff links, pendant, and earrings introduced at 1997 year-end. We will support our presence in platinum—in all bullion markets — by being the most dealer-distributor-friendly supplier. Alongside dealer-distributors and Platinum Guild International, we have developed advertising, point-of-sale materials, and sales support that pay off where it counts—in cash registers.

Sales Trends of Silver Proof Sets, Proof Sets, and Uncirculated Coin Sets in Millions of Sets



Annual Programs



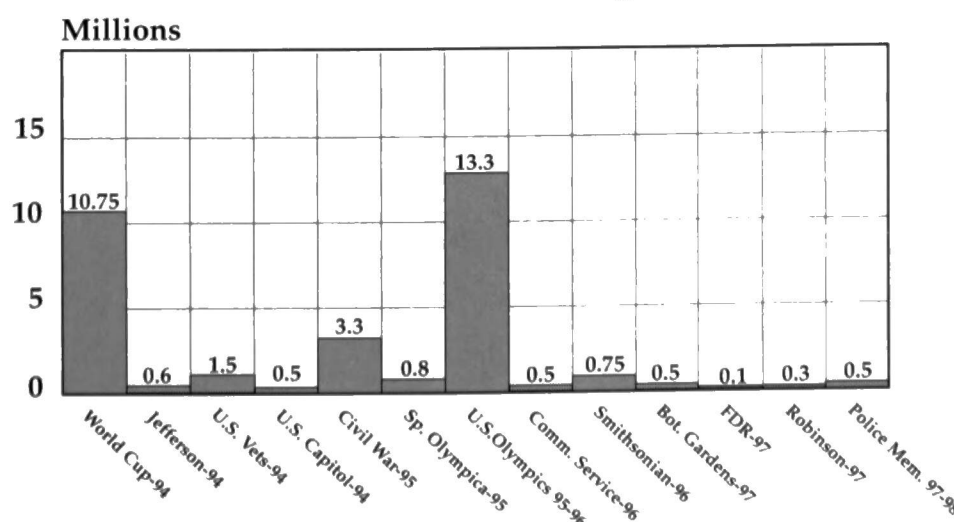
Sales of 1997 Silver Proof Sets, Proof Sets, and Uncirculated Coin Sets slid from 1996, when demand was lifted by incentives, bulk discounts, and specialty coins that were unique to 1996. At fiscal year-end, silver proof had sold 746,468 sets, proof 1,949,012 sets, and uncirculated sets 1,102,679 units. That compares with 802,406 silver proof sets, 2,124,980 proof sets, and 1,307,171 uncirculated sets for fiscal 1996.

Commemorative Coin Programs

During this first year following enactment of Congressional coin reform legislation, we had greater ability to *manage* programs for sales and profitability, and we did so. In approaching collectors we trumpeted the lower mintages we'd worked to get enacted, created inexpensive sets in limited editions, and held the line on prices. And our determination

to pass benefits to customers meant exacting attention to costs, promotions, and production.

Commemorative Coin Mintages FY94-97



We began urging Congress in 1994 to reduce commemorative program mintages. At the start of our efforts, the average maximum mintage exceeded 4.3 million coins per program. Since the Atlanta Olympic program, it has fallen to 430,000.



Price, product, promotion, and production came together in the Botanic Garden program, launched in February 1997 with sales continuing into 1998. We made a limited-edition coin and currency set boasting a Botanic Garden Silver Dollar, a dollar bill, and a matte finish nickel. We sold all 25,000 sets within a week. We put the Botanic Garden silver dollar in the 1997 Prestige Set, a product discontinued in 1997, and limited its mintage. All 80,000 sets sold out promptly.



Secondary market prices for the Coin and Currency Set, \$36 during pre-issue, reached \$260 by year-end. The 1997 Prestige Set, \$44 in pre-issue, rose to \$180 in secondary markets. Prices for earlier prestige sets also rose, pleasing collectors who'd seen prices drifting south in recent years. Total sales were the strongest for a commemorative program since the Special Olympics Silver Dollar of 1995: 237,143 coins by fiscal year close. We were able to mint to demand, and sales ended December 1997 with virtually no inventory. Through careful cost management and product selection, the Botanic Garden program produced a modest profit.



A special offering in our 1997 Holiday Collection Catalog, this Morgan and Peace Silver Dollar duo was a speedy sellout. Coins were dated 1921 to 1935.

Closing in July 1997, the Community Service program performed adequately despite limited appeal to collectors. Anticipating modest demand, we focused promotions, husbanded costs, and minted cautiously. We were not able to economize this program into producing a profit, however, as only 125,043 silver dollars were sold.

The FDR program met lukewarm reception despite distinction as the only commemorative program of 1997 comprised of a single gold coin. Sales stand at 39,228 coins. The program is in the black because of cost containment and wise management.

We had high expectations for the Smithsonian program because it fit most criteria for success. It celebrated a milestone of a widely known institution. The Mint and the Smithsonian share a long history, and the Smithsonian's National Numismatic Collection is earmarked for a portion of the surcharges. Smithsonian has members and patrons worldwide, millions of yearly visitors, and its own catalog and gift centers, which portended sales from non-collectors. Sales of 30,840 gold coins and 160,382 silver dollars weren't sufficient to yield a profit.

Expectations for the Jackie Robinson program, too, have not materialized. This program also had considerable promise—small mintages, great designs, observance of a great man and a momentous anniversary in sports and U.S. history, and an excellent specialty product: the Jackie Robinson Legacy Set with gold coin, lapel pin, and reproduction of the 1952 Topps® Jackie Robinson baseball card. Sales, however, reached only 24,966 gold coins and 115,589 silver dollars by September 30, 1997. This program, too, is in the black because of careful cost management, and sales continue until July 1998.

This year's programs were a paradigm for future commemorative programs, and their features are familiar to everyone who's listened to us these past three years: fewer programs, lower mintages, compelling specialty products, steady prices, secondary market appeal. We asked for support and patience from the hobby several years ago when we began our reforms. We ask again now that reforms have been enacted. Following years of excessive mintages and too many programs, we're trying to rebuild markets for our products. It won't happen overnight.



Customer Service

Continuing initiatives to achieve best-in-business customer service sliced days of delays and \$258,000 out of yearly operating costs in fiscal 1997. By the end of the year, average time responding to customer letters fell from 42 days to three as a result of streamlined processing. In September 1996, 60 percent of telephone volume at our Customer Service Center — an *inbound* customer service facility — involved returning calls to customers, usually with information we couldn't provide during their initial call. By September 1997, after installing computerized help and information screens for representatives, call-backs fell to four percent of telephone volume.



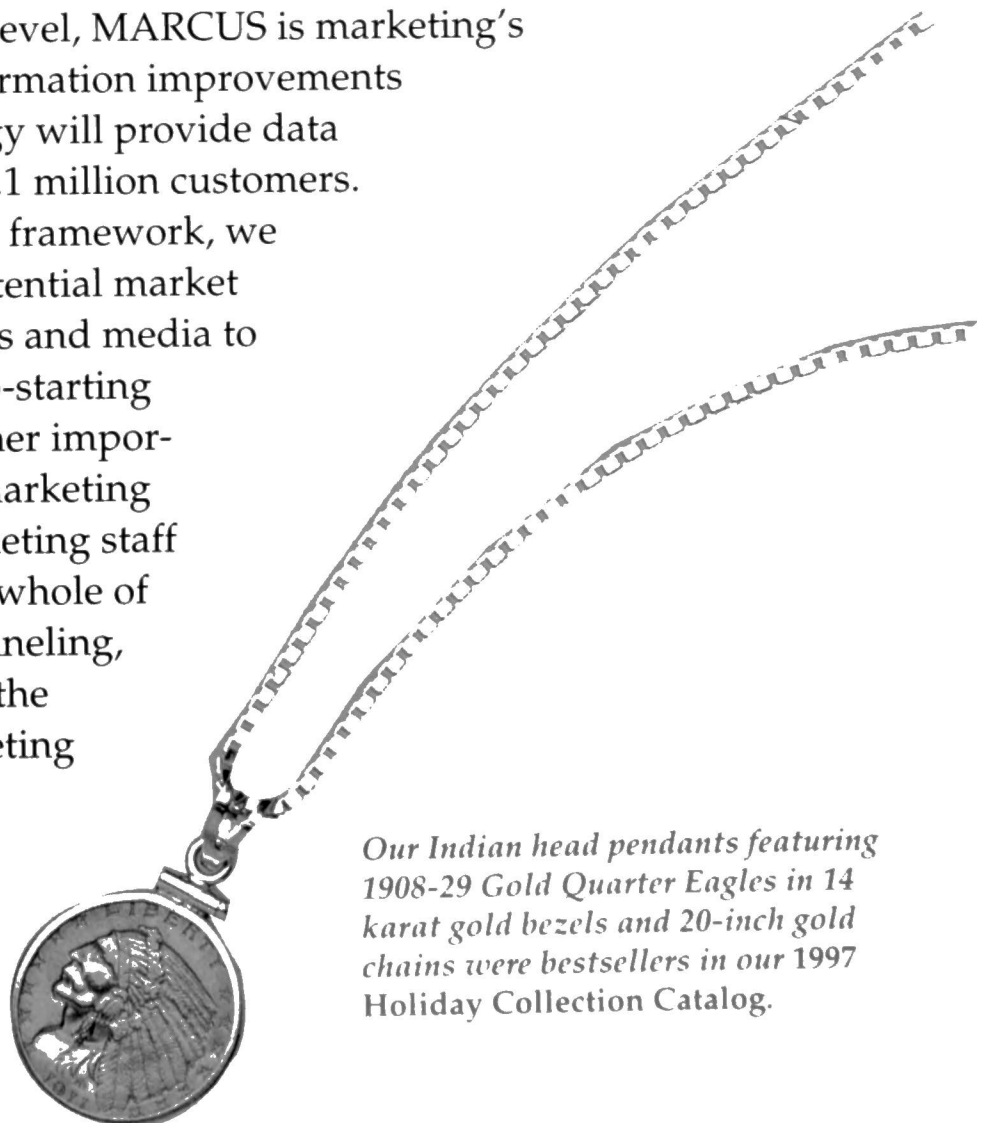
Mint Director Philip N. Diehl and Tadahiko Fukami, president of Tanaka Corp., answer press questions during the launch of platinum coin sales in Japan.

About 98 percent of 1997 orders for expedited delivery were shipped within one day — and on average we answered customer calls in six seconds, down from 50 seconds a year earlier. Processing and replacing lost shipments previously involved several staff members, two managers, copious correspondence, and 10 days. Now it involves two front line employees, no correspondence, three days, and 74 percent fewer costs. By eliminating approvals and reducing paperwork we reduced average cost of processing problem orders, credit card rejects, and refunds by 46 percent.

MARCUS

Our marketing staff continues to build proficiencies and professionalism. Mint marketing has at least two components. The first is a market-based challenge: provide the right quantity of desirable and innovative products. The second component is to align data about customers and use it masterfully. The marketing and customer service initiative targeted at optimizing our customer database is nicknamed MARCUS.

On one level, MARCUS is marketing's application of Mintwide management information improvements now under way. State-of-the-art technology will provide data about product preferences of each of our 1.1 million customers. By integrating that data into the MARCUS framework, we will know each likely customer in each potential market segment and will be able to tailor messages and media to each. We'll be able to cut costs while jump-starting response rates from mailings. But at another important level, MARCUS is a rewiring of our marketing mind set. MARCUS is a way for our marketing staff to perceive and do its job in an integrated whole of planning, promotion, service, market channeling, and administrative support. MARCUS is the infrastructure for the future of Mint marketing and will be in place by spring 1998.



Our Indian head pendants featuring 1908-29 Gold Quarter Eagles in 14 karat gold bezels and 20-inch gold chains were bestsellers in our 1997 Holiday Collection Catalog.

*... and to provide security over the assets entrusted to us.
— U.S. Mint Strategic Plan*

PROTECTION

Threats to the Mint's physical and financial well-being grow more numerous and subtle, and our police force is our first and sometimes only defense. Therefore, we're proud of our efforts supporting provisions in the Treasury Appropriations Bill that increased officers' compensation in line with other federal officers who serve in similar capacities. In clarifying the authority of Mint Police officers, Congress also confirmed the additional responsibility of current conditions imposed on them — patrolling streets, preventing offenses, detecting and intervening with suspicious vehicles, and responding to internal and external threats. As a result, our strategic plan now includes policing of our immediate neighborhoods as one of our goals.



San Francisco Mint SWAT team officers Aquilino Zaralte (facing) and Peter Reyes training in the use of the newly adopted extendable baton.

Consistent with our Mintwide emphasis on education and training, the Mint Police upgraded its training program to sharpen officers' capacity to anticipate, prevent, and respond to threats ranging from armed assault to interception of shipments of valuable assets. Mint police acquired new firearms training simulators to enhance officers' judgment and capabilities and purchased improved protection equipment to assist officers in their expanded duties. In addition, 128 new officers were approved to attend the eight-week police training academy at the Federal Law Enforcement Training Center. New tools, training, and education better enable officers to operate beyond our gates when necessary, to protect employees, and to detect and deter threats.



A few of the Mint's finest pose after ceremonies launching the National Police Memorial Silver Dollar (left).

We will dedicate ourselves to excellence and integrity, providing a safe workplace and rewarding work for every employee.
— U.S. Mint Strategic Plan

EMPLOYEE DEVELOPMENT

In 1996 we inaugurated sweeping personnel initiatives by pledging to pay all or part of the cost of approved education enhancing employees' job skills and career potential, while supporting the Mint's mission. We urged employees to write formal Individual Development Plans (IDPs) for their Mint career — plans that could include education, developmental assignments, details to other agencies, and any reasonable credential needed to reach their personal career goals. This year, we launched an Executive Development Program (EDP) to groom promising middle-managers for senior leadership.

Employee development has spread throughout production facilities. Supervisors, union stewards, employees, and personnel staff at Denver's plant engineering division formed an occupational review team to create training templates. Teams began by setting training requirements for the most populous occupations at Denver and scheduling employees into the training specified — an effort that increased plant engineering's technical training outlays from \$7,000 in fiscal 1996 to more than \$50,000 this year. The team will codify training standards for every occupational designation.



*Best of 1997's Best:
Philadelphia Numismatic
Division Chief
Anthony Geonnotti (above),
Headquarters' Chief
of Special Projects
Coleen Vogel, and
Denver engineer Steve Adler
are the Mint's first
Eagle Award winners
for outstanding service.*



Our commitment to employees includes informing women and minorities about career programs that prepare them for higher positions. Philadelphia has appointed Special Emphasis Coordinators to assure that African Americans, disabled veterans, Hispanic Americans, and women know of opportunities for education and promotion. Denver began a string of employment firsts this year by naming its first female supervisory metal forming machine operator.

Career expansion also includes awards for stellar employees. This year we presented our first American Eagle Awards to employees who've made a career of providing outstanding customer service.

Nominated by peers and supervisors, this year's winners received \$1,000, a crystal trophy, and a gold Eagle lapel pin.

Commitments upheld by deeds bring recognition, and this year's recognitions spotlighted our Denver facility. Our first field office to win a Hammer Award from Vice President Gore — one of two more we earned in fiscal 1997 — Denver also earned the first Mint Director's Equal Employment Opportunity trophy. At its 35th annual awards ceremony in May, the Denver Federal Executive Board presented superintendent Jack DeBroekert and four employees awards for public service excellence.



*We will honor our obligations as a corporate citizen of communities
where we live and work.
— U.S. Mint Strategic Plan*

COMMUNITY INVOLVEMENT

For the two centuries we've been the American people's Mint we also have been Americans living and working with our neighbors. Concern for friends and neighbors has long been evident at the Mint, as shown by the generosity of Mint employees during Combined Federal Campaigns (CFC): in January we won the first Secretary's Trophy for the strongest CFC campaign in the Treasury Department. Being what Mint people always have been — contributors to their communities — is now an operating principle for us as an institution.

Mint headquarters led Treasury's partnership with Woodrow Wilson High School in the District of Columbia by donating expertise and resources to Wilson's Business and Finance Academy, a magnet program of 130 students from throughout the district. As



Officer Buck Rainey and transportation assistant Stacey Mora, headed the Denver Federal Executive Board's 1997 Christmas gift drive at the Denver Mint, where employees donated more than \$1,000 in gifts plus cash contributions.

we upgrade employees' desktop computers, we're giving Wilson some of our IBM 386 and 486 computers, and Mint employees serve Wilson as mentors, role models, and guest lecturers. Our director is co-chair of the academy's board of directors. We sponsor internships so future entrepreneurs and business managers can build job skills, and we sponsor a shadow program in which faculty work in our headquarters for business experience applicable to business curricula.

sectors, Denver started its outreach long before welfare reform became law. In addition, Denver sponsors jobs through cooperative education in schools and offers Hispanic students workplace experience and role models through the Denver Chamber of Commerce shadow program. Procurement staff at headquarters and Philadelphia make special efforts to inform firms headed by women and minorities about products and services we need.

Denver Mint offers job training to single mothers receiving public assistance. The kind of effort President Clinton seeks from public and private

The Philadelphia Mint's holiday party for underprivileged kids has become a ritual for us and for Philadelphia social service agencies. Throughout the year, employees collect toys and funds for children's charities and sponsor Kids Day with tours and educational programs — something they do regularly for groups of physically

challenged adults and children, for whom regular tours present difficulties. The Philadelphia Mint is helping revitalize Independence National Historic Park and Franklin Square Park.

No employees are more involved in their communities, often at personal risk, than officers of the Mint police. Again this year officers, often while off-duty, played Santa, sponsored Kops-n'-Kids programs, raised money, thwarted robberies, wrestled purse snatchers, and braved toxic fumes to pull trapped drivers from overturned 18-wheelers.

Conservation, Citizenship, Cost Containment

Energy & water conservation projects undertaken since 1993 have reduced operating costs for the American people, improved workplace quality for employees, and saved resources for communities we call home. Initiatives include:

§ Since 1993, we've avoided more than \$2.3 million in costs by installing power factor correction capacitors at Philadelphia. Shifting melting operations to off-peak hours also has avoided more than \$100,000 in costs since 1994.

§ At Philadelphia, we saved \$58,000 during fiscal 1997 by negotiating a 15-year contract with steam provider Trigen. Expected savings for fiscal 1998 will exceed \$80,000.

§ An energy savings performance contract with Honeywell Corp. to replace air compressors, upgrade lighting, and retrofit plumbing at Philadelphia will guarantee annual savings of \$218,000 beginning in fiscal 1998.

§ The Denver Mint now buys natural gas from the Veterans Administration instead of city utilities, saving nearly \$10,000 since fiscal 1996.

§ Energy audits at Philadelphia, Denver, and San Francisco yielded more than \$100,000 in cost avoidance for 1997.

§ Our Philadelphia and Denver facilities earned \$9,000 and \$7,000 credits, respectively, by measuring the amount of water evaporating from plumbing and relaying its findings to city water departments, which had never documented evaporate. Savings will be \$11,000 yearly.

§ The San Francisco Mint earned an \$11,000 credit from its gas & electric company by discovering over-billing from prior years and is saving an estimated \$24,000 yearly by recycling waste water from annealing furnaces.

We will continually examine every operation, process, service, and product and engage all employees in enhancing the quality of everything we do.
— U.S. Mint Strategic Plan

UPCOMING INITIATIVES

COINS

Last year's annual report chronicled our running leap toward a Consolidated Information System (COINS). At fiscal 1997 year-end, we had completed exhaustive review of our needs and hired PeopleSoft, a leader in enterprise-wide software applications, to bring COINS on-line by October 1998. COINS will be a state-of-the-art, Mintwide information system that integrates all financial, manufacturing, order processing, and marketing information to give managers real-time data from all operational sites. Managers will be able to combine data, render it into information, and use it for decisions. Combined with MARCUS in customer service, COINS will provide the Mint with nearly universal information: from a single integrated system we'll see what it costs to make a coin, which promotions produce sales, what sales and margins are, who bought coins, and whether delivery was prompt. COINS is the most dramatic and significant project under way at the Mint, and completion will yield our most dramatic and significant operating improvements ever.

Reorganizing for Growth

In developing strategic plans for responsibilities Congress has given us, we saw three clear lines of business: circulating coinage production, numismatic production and marketing, and multi-echelon security. As strategic planning advanced, each business emerged with identifiable missions, differing personnel skill requirements, and distinct customer demands. We came to understand better the opportunities for growth, sales and profits, new distribution channels, and for offering new services. And we saw we must change organizational structure to seize those opportunities.

When completed in 1998, reorganization will transform circulating coinage production, numismatic manufacturing and marketing, and security into strategic business units (SBUs). Each SBU—named Circulating, Numismatics, and Protection--will be a profit center with its own chief directing its own budget, resources, facilities, and staff. Much like now, each SBU will have professionals performing many of the same functions as today—engineers, product managers, security officers. Facilities in West Point and San Francisco, which make numismatic coinage, will report to the head of numismatics. Philadelphia and Denver, which make both numismatic and circulating coins, will report to the chiefs of both the numismatic and circulating SBUs.

Implementing SBU brings more than clarity and efficiency. It facilitates our requirement from Congress to operate in a more businesslike fashion. It gives us the framework to pursue new revenues—for example, fee-based security for governmental agencies. Perhaps best of all, it excises Mint employees from a tangle of coordination and bureaucracy that constricts career potential and organizational performance. SBUs will offer skilled and ambitious employees career mobility and more stimulating jobs—jobs that add value to our business and create greater personal satisfaction and peer respect.

CONCLUSION

Whether you're an employee going to college, a collector going to his mailbox, or a shopper going through our catalog, you're seeing the U.S. Mint become more modern, vigorous, innovative, efficient, and profitable. You are seeing results of long planned, carefully executed actions in a dozen areas. On the legislative front, we sought and earned authority to operate as a business, to produce new products, and to curb commemorative coin proliferation. On the operating front, we have invested in productivity, hewn costs, and begun restructuring. On the sales front, we have expanded products and made a new reputation for delivery and service.

We saw what had to be done to advance our hobby, our business, and our obligation to the American people. We worked to change the universe in which we operate, and we succeeded. Now we're reforming the world behind our own doors and succeeding there, too. We're twice the organization we were—but only half the organization we will be.

MANAGEMENT DISCUSSION AND ANALYSIS

These are exciting times for the Mint. Several noteworthy changes are occurring for the Mint, its customers, and surcharge beneficiaries. Notably, for the first time beginning in FY 1997, the Mint:

- ◆ is reporting profit and loss statements for each commemorative coin program launched during the year;
- ◆ is entering into partnership agreements with surcharge beneficiaries to share revenues earned and costs incurred with their commemorative coin programs;
- ◆ is disclosing compliance efforts related to the Federal Financial Management Improvement Act (FFMIA) of 1996; and
- ◆ has prepared supplemental financial statements in the new formats required by OMB Bulletin 97-01 for FY 1998.

The Mint is pleased to be at the forefront of enhancing the quality and usefulness of its financial data.

Regulatory Compliance

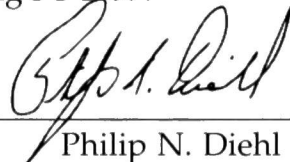
The Mint is subject to various legislation aimed at enhancing the quality of financial management information.

Federal Managers Financial Integrity Act (FMFIA)

ANNUAL ASSURANCE STATEMENT FISCAL YEAR 1997

The United States Mint has evaluated its systems of management control for the fiscal year ended September 30, 1997, in accordance with procedures and standards prescribed by the Office of Management and Budget and the General Accounting Office. Due to the Mint's on-going need for an integrated enterprise-wide management information system, the management controls of the Mint, taken as a whole, do not provide full assurance that all of the objectives of the Federal Managers' Financial Integrity Act (FMFIA) were achieved during fiscal year (FY) 1997. Because of the lack of integrated systems, the Mint cannot provide reasonable assurance that all objectives of Section 4 of the FMFIA were met. However, the evaluation found that there is reasonable assurance that the objectives of Section 2 of the FMFIA were achieved during FY 1997.

For the same reason, the Mint cannot give assurance that all of the provisions of the Federal Financial Management Improvement Act of 1996 were achieved during FY 1997.



Philip N. Diehl
Director
United States Mint

The Mint received its fourth consecutive unqualified opinion on its FY 1997 financial statements. In addition, the Mint resolved one of the three outstanding FMFIA material non-conformances that were reported in the FY 1996 FMFIA report. In FY 1997, the Mint made improvements in its inventory account reconciliation process that closed this weakness as a material non-compliance item. The two remaining material non-conformances relate to the Mint's need for an integrated enterprise-wide management information system with accompanying procedures. By early FY 1999, the Mint anticipates that both of these outstanding items will be resolved with the implementation of the Consolidated Information System (COINS).

The two material non-conformances that are open as of September 30, 1997 are as follows:

- ◆ The Mint's financial management system is comprised of a diverse mainframe, manual, and personal computer based systems that are not integrated and do not provide management with useful, timely information.
- ◆ Procedures for data consolidation from non-general ledger sources into financial statements are not documented.

Though two outstanding material non-conformances exist, the Mint made significant progress toward resolving them in FY 1997. The COINS project team consists of approximately 50 people, a partnership of Mint employees representing all facilities and PeopleSoft consultants. PeopleSoft's suite of software is the basis of COINS and the Mint project team received extensive training from PeopleSoft staff. The team also developed a detailed project plan, began the prototyping phase, and began work on functional designs for several interfaces and conversions.

The Mint's systems are currently not Year 2000 (Y2K) compliant, however, the Mint's senior management is aware of the upcoming century problems and have developed extensive plans to address the issue, including the implementation of the COINS project. The Mint's plans and progress toward meeting critical milestones are regularly reported and discussed with Treasury officials. The Mint is confident that its plans will bring its systems into full Y2K compliance.

Prompt Payment Act

During FY 1997, the Mint continued its progress to strengthen its invoice payment process. The overall percentage of late payments was 2.3 percent for FY 1997, which is over the Department's standard of 2.0 percent. However, this rate is significantly improved over the 5.4 percent late payment rate during FY 1996. The Mint is concerned that it did not meet the Department's standard; however, necessary steps are being taken to remedy the situation and attain the goal during FY 1998.

The Mint was able to successfully isolate issues contributing to non-compliance with the Department standard. Namely, employee turnover and untimely communication of information during the second quarter at two field sites were the primary issues. In response, Mint management has encouraged field sites to place additional trained resources on Prompt Payment Act requirements and has communicated the importance of timely transfer of documents, namely receiving reports, purchase orders, and inspections, between offices.

Federal Financial Management Improvement Act (FFMIA)

FFMIA, passed in 1996, requires each agency to (1) determine if its financial management systems comply with federal standards, (2) report the agency's compliance with those standards, and (3) establish a remediation plan if the systems are non-compliant.

On September 7, 1997, OMB issued interim guidance on FFMIA implementation covering FY 1997 only. The guidance acknowledges the similarity and overlap between FFMIA and FMFIA and the elimination of separate FMFIA reporting after FY 1999. Recognizing these factors, the Department has determined that reporting of FMFIA Section 2 and 4 is consistent with the interim requirements of FFMIA. Accordingly, satisfying FMFIA and its reporting requirements are in effect satisfying FFMIA as well. OMB will be issuing more permanent guidance on FFMIA reporting for FY 1998. As these requirements evolve, the Mint will likewise revise its reporting in accordance with Department instructions.

Financial Statement Highlights

The Mint ushered in its fourth consecutive unqualified opinion on its financial statements with another banner of profitability. The Mint operated at a \$446.7 million surplus for FY 1997 and contributed \$465 million to the Treasury General Fund.

Significant Account Changes

In FY 1997 and 1996, the Mint reported the following financial statement line items in millions:

	FY 1997	FY 1996	\$ Change	% Change
Total Assets	\$562.1	\$578.4	(\$16.3)	(2.8%)
Total Liabilities	\$186.9	\$171.8	\$15.1	8.8%
Total Revenues	\$1,090.3	\$1,363.3	(\$273.0)	(20.0%)
Total Costs and Expenses	\$656.6	\$738.9	(\$82.3)	(11.1%)

Among the most significant changes on the Balance Sheet, Operating inventories decreased by \$29.6 million in FY 1997. The decrease in inventory reflects a significant Mint achievement by being able to rapidly predict changes in coin demand and adjust production schedules accordingly to avoid excess inventories. When the Mint converted its funding structure from appropriations to a single revolving fund for its circulating coin production in 1996, the Mint was able to update forecasts and modify production schedules on a monthly basis. Under the old structure, the Mint was dependent on 18-30 month old models which were in effect when the circulating coinage appropriation budget was being formulated. As a result, the Mint was unable to make significant changes in production to meet demand without tapping operating or capital improvement budgets. The stable inventory level in 1997, despite a 30 percent decrease in coin demand, is a clear indicator of how the Mint's new funding structure works to improve cash and financial management.

Overall, Total Assets changed by less than three percent during FY 1997. The Mint increased its property, plant, and equipment balance by \$11.6 million by beginning a large-scale capital improvement program funded through the Mint's single revolving fund. Increases in Total Liabilities are attributable almost entirely to higher accounts payable balances at the end of FY 1997.

Total Revenue decreased overall by nearly \$273 million. Revenue from circulating coins fell from the historic high levels achieved in FY 1994 through FY 1996 due to decreased coin demand. The Mint records revenue when coins are transferred to the FRBs, not when the coins are produced. Therefore, in periods of lower demand, the Mint may recognize lower revenues (and cost of goods sold) regardless of production.

Increased numismatic and bullion sales helped slightly offset the lower circulating coin revenues. Sales of bullion and numismatic products increased by more than 33 percent for FY 1997 over FY 1996 levels. This increase was largely due to adding platinum coins to the Mint's product lines and significant increases in sales of uncirculated gold American Eagles.

Commemorative Coin Program Results

On September 28, 1996, a law was enacted that mandates several provisions for reforming the U.S. Mint commemorative coin program. Public Law 104-208, "Omnibus Consolidated Appropriations for Fiscal Year 1997", requires that the Mint withhold surcharges from commemorative coin program beneficiaries until all production and marketing costs are recovered, and until the beneficiaries have raised other monies from private sources equal to the maximum amount of surcharges that could be generated from their coin program.

This provision is significant in that it creates a true business partnership with the beneficiary organizations for the first time. Under this legislation, the beneficiary organizations share in the costs and risks of the program and bear a direct financial responsibility for joint decisions to apply additional marketing or advertising money to the commemorative coin program. Since beneficiaries receive no surcharge proceeds from the sale of commemorative coins until the Mint recovers all of its costs associated with the programs, cost/benefit tradeoffs for extra promotional funds must be more carefully considered by Mint program managers and beneficiaries.

The law also requires the Mint to provide quarterly reports on the financial and marketing aspects of each program. The table and discussion below provide a summary of the financial operations for those commemorative coin programs that began after January 1, 1997 and that had significant activity.

Financial Summary From Inception Through September 30, 1997

	<i><u>Botanic Gardens</u></i>	<i><u>Franklin Delano Roosevelt</u></i>	<i><u>Jackie Robinson</u></i>	<i><u>National Law Enforcement Memorial</u></i>	<i><u>Robert F. Kennedy</u></i>
Revenues	\$8,694,758	\$7,561,970	\$9,460,037	\$0	\$0
Cost of Goods Sold	\$3,256,668	\$3,723,956	\$4,012,012	\$0	\$0
Selling, General & Administrative Expenses	<u>\$2,656,570</u>	<u>\$1,936,189</u>	<u>\$2,531,020</u>	<u>\$180,576</u>	<u>\$90,327</u>
Net Profit Before Surcharges	<u>\$2,781,520</u>	<u>\$1,901,825</u>	<u>\$2,917,005</u>	<u>(\$180,576)</u>	<u>(\$90,327)</u>
Surcharge on Revenue	\$2,364,670	\$1,370,740	\$2,029,670	\$0	\$0
Estimated Program Close-out Costs	\$ 32,261	\$ 67,181	\$ 619,039	\$0	\$0
Estimated Program Profit	\$ <u>384,589</u>	\$ <u>463,904</u>	\$ <u>268,296</u>	<u>(\$180,576)</u>	<u>(\$90,327)</u>

The Mint began preparation for the National Law Enforcement Officers Memorial and Robert F. Kennedy Commemorative Programs during FY 1997; however, the program launch dates did not occur until after the end of the fiscal year. As a result, the Mint's commemorative coin program profit and loss statements show initial start-up expense, but no sales activity. Sales for these programs will be reported in FY 1998.

Because estimated program costs are a part of the total program costs that P.L. 104-208 requires the Mint to recover prior to paying surcharges, those costs are included in the table. Estimated close-out costs include melting and fabrication costs associated with coin inventories, manufactured dies, and unused packaging materials. The Mint fully expects to recover these costs through the sale of coins, but should coin sales be insufficient to recover these costs, they would be subtracted from the surcharges collected.

In short, the reform legislation requires the Mint to act more like a commercial business. In corporate America, shareholders receive dividend payments from the profits of the company. In periods of high profitability, shareholders are rewarded with handsome dividends. However, if the company is not profitable, shareholders do not receive a benefit. Thus, the payment of surcharges to beneficiaries now resembles a dividend paid out of profits rather than an automatic cost or expense paid to the beneficiary for every coin sold.

New Look Statements

The Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget have developed new financial statements that aim to present more useful information to readers and the Mint has elected to present the new formats as supplemental information one year ahead of schedule. For FY 1997, the Mint is preparing its official financial statements under the current format. However, data in the formats that will be required beginning for FY 1998 are presented as supplemental information following the Notes to the Consolidated Financial Statements.

One exciting change for the financial statements is the presentation of net cost by program within the Mint as supplemental information. In the Statement of Net Cost, the Mint is showing the total program costs less revenues earned attributable to the program for its three core mission areas for the first time. The Statement shows that the Numismatic and Bullion Programs recognized \$18.4 million in net program revenues for the year, thus continuing its ability to be a self-sustaining program. Many management reports that are produced and distributed by the Mint show total program revenues reported to date. However, the Statement of Net Cost shows only those revenues recognized and expenses incurred during the year on an accrual basis of accounting. Therefore, comparability to other sales reports is limited.

The Circulating Coinage Program also shows a net revenue rather than net cost. For FY 1997, the Mint reported \$428.3 million as net program revenues on its Supplemental Statement of Net Cost. The Mint sells coins to the Federal Reserve Banks at face value. However, the Mint is only entitled to retain sufficient revenues from these transactions to meet the needs of the Public Enterprise Fund. The remaining proceeds are remitted to the Treasury General Fund. For FY 1997, the Mint transferred \$465 million to the Treasury General Fund.

The only program that is not self-sustaining is the Mint's obligation to guard the Nation's gold and silver reserves at Fort Knox and the other Mint facilities. The Mint successfully fulfilled this mission activity during FY 1997 at a cost of \$13.0 million. However, because the gold and silver reserves that the Mint safeguards exceeded \$10.4 billion (statutory value) in FY 1997, the Mint's cost to perform its responsibilities is less than one cent per dollar guarded.

The Statement of Net Cost also reveals interesting information about the Mint's business practices and support for commercial America. The Statement reflects that the Mint spent more than \$400 million in support of American commerce during FY 1997. The most significant purchases from industry were for precious and non-precious metals used in coin production. The Mint also purchased more than \$200 million in precious metals from the Treasury (gold) and the Department of Defense (silver) for use in bullion, numismatic, and commemorative coins.

Performance Measures

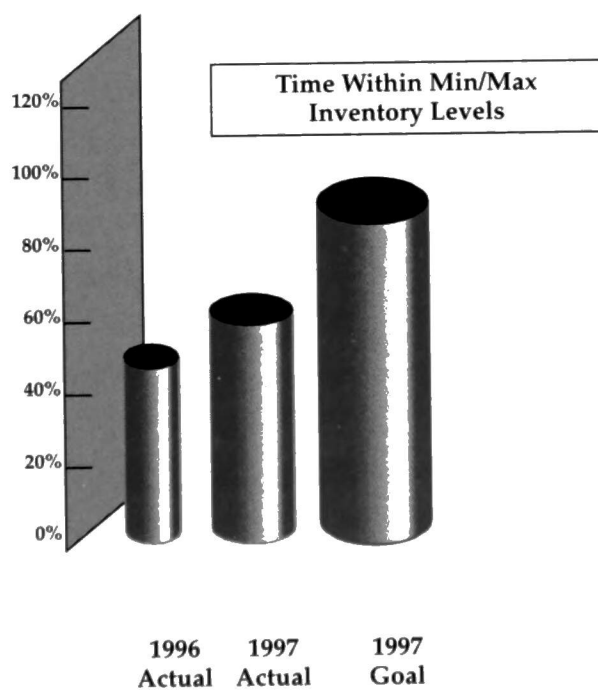
The Mint continued to take great strides in FY 1997 in integrating the requirements of the Government Performance and Results Act (GPRA) and its Strategic Plan with the CFO Act reporting process. Under GPRA, agencies must develop performance measures and plans and must begin gauging success of programs and missions against those barometers. The Mint is reporting performance measures identified in the Strategic Plan as part of its CFO Act reporting process. While core missions change little from year to year, the Mint continues to define performance objectives and appropriate performance outcome measures that better report the results of its business and activities. The Strategic Plan presents eight goals relating to the Mint's three mission areas and four enabling goals. Within each goal, multiple objectives and strategies are identified to achieve the goal. Finally, specific quantitative performance measures are provided to gauge the Mint's success in achieving the goal. Within the context of this report, the Mint is presenting representative performance measures identified for each mission area goal.

Circulating Coinage

Goal: Produce coins and maintain inventories at sufficient levels to meet FRB demand

Measures: Frequency of time between minimum and maximum inventory levels
Accuracy of coin demand forecasting tools and models

Each year, the Mint's goal is to achieve and maintain inventory levels within prescribed maximum and minimum levels 100 percent of the time. These levels are based upon expected demand from the FRBs based on several factors including the economy, seasonal spending

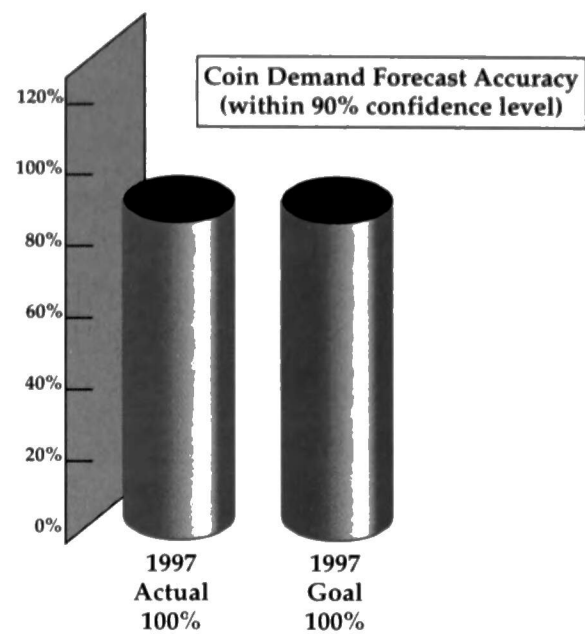


patterns, and savings trends. However, forecast models must be used to anticipate demand into the future and economic reality may not always mirror those projections. Therefore, it is natural that the Mint will occasionally experience short-term shortages or surpluses in inventory levels. However, recent changes to the Mint's procurement regulations and operating structure have permitted greater flexibility to react more quickly to changing production needs.

During FY 1997, the Mint produced about 14 billion coins to reflect a decreased coin demand from the unprecedented 20 billion coin levels experienced from FY 1994 through FY 1996.

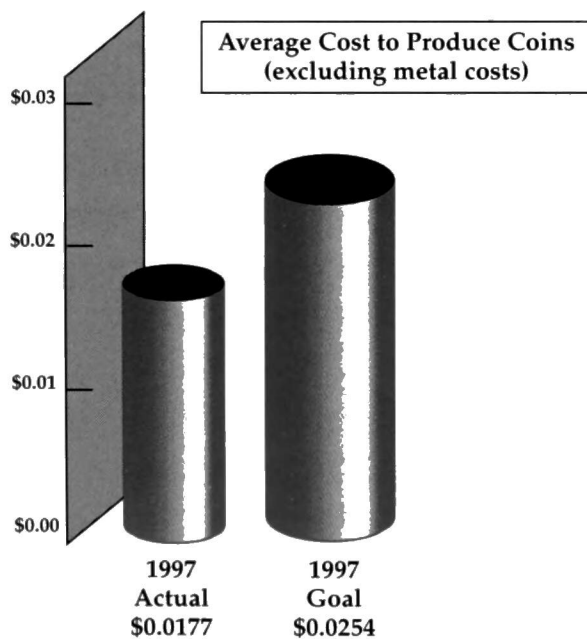
This production output resulted in a surplus of coins that exceeded targeted inventory levels during part of the year.

Another means of achieving target inventory levels is to increase the quality of the forecasting tools. While in previous years, models may have been required to project demand 18-24 months in the future, current models are becoming more and more effective. For example, in the past, the Mint projected circulating coin demand semi-annually. Now, projections are performed monthly. This more timely calculation permits the Mint to react more quickly to nuances in the economy which affect coin demand. As a result, 100 percent of the Mint's coin demand forecasts are now accurate within a 90 percent confidence level. Future enhancements may focus on further increasing this confidence level.



Goal: By 2002, reduce the average unit cost of circulating coinage by 25 percent, excluding metal costs

Measure: Average unit cost of circulating coins excluding metal costs

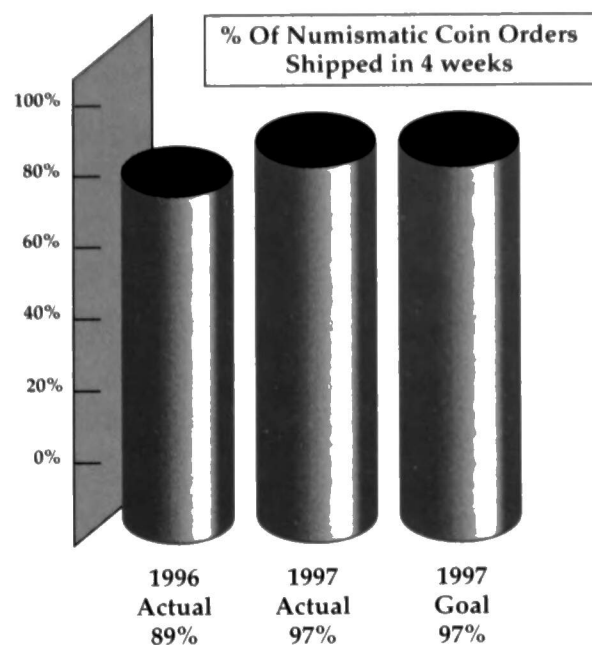


The Mint has established FY 1997 as the baseline against which to measure this five-year goal aimed at improving the efficiency of producing coins. Since average unit costs can vary greatly depending on the mix of cents and clad coins produced during the year, the Mint will report on these costs by denomination. In FY 1997, the Mint exceeded the goal of reducing the average cost of producing circulating coinage to \$.0254 per unit by 7.7 one-thousandths of a cent. At the production rate of 14 billion coins during the year, this variance amounted to \$2.8 million or about 1.2 percent of total Mint expenses for circulating coins for the year.

Numismatic/Bullion Products

Goal: Match the best-in-business in the delivery of products and customer service

Measures: Fulfillment of orders within prescribed time frames



Based on industry standards, the Mint has identified several aspects of product delivery that interface directly with our customers. In each instance, the Mint has established a benchmark against which to gauge its operations and identify improvement opportunities. During FY 1997, the Mint's performance against some of the best in business processes is shown in the table below. To gauge what best in business meant, the Mint used such industry standard bearers as Mercedes-Benz, Federal Express, Coca-Cola, and Walt Disney.

Best Practices

Customer Service Process	Best Practices	U.S. Mint	U.S. Mint Improvements Noted
Answering the Telephone	Within 20 seconds	Within 10 seconds	Down from 2 minutes 1 year ago
Answering Customer Correspondence	Within 2-3 days	Within 3 days	Down from 11 days
Processing Credits, Returns & Exchanges	1 day	4-5 days	Down from 28 days

Despite exceeding industry standards, the Mint has established a 100 percent goal for completing various types of transactions with customers within prescribed time periods. Monitoring actual performance against this goal is performed weekly. The Mint's performance against these 100 percent goals are shown in the following table:

1997 Goal	100%
1997 Actual	
Calls Returned within 1 Day	93%
Refunds Processed within 14 Days	41%
Replacements Processed within 7 Days	78%
Written Responses Mailed within 3 Days	100%
Bullion Coins Available within 6 Days	100%

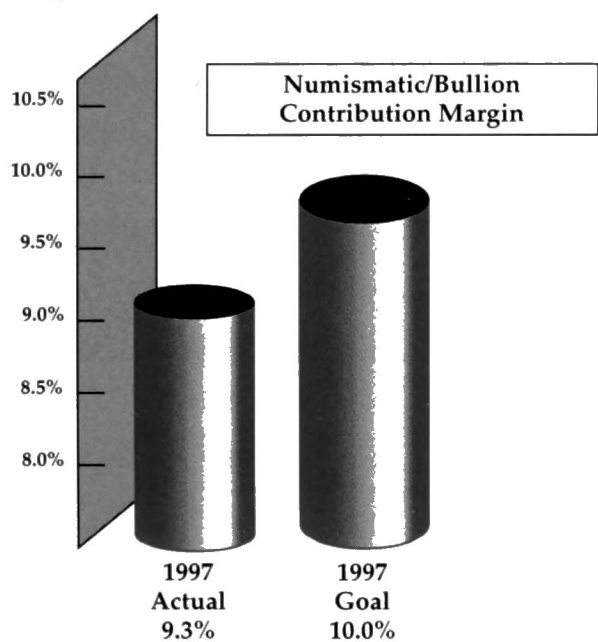
The Mint has also continued to improve its order turnaround time. For FY 1996 and FY 1997, the Mint has set a target of shipping products to customers within 4 weeks of the order date. In FY 1997, the Mint has increased its compliance rate to this standard from 89 to 97 percent. Several technological advances and more empowerment of employees have helped clear obstacles to achieving this goal.

Goal: Increase the contribution margin of our operations by aggressively pursuing new customers, new market channels, and new product lines

Measures: Recurring, bullion, and commemorative coin unit sales
 Recurring, bullion, and commemorative coin sales in dollars
 Numismatic/Bullion Contribution Margin

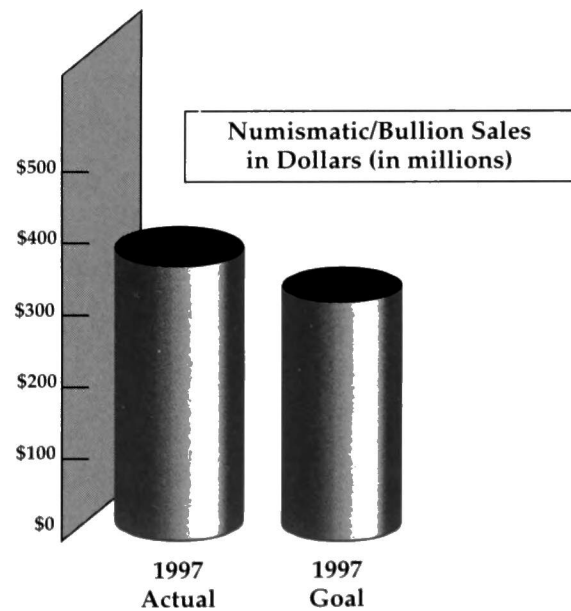
The Mint defines contribution margin as the excess of sales over variable expenses. The Mint has set 10 percent as the annual target rate for its numismatic and commemorative products. In FY 1997, the Mint did not meet this level due to the make-up of our

product mix. The largest dollar sales volume was from bullion products, which have a lower profit margin than other numismatic products.

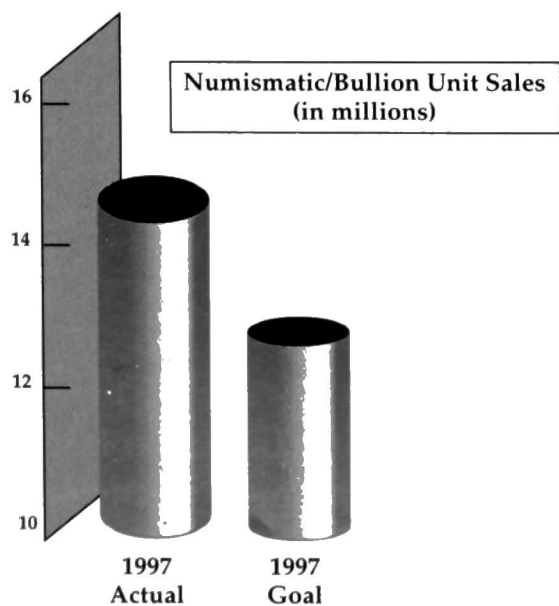


In order to provide for more profitable operations, the Mint is obliged to increase its equity through reaching new markets and new customers. Therefore, the Mint is always striving to develop new and interesting product options that appeal to markets beyond traditional customer bases.

During 1997, the Mint was able to increase both the quantity and dollar amount of product sales. Several factors contributed to this increase. First, the introduction of proof platinum coins to the Mint's product lines was a tremendous boost. Platinum coins produce more sales revenue than gold or silver coins. Plus, the platinum coins have a market that had yet to be



tapped by Mint products and generated \$41.6 million in revenues during FY 1997. Also, sales of uncirculated American Eagle coins increased by nearly \$100 million from FY 1996 levels.



Protection of Assets

Goal: Provide a level of security commensurate with changing threats

Measure: Losses as a percent of reserve value

The Mint secures more than \$10.4 billion (statutory value) of the American people's gold and silver. The Mint also produced and shipped approximately \$683 million in circulating coinage and processed more than \$300 million in customer payments for numismatic and bullion products. Mint security forces protect these assets while safeguarding 2,000 Mint employees against potential threats at six facilities. In FY 1997, the Mint's goal was to achieve losses that did not exceed more than one-one-thousandth of a percent of total reserve value. The Mint exceeded this goal by achieving losses of only one-ten-thousandth of a percent of reserve value. By necessity, reserve losses remain infinitesimal each year. In FY 1997, this loss equated to only \$1 for every \$1,000,000 safeguarded.

Financial Improvements — Looking Ahead

Although having received an unqualified opinion on its financial statements, the Mint is continuing to refine and enhance its financial processes and oversight functions to ensure the best possible uses of Mint-generated funds.

Cost Assignment

Late in FY 1996 with the help of a Big 6 accounting and consulting firm, the Mint completed a study of its overhead and general and administrative cost determination and allocation criteria. The study identified a sound system with certain inconsistencies and improvement opportunities. During FY 1997, the Mint acted on the advice of its consultants and implemented a more uniform and consistent means of determining the full cost of operations.

In FY 1997, the Mint completed the second phase of the study in which a group of Mint employees developed and implemented standard overhead allocation methods at the field office level. These standards drive the budget. This provides a logical sequence linking the budget to the strategic business units' business plan, which in turn is tied to the strategic plan. Ultimately, the standardization of allocation methods allows the Mint to make internal benchmarking comparisons from field office to field office and external benchmarking of elements of the Mint's costs with several foreign mints and corporate suppliers.

Financial Systems

For several years, the Mint has operated in an environment in which each field location operated different accounting and financial systems. In many cases, the systems did not interface, were not Year 2000 compliant, and simply did not easily produce the type of information managers needed to make informed decisions about financial processes.

The COINS (Consolidated Information System) implementation planned for early FY 1999 will address this issue and provide Mint financial managers with more information than ever before. When implemented, COINS will provide a single, integrated system that combines functionality for manufacturing, marketing, and financial operations. The result will be more timely and consistent cost data that will serve as a more dynamic basis for decision-making as the Mint enters a challenging new era.

Surcharge Reform Compliance

In 1997, the Mint developed procedures to better implement beneficiary compliance with new legislation. Under the P.L. 104-208, beneficiaries must prove that they have received contributions from private funds matching or exceeding the potential surcharges from the commemorative coin program. The purpose of this provision is to better ensure that bona fide, self-sustaining organizations benefit from the programs. After confirming initial eligibility, beneficiaries will be required to submit annual audited financial statements attesting that the funds received from the commemorative coin program were used in the matter intended.

Accounting Standards Implementation

As FASAB and OMB continue to evolve accounting practices, agencies must be prepared to realign systems and business practices and processes to meet new requirements. In most instances, FASAB permits a window of 1-2 years for agencies to implement new standards recognizing the inherent challenges of meeting new requirements. The Mint has actively embraced these new standards.

- ◆ **Managerial Cost Accounting** - FASAB is requiring agencies to account for the full cost of its products and responsibility segments by FY 1998. The Mint has actively worked toward this goal through its current and revised practices for assigning overhead and general and administrative costs to specific products through either direct tracing, cause and effect or allocation techniques.

- ◆ **Imputed Financing** - FASAB is requiring agencies to recognize imputed financing for the amount of employee benefit expense for which the organization is responsible. The Mint has been able to comply with this pronouncement and is reporting imputed financing and the related expense as an Other Financing Source and Cost Not Assigned to Programs.

Year 2000 (Y2K) Compliance

The Mint is making significant progress in addressing the Y2K problem and assuring that operations are unaffected by the turn of the century. As noted earlier, the Mint is implementing the Y2K compliant COINS system. However, the Mint is also taking steps to ensure that each major legacy and migratory system is capable of handling Y2K transactions.

The Mint has identified 28 critical mission information technology systems that require Y2K compatibility under the Mint's primary and back-up plans. Currently, 14 systems are scheduled for replacement and the remaining 14 require repair. The Mint has completed development efforts on seven of the 14 systems that need to be replaced.

The Mint recognizes the importance of addressing Y2K issues and the impact that non-compliance could have on its customers. Accordingly, the Mint is making every effort to meet full compliance as quickly as possible.

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

	September 30,	
	1997	1996
ASSETS		
Current assets		
Fund balances with Treasury (Note 3)	\$107,353	\$121,714
Accounts receivable (Note 4)	4,191	1,838
Operating Inventories, net (Note 5)	278,039	307,646
Deferred costs, advances and prepayments (Note 6)	2,071	2,035
Total current assets	391,654	433,233
Non-current assets		
Property, plant and equipment, net (Note 7)	96,228	84,637
Other assets (Note 8)	74,213	60,493
Total non-current assets	170,441	145,130
Total assets	\$562,095	\$578,363
LIABILITIES AND NET POSITION		
Liabilities:		
Current liabilities		
Accounts payable - Federal (Note 14)	\$68,008	\$60,160
Accounts payable - Non-Federal	18,487	7,890
Surcharges payable	7,788	2,610
Unearned revenue	3,331	4,697
Accrued salaries and benefits (Note 2)	4,990	4,341
Total current liabilities	102,604	79,698
Non-current liabilities		
Accrued workers' compensation benefits (Note 2)	25,451	24,718
Accrued annual leave (Note 2)	6,100	5,894
Accounts payable - Federal (Note 14)	50,551	60,267
Other liabilities	2,151	1,189
Total non-current liabilities	84,253	92,068
Total liabilities	\$186,857	\$171,766
NET POSITION		
Fund balance (Note 11)	375,238	406,597
Total liabilities and net position	\$562,095	\$578,363
CUSTODIAL GOLD AND SILVER RESERVES		
United States' gold and silver reserves (Note 12)	\$10,468,581	\$10,468,013
Custodial liability to Treasury (Note 12)	10,468,581	10,468,013
Net custodial position	-	-

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,	
	1997	1996
Revenues		
Circulating coinage revenue (Note 2)	\$682,688	\$1,056,990
Sales to the public (numismatic sales) (Note 2)	415,091	325,682
Surcharges collected for beneficiary organizations (Note 16)	(7,839)	(19,816)
Other revenue (Note 2)	335	469
Total revenues	\$1,090,275	\$1,363,325
Costs and expenses		
Cost of goods sold (Note 13)	565,401	644,858
Selling, general and administrative expenses (Note 15)	71,302	76,624
Other costs and expenses (Note 19)	6,910	5,499
Total costs and expenses	\$643,613	\$726,981
Financing sources and costs not assigned to programs		
Imputed financing (Note 20)	7,344	-
Less: Additional employee benefit expenses (Note 20)	(7,344)	-
Total financing sources and costs not assigned to programs	-	-
Excess of revenues over total costs and expenses and financing sources before protection cost and General Fund transfer	446,662	636,344
Protection cost (Note 18)	(13,021)	(11,943)
Excess of revenues over total costs and expenses and financing sources before General Fund transfer	433,641	624,401
Net position, beginning of year	406,597	107,353
Invested capital	-	261,596
Transfers to Treasury's General Fund (Note 11)	(465,000)	(586,753)
Net position, end of year	\$375,238	\$406,597

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,	
	1997	1996
Cash flows from operating activities:		
Excess of revenues over total costs and expenses and financing sources	\$433,641	\$624,401
Adjustments affecting cash flows:		
Increase in accounts receivable	(2,353)	(637)
Decrease in other assets	15,851	86,872
Increase in accounts payable	8,729	13,908
Increase (decrease) in other liabilities	6,362	(101,961)
Depreciation and amortization	6,274	8,413
Total adjustments	34,863	6,595
Net cash provided by operating activities	\$468,504	\$630,996
Cash flows from investing activities:		
Purchase of property, plant and equipment	(17,865)	(14,994)
Net cash used by investing activities	(\$17,865)	(\$14,994)
Cash flows from financing activities:		
Funds transferred to Treasury	(465,000)	(586,753)
Net cash (used) by financing activities	(\$465,000)	(\$586,753)
Net cash provided (used) by operating, investing and financing activities	(\$14,361)	\$29,249
Fund balances with Treasury at beginning of year	\$121,714	\$92,465
Fund balances with Treasury at end of year	\$107,353	\$121,714

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 1997

(Dollars are in thousands except Fine Troy Ounce information)

Note 1 Reporting Entity

Established in 1792, the Mint is an integral part of the Department of the Treasury. The mission of the Mint is to manufacture coins for general circulation, to manufacture and sell numismatic products for the benefit of the federal government and various beneficiary organizations, and to protect federal custodial assets. Numismatic products include medals, proof coins, uncirculated coins, platinum, 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.

Manufacture of numismatic products is financed principally through sales to the public. Manufacture of circulating coinage is financed through sales of coins at face value 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).

Pursuant to the Public Law 104-52, the PEF was established 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 the cost of metals used in circulating coin production, the cost of non-Treasury metals (platinum, cupro-nickel, and zinc) used in numismatic 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 costs related to research and development and purchases of equipment, as well as capital improvements. P.L. 104-52 states that any amount in the PEF that is determined to be in excess of the amount required by the PEF shall be transferred to the Treasury.

Treasury's Bullion Fund (Bullion Fund) is used to account for and to purchase Treasury's gold and silver used in numismatic coin production. The costs 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.

Note 2 Summary of Significant Accounting Policies

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.

The FY 1996 Statement of Operations and Changes in Net Position was reformatted to provide comparability with the presentation format of the FY 1997 Statement of Operations and Changes in Net Position.

Revenues and Other Financing Sources

Circulating Coinage: P.L. 104-52, establishing the PEF, 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 reimbursable agreements with other agencies.

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 the Bullion Fund, but actual disbursements for this fund are recorded in accounts of the Treasury and not the Mint.

Accounts Receivable

Beginning in FY 1997, an allowance for uncollectible customer accounts receivable was established for all accounts that are delinquent more than 90 days. However, the Mint will continue collection action as specified by the Debt Collection Improvement Act of 1996.

Operating Inventories

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

The Defense Logistics Agency (DLA) has loaned the Mint 188,170.2 ounces of platinum to be used as working stock for the platinum programs. In the agreement with DLA, the Mint agrees to use the platinum and replace the amount used. The 188,170.2 ounces of platinum is not carried in the accounts of the Mint; rather, DLA maintains accountability.

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

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. Advances to Treasury's Working Capital Fund are the primary types of prepayments and advances.

Property, Plant and Equipment

Mint facilities used to manufacture 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 the Fort Knox Bullion Depository in Kentucky.

Costs and related depreciation of plant and equipment assets used jointly in numismatic and circulating coinage production are allocated to each activity based on usage percentages.

The Mint leases space in three buildings in Washington, D.C. and two in San Francisco. One of the Washington buildings and the warehouse space in San Francisco are leased from the General Services Administration (GSA), which charges a fee that approximates the commercial rental rates for similar properties. The two other leased Washington buildings and one building in San Francisco are leased from private sources.

Property, plant, and equipment items are stated at cost and are depreciated straight-line over their estimated useful lives 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.

Surcharges

Legislation authorizing commemorative programs often requires that the PEF remit a portion of the sales proceeds to beneficiary organizations. These amounts are defined as “surcharges.” A surcharges payable is established for surcharges received but not yet paid to the beneficiary.

On September 28, 1996 P.L. 104-208, *Omnibus Consolidated Appropriations for Fiscal Year 1997* (the Act), was passed. The Act changed the requirements of paying surcharges for commemorative coin programs. The requirements of the Act make the benefiting organizations full partners in bearing costs, risks, and marketplace realities of selling coins. Benefiting organizations cannot receive surcharge payments unless all operating costs of the coin program are fully recovered. However, the Mint may make interim surcharge payments during a commemorative program if the benefiting organization meets the eligibility criteria in the Act, if the profitability of the program is determinable, and if the Mint is assured it is not at risk of a loss.

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 non-vested leave are charged to operating costs as they are used.

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 the Department of Labor, which tracks and pays the claims and is subsequently reimbursed by the Treasury. A portion of Treasury’s liability is allocated to the Mint based on prior claims payment experience.

Unfunded Employee Benefits

Approximately 35 percent of the Mint's employees participate in the Civil Service Retirement System (CSRS), to which the Mint contributes seven percent of pay. On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to P.L. 99-335. Most employees hired after December 31, 1983 are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984 could elect to join FERS or remain in CSRS. The Mint contributes to both retirement systems on behalf of its employees.

The Thrift Savings Plan (TSP), a major component of FERS, allows employees to have 401K accounts that become part of their retirement annuities. The Mint automatically contributes one percent of pay to each employee's account. The Mint matches up to four percent additional when a FERS employee contributes at least five percent of salary. FERS employees are allowed a maximum annual contribution of 10 percent of salary. Employees participating in FERS are covered by the Federal Insurance Contribution Act (FICA) for which the Mint contributes a matching amount to the Social Security Administration.

Although the Mint contributes a portion for pension benefits and makes the necessary payroll deductions, it is not responsible for administering either CSRS or FERS. Therefore, the Mint does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to Mint employees. Responsibility for reporting such amounts is the responsibility of the Office of Personnel Management (OPM). However, as required by Statement of Federal Financial Accounting Standards (SFFAS) #5, Accounting for Liabilities of the Federal Government, the Mint is recognizing its share of the cost of providing a pension benefit to eligible employees. OPM has provided the Mint with certain cost factors that estimate the true cost of providing the pension benefit to current employees. The cost factors range from 24.2 percent to 40 percent of basic pay for CSRS-covered employees and 11.5 percent to 24.6 percent of basic pay for FERS-covered employees for FY 1997.

As required by SFFAS #5, Accounting for Liabilities of the Federal Government, the Mint is also recognizing its share of the future cost of post-retirement health benefits and life insurance for employees while they are still working. OPM has also provided certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The cost factor relating to health benefits is \$2,493 per employee enrolled in the Federal Employees Health Benefits Program in FY 1997. The cost factor relating to life insurance is two-one hundredths percent (.02%) of basic pay for employees enrolled in the Federal Employees Group Life Insurance Program for FY 1997.

Other Liabilities

Other liabilities consist of undeliverable numismatic products and of cash reporting amounts attributable to items under capital lease. The majority of items under capital lease are various pieces of electronic data processing equipment, i.e., the mainframe computer, peripheral hardware, etc.

Custodial Gold and Silver Reserves

The Mint is the 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.

Receipts Transferred to Treasury

P.L. 104-52 provides 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.

Note 3 Fund Balances with Treasury

Components of fund balances with Treasury at September 30 are:

	1997	1996
Revolving Fund	\$107,319	\$121,678
Imprest Fund	34	36
	\$107,353	\$121,714

At September 30, 1997 and 1996, revolving fund balances included \$7.79 million and \$2.61 million, respectively, in restricted amounts for possible payment of surcharges to beneficiary organizations. Revolving fund balances also include amounts in budgetary clearing accounts.

Note 4 Accounts Receivable

Components of accounts receivable at September 30 are:

	1997	1996
Accounts Receivable, Federal	\$ 34	\$ 185
Accounts Receivable, Non-Federal	4,157	1,653
	\$4,191	\$1,838

The Mint's accounts receivable consist primarily of amounts due from bulk purchases of gold and bullion coins near year-end. These amounts were subsequently paid in early FY 1998.

Note 5 Operating Inventories, Net

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

	1997	1996
Numismatic Programs:		
Operating components	\$ 94,301	\$ 73,378
Supplies	8,721	12,978
Dies	2,024	2,265
Allowance for program closeout	(7,003)	(4,648)
Sub-Total Numismatic	\$ 98,043	\$ 83,973
Circulating Coinage Program:		
Operating components	\$170,354	\$215,062
Supplies	8,740	8,053
Dies	902	558
Sub-Total Circulating Coinage	\$179,996	\$223,673
	\$278,039	\$307,646

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 the 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. Costs of metals (including fabrication and transportation-in costs) in the operating components at September 30 are as follows:

	1997	1996
Gold	\$ 52,220	\$ 42,391
Silver	14,910	16,155
Clad (non-precious)	89,098	91,901
Platinum	4,871	43
	\$161,099	\$150,490

With the 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 1997 and FY 1996 is 77,853,490 and 123,132,542 respectively. When SBAs were originally produced, an amount equal to face value less associated costs was transferred to the General Fund. P.L. 104-52 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 are included at face value (Note 11).

Note 6 Deferred Costs, Advances and Prepayments

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

	1997	1996
Federal:		
Prepaid postage services	\$ 299	\$1,165
Advances to others	1,343	570
	\$1,642	\$1,735
Non-Federal:		
Deferred advertising costs	343	229
Advances to others	86	71
	\$ 429	\$ 300
	\$2,071	\$2,035

Advances to others-federal is the amount the Mint pays into the Treasury Working Capital Fund. Advances to others-non-federal consist primarily of travel advances and salary advances to Mint employees.

Note 7 Property, Plant and Equipment, Net

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

	1997	1996
Land	\$ 2,527	\$ 2,527
Structure, facilities and leasehold improvements	77,940	72,516
Computer system implementation effort	6,463	723
ADP software	563	563
Machinery and equipment	104,806	98,106
Assets under capital lease	692	692
	\$192,991	\$175,127
Accumulated depreciation and amortization	(96,763)	(90,490)
	\$ 96,228	\$ 84,637

Depreciation and amortization expense charged to operations for FY 1997 and FY 1996 were \$8.923 million and \$8.603 million, respectively. The majority of items under capital lease are various pieces of electronic data processing equipment, i.e., the mainframe computer, peripheral hardware, etc.

Note 8 Other Assets

Other assets consist primarily of \$50.551 million due from the Defense Logistics Agency (DLA) for silver that DLA owes 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.

In addition, the Mint purchased platinum in forward contracts in FY 1997 that will remain open until FY 1998 when the Mint will accept delivery of the material and close out the future contracts. These forward contracts represent material owed the Mint. The amount of platinum material outstanding through forward contracts is \$13.463 million.

Also included in other assets are progress payments for equipment and building improvements under construction. Because the Mint requires coinage equipment to be manufactured to very specific requirements, progress payments are made to the manufacturers. In FY 1997, such payments totaled \$9.833 million.

Note 9 Displays and Archives

The Mint has a display area at each of its facilities and maintains archives at its headquarters in Washington, D.C. The 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 10 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 Treasury Judgment Fund. In the opinion of management, the ultimate resolution of pending litigation issues will have no material effect on the financial statements of the Mint.

Note 11 Fund Balance

The composition and relevant changes in FY 1997 and FY 1996 net position are as follows:

	1997	1996
Cumulative results of operations (1)	\$ 433,641	\$ 624,401
Fund balance, beginning of year	406,597	107,353
Invested capital	—	261,596
Transfers to the General Fund (2)	(465,000)	(586,753)
	\$ 375,238	\$ 406,597

(1) Consists of the cumulative results of operations of the prior years. In FY 1996, these fund balances were transferred to the PEF, whose operations became effective October 1, 1995.

(2) Transfers to the General Fund represent amounts determined to be in excess of the PEF's needs. Transfers to the General Fund during FY 1997 amounted to \$465 million as compared to \$587 million during FY 1996.

Note 12 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 note.

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

	1997	1996
Gold:		
Inventories (FTO)*	247,464,103	247,531,465
Market Value (\$ per FTO)	\$332.10	\$379.00
Market Value (\$ in thousands)	\$82,182,829	\$93,814,425
Statutory Value (\$ in thousands)	\$10,448,479	\$10,451,323
Silver:		
Inventories (FTO)*	15,548,017	12,908,975
Market Value (\$ per FTO)	\$5.17	\$4.88
Market Value (\$ in thousands)	\$80,383	\$62,996
Statutory Value (\$ in thousands)	\$20,102	\$16,690
Total Market Value of Custodial Gold and Silver Reserves (\$ in thousands)	\$82,263,212	\$93,877,421

* The change in number of gold and silver FTOs between the years is due to the use of these metals in the Mint's numismatic operations. In addition, the silver inventory increases as a result of receiving silver from DLA. Upon shipment of product to customers, the Mint reimburses the Treasury and DLA for metals used in numismatic operations at market values.

Note 13 Costs of Goods Sold

Following are components of cost of goods sold for the years ended September 30, 1997 and 1996:

	1997	1996
Finished goods, beginning inventory	\$ 6,573	\$ 7,937
Cost of goods manufactured:		
Work-in-process, beginning inventory	7,203	9,042
Metals, fabrication, and transportation in Direct Labor	464,010	540,030
Manufacturing overhead	16,549	10,086
Work-in-process, ending inventory	92,973	91,539
	(2,305)	(7,203)
Total cost of goods manufactured	\$578,430	\$643,494
Cost of goods available for sale	\$585,003	\$651,431
Finished goods, ending inventory	(19,602)	(6,573)
Cost of goods sold	\$565,401	\$644,858

Note 14 Accounts Payable – Federal

Although Treasury gold and silver are recorded in the accounts of the Bullion Fund (Note 1), the operating portion of gold and silver, also referred to as work-in-process and finished goods, is reflected in the Mint's consolidated statements. Because the PEF does not reimburse the Bullion Fund for gold and silver 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 the products are sold and shipped. The following is a summary of Accounts Payable-Federal at September 30, 1997 and 1996:

	1997	1996
Current:		
Metal used as working stock inventory	\$63,514	\$54,509
Funds to be transferred to others	4,494	5,651
	\$68,008	\$60,160
Non-Current:		
Metal at DLA for future working stock	\$50,551	\$60,267
	\$50,551	\$60,267

The funds to be transferred to others resulted from the sale of metal used in Mint products and other amounts owed to Federal entities, primarily the Treasury and DLA.

Note 15 Selling, General and Administrative Expenses

Following are components of selling, general and administrative expenses for the years ended September 30, 1997 and 1996:

	1997	1996
Selling Expenses:		
Marketing	\$17,602	\$18,375
Advertising (including postage to mail brochures)	11,148	16,609
	\$28,750	\$34,984
Other salaries and benefits	\$20,195	\$20,763
Computer services	5,447	5,087
Transportation, communication, and training	2,432	3,281
Supplies	2,748	1,995
Depreciation	748	929
Utilities	46	37
Rent	3,682	3,731
Other administrative services	4,619	2,979
Transportation to Federal Reserve Banks (FRB)	2,635	2,838
	\$42,552	\$41,640
	\$71,302	\$76,624

Note 16 Surcharges Collected

Following are components of surcharges collected by product and beneficiary organization for FY 1997 and FY 1996. The surcharge recipients of programs subject to the provisions of P.L. 104-208 must meet certain requirements before the Mint can make surcharge payments. These requirements include raising matching funds and providing audited financial statements.

Commemorative Program	Beneficiary Organization	1997	1996	Sales Period
<i>Programs Prior to 1997:</i>				
Yosemite Medal	National Park Foundation	—	3	1992/97
U.S. Veterans	Andersonville Prisoner-of-War Museum	—	4	1994/95
	Vietnam Veterans Memorial Fund	—	4	1994/95
	Women in Military Service	—	4	1994/95
Special Olympics	1995 Special Olympics	—	2,596	1995
Civil War	The Civil War Trust	—	483	1995/96
1996 Olympic Games	Atlanta Committee for Olympic Games	1,666	13,168	1995/96/97
Smithsonian	Smithsonian Institution	300	2,384	1996/97
Natl. Community Service	Natl. Community Service Trust	81	1,170	1996/97
<i>Programs Subject to P.L. 104-208</i>				
U.S. Botanic Gardens	Natl. Fund for the U.S. Botanic Gardens		—	1997
Jackie Robinson	Jackie Robinson Foundation	2,371	—	1997/98
Franklin Delano Roosevelt	FDR Memorial Commission	2,030	—	1997/98
Natl. Law Enforcement Officers Memorial	Natl. Law Enforcement Memorial Maintenance Fund	1,373		
		18	—	1997/98
		\$7,839	\$19,816	

Note 17 Retirement Plan

Approximately 35 percent of the Mint's employees participate in the Civil Service Retirement System (CSRS), to which the Mint contributes seven percent of pay. On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to P.L. 99-335. Most employees hired after December 31, 1983 are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984 could elect to join FERS or remain in CSRS. The Mint contributes to both retirement systems on behalf of its employees.

The Thrift Savings Plan (TSP), a major component of FERS, allows employees to have 401K accounts that become part of their retirement annuities. The Mint automatically contributes one percent of pay to each employee's account. The Mint matches up to four percent additional when a FERS employee contributes at least five percent of salary. FERS employees are allowed a maximum annual contribution of 10 percent of salary. Employees participating in FERS are covered by the Federal Insurance Contribution Act (FICA) for which the Mint contributes a matching amount to the Social Security Administration.

Although the Mint contributes a portion for pension benefits and makes the necessary payroll deductions, it is not responsible for administering either CSRS or FERS. Therefore, the Mint does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to Mint employees. Responsibility for reporting such amounts is the responsibility of the Office of Personnel Management (OPM). However, as required by Statement of Federal Financial Accounting Standards (SFFAS) #5, Accounting for Liabilities of the Federal Government, the Mint is recognizing its share of the cost of providing a pension benefit to eligible employees. OPM has provided the Mint with certain cost factors that estimate the true cost of providing the pension benefit to current employees. The cost factors range from 24.2 percent to 40 percent of basic pay for CSRS-covered employees and 11.5 percent to 24.6 percent of basic pay for FERS-covered employees for FY 1997.

The following table shows the amounts that the PEF contributed to the retirement plans and Social Security in FY 1997 and FY 1996, respectively.

	1997	1996
Civil Service Retirement System	\$ 2,351	\$ 2,371
Federal Employees Retirement System (Retirement & Thrift Savings Plan)	6,811	6,145
Social Security System	4,278	4,082
	\$13,440	\$12,598

Note 18 Protection Costs

The Mint is responsible for safeguarding much of the Nation's precious metals and strategic stockpiles. These costs are borne by the Mint, but are not directly related to the circulating or numismatic coining operations of the Mint.

Note 19 Other Costs and Expenses

This consists primarily of returns of mutilated or uncurrent coins to the Mint. The Mint reimburses the face value of these coins.

Note 20 Imputed Financing

As required by SFFAS #5, Accounting for Liabilities of the Federal Government, the Mint is also recognizing its share of the future cost of post-retirement health benefits and life insurance for employees while they are still working. The Office of Personnel Management (OPM) continues to report the overall liability of the federal government and make direct recipient payments. OPM has also provided certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The cost factor relating to health benefits is \$2,493 per employee enrolled in the Federal Employees Health Benefits Program in FY 1997. The cost factor relating to life insurance is two-one hundredths percent (.02%) of basic pay for employees enrolled in the Federal Employees Group Life Insurance Program for FY 1997.

In FY 1997, each federal agency is required to report the amount of employees' benefit expense for which the agency is responsible. For FY 1997, the underfunded employee benefit expense incurred by the Mint is as follows:

Pension Expense	\$3,034
Health Benefits	4,296
Life Insurance	14
	\$7,344

Note 21 Related Parties

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

The PEF does not reimburse the Bullion Fund for gold and silver 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 DLA stockpiles. The Mint 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 1997 and FY 1996, payments were made to the following government entities:

	1997	1996
	(\$ in millions)	
Government Printing Office	\$ 0.4	\$ 1.6
U.S. Postal Service	9.2	14.3
General Services Administration	3.3	3.6
	\$12.9	\$19.5

The Mint shipped approximately \$683 million in coins to the Federal Reserve Board in FY 1997. This amount represents a 35.4% decrease over FY 1996 shipments that approximated \$1,057 million.

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.

Supplemental Financial Information

DEPARTMENT OF THE TREASURY
U.S. MINT
BALANCE SHEET
AS OF SEPTEMBER 30, 1997
(IN THOUSANDS)

ASSETS

Entity Assets:	
Intragovernmental	
Fund balance with Treasury	599,565
Accounts receivable, net	34
Other assets	1,642
Governmental	
Accounts receivable, net	4,157
Inventory and related property, net	278,039
General property, plant and equipment, net	96,228
Other assets	10,628
Total entity assets	490,293
Non-Entity Assets:	
Intragovernmental	
Other assets	50,551
Governmental	
Fund Balance with Treasury	7,788
Other assets	13,463
Total non-entity assets	71,802
Total Assets	\$562,095

LIABILITIES

Liabilities covered by budgetary resources:	
Intragovernmental liabilities:	
Accounts payable	\$118,559
Other intragovernmental liabilities	1,848
Governmental liabilities:	
Accounts payable	18,487
Lease liabilities	303
Accrued workers' compensation benefits	3,814
Other governmental liabilities	22,209
Total liabilities covered by budgetary resources	165,220
Liabilities not covered by budgetary resources:	
Intragovernmental liabilities:	
Accrued workers' compensation benefits	21,637
Total liabilities	\$186,857

NET POSITION

Cumulative results of operations	375,238
Total liabilities and net position	\$562,095

DEPARTMENT OF THE TREASURY
U.S. MINT
STATEMENT OF NET COST
FOR YEAR ENDED SEPTEMBER 30, 1997
(IN THOUSANDS)

COSTS:

NUMISMATIC PRODUCTION AND SALES

Intragovernmental	
Cost of Goods Sold	\$237,639
Selling, General and Administrative	0
Other costs and expenses	0
Total Intragovernmental	237,639
With the Public	
Cost of Goods Sold	114,300
Selling, General and Administrative	36,912
Other costs and expenses	335
Total With the Public	151,547
Less earned revenues	407,587
Net program costs (profit)	(\$18,401)

CIRCULATING PRODUCTION AND SALES

Intragovernmental	
Cost of Goods Sold	\$0
Selling, General and Administrative	0
Other costs and expenses	0
Total Intragovernmental	0
With the Public	
Cost of Goods Sold	213,462
Selling, General and Administrative	34,390
Other costs and expenses	6,575
Total With the Public	254,427
Less earned revenues	682,688
Net program costs (profit)	(\$428,261)

PROTECTION OF ASSETS

\$13,021

COSTS ASSIGNED TO OTHER AGENCIES:

Other post-employment benefit costs	\$7,344
Less funding sources	7,344
Net program costs (profit)	\$0

NET COST (PROFIT) OF OPERATIONS

(\$433,641)

Reports of Independent Accountants

UK
&W Urbach Kahn & Werlin PC
CERTIFIED PUBLIC 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, 1997 and 1996, 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 the United States Department of the Treasury, Office of Inspector General (OIG) 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 OIG.

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*, as amended. Those 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 audits and the report of the OIG provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the OIG, the financial statements referred to above present fairly, in all material respects, the financial position of the Mint as of September 30, 1997 and 1996, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental statement of net cost is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 9, 1998 on our consideration of the Mint's internal control structure and a report dated January 9, 1998 on its compliance with laws and regulations.

Urbach Kahn & Werlin PC

Washington, DC
January 9, 1998

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 the Treasury, as of and for the year ended September 30, 1997, and have issued our report thereon dated January 9, 1998. The United States' gold and silver reserves, for which the Mint serves as custodian, were audited by the OIG.

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*, as amended. 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 judgments 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, 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, 1997, 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.

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 and OMB Bulletin 93-06.

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 and in reported performance measures in the Management Discussion and Analysis section.

EDP SYSTEM IMPROVEMENTS REQUIRED

Systems integration project needs to be aggressively pursued: The Mint's financial management system is comprised of diverse mainframe, manual and PC based systems. These 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 its requirements, and is implementing a new integrated financial management system. The Mint has established October 1998 as the completion date for implementation of the new system. Subsequent to year end, the Mint has also completed a detailed plan to address its Year 2000 (Y2K) exposure.

We recommend:

- 1) The Mint continue to ensure sufficient resources are deployed to allow systems planners to meet the aggressive target date for this integration and to ensure parallel completion of the Y2K modifications. We recognize that especially since the end of fiscal year 1997, the Mint has increasingly given top priority to both initiatives and has aggressively deployed resources to achieve critical milestones. Given the complexity and risks associated with the integration, it is essential that the top level, detailed project plan be updated and communicated frequently enough to ensure that milestones are met, issues are resolved promptly, and potential delays are identified and resolved.
- 2) The Mint's separate contingency plans for the Y2K modifications ensure the financial management systems can function independent of the target dates established for implementation of the new integrated financial management system. The current backup plan is independent of the integration project, however, given the increasing level of risk and narrowing window of opportunity to resolve Y2K problems, we urge that the Mint continue to focus on the execution of its well-defined plan.
- 3) The Mint strictly adhere to its schedule for receipt of all written Y2K preparedness assurances formally requested from all critical suppliers. It is critical that all such assurances are received in a timely fashion, given the dependence of the Mint's manufacturing operations on continuous materials availability from suppliers.

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, 1997.

The 1996 report on internal control structure dated January 10, 1997 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 9, 1998.

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

Urbach Kahn & Werlin PC

Washington, DC
January 9, 1998

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 the Treasury, as of and for the year ended September 30, 1997, and have issued our report thereon dated January 2, 1998. The United States' gold and silver reserves, for which the Mint serves as custodian, were audited by the OIG.

We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 93-06, Audit Requirements for Federal Financial Statements, as amended.

The management of the Mint is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of the Mint's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 93-06, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards and OMB Bulletin 93-06.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the United States General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA issued by OMB on September 9, 1997.

The results of our tests disclosed an instance, described below, where the Mint's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph:

The Mint's core financial management system does not comply with certain system requirements.

The Mint's current financial management systems do not meet Federal financial management system requirements, including OMB Circular A-127, Financial Management Systems; OMB Circular A-130 Management of Federal Information Resources; OMB Circular A-123, Management Accountability and Control; Federal Management Systems requirements issued by the Joint Financial Management Improvement Program (JFMIP); and the United States General Ledger at the transaction level. In its 1997 Federal Managers' Financial Integrity Act report, the Mint reported this weakness. OMB Circular A-127 states, in part, "Financial Management Systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls and data contained within the systems." Our recommendation for improvement is contained in our report on internal control structure dated January 9, 1998. The Deputy Director of the Mint is responsible for financial management systems within the Mint.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. This report is intended for the information of the Office of Inspector General of the United States Department of the Treasury and the management of the Mint. However, this report is a matter of public record and its distribution is not limited.

Urbach Kahn & Werlin PC

Washington, DC
January 9, 1998

Report of the Inspector General Custodial Gold and Silver Reserves

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, 1997 and 1996. 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.

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; and
- 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, 1997 and 1996, 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, 1997, we obtained an understanding of the U.S. 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 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*.

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.



Richard B. Calahan
Deputy Inspector General
January 9, 1998

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 1997 AND 1996
(IN THOUSANDS)

	1997	1996
CUSTODIAL GOLD AND SILVER RESERVES		
United States' gold and silver reserves (Note 2)	\$10,468,581	\$10,468,013
Custodial liability to Treasury (Note 2)	10,468,581	10,468,013
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, 1997 and 1996

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.

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 \$42,222 per Fine Troy Ounce (FTO) of gold and \$1,292,929 per FTO of silver. An offsetting custodial liability is also reported for these assets.

At September 30, 1997 and 1996 the market value of gold was \$332.10 per FTO and \$379.00 per FTO, respectively. Gold inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
1997	247,464,103.081	\$10,448,478,853	\$82,182,828,633
1996	247,531,465.307	\$10,451,323,035	\$93,814,425,351

At September 30, 1997 and 1996, the market value of silver was \$5.17 per FTO and \$4.88 per FTO, respectively. Silver inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
1997	15,548,016.89	\$20,102,486	\$80,383,247
1996	12,908,975.14	\$16,690,392	\$62,995,799

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

	Statutory Value	Market Value
1997	\$10,468,581,339	\$82,263,211,880
1996	\$10,468,013,427	\$93,877,421,150

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. Upon shipment of products to its customers, the PEF replenishes the reserves for metals used in its operations.

United States Mint Senior Management

Philip N. Diehl	Director
John P. Mitchell	Deputy Director
Andrew J. Cosgarea	Chief Operating Officer
David Pickens	Director of Marketing
Jay M. Weinstein	Chief Financial Officer
William F. Daddio	Chief Security Officer
Kenneth B. Gubin	Chief Legal Counsel
Augustine A. Albino	Philadelphia Mint
Bradford F. Cooper	West Point Mint
James M. Curtis	U.S. Bullion Depository
Raymond J. DeBroekert	Denver Mint
Dale B. DeVries	San Francisco Mint

For further information, contact:
U.S. Mint Office of Corporate Communication
(202) 874-6000

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