

U N I T E D S T A T E S M I N T

2002 ANNUAL REPORT



*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.*



UNITED STATES MINT TEAM VISION

The United States Mint will:

Provide Value to the American people;

Ensure Integrity in our commitments and communications;

Achieve world-class Performance.

PRIORITIES

Business Results: We all will achieve excellent business results. We will continuously improve our business, measuring ourselves against world-class organizations. Our investments in the United States Mint will be prudent and thoughtful to provide the best return on investment to the American people.

Stakeholders: We value and are inclusive of our stakeholders and hold ourselves accountable for ensuring honest, open and timely communications. We will meet or exceed their expectations in achieving world class performance.

Products: We are our products. We will meet the highest levels of quality, innovation, and efficiency.

Involved People: We value all our people. We will provide them a safe workplace and the tools and training they need. We will offer an innovative and flexible working environment where everyone can make a contribution each day.

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, Kentucky, Maryland, New York, Pennsylvania and Washington D.C.

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“Since 1792, the United States Mint has stood for quality, service, and integrity. Two hundred ten years later, the Mint is revolutionizing how coins are made, sold, protected, and how a government agency operates.”

*Henrietta HolsmanFore
Director*

Dear Collectors, Customers, and Colleagues:

During Fiscal Year 2002, the United States Mint increasingly became One Team with One Vision of value, integrity, and performance as it achieved many solid accomplishments across its business lines.

The performance measures we have established have achieved dramatic results. For example, we have

- adjusted our production levels from 23.6 billion in Fiscal Year 2001 to nearly 15 billion circulating coins in Fiscal Year 2002 to meet the needs of the economy;
- contributed \$1,030,000,000 to the Treasury General Fund;
- continued to improve and streamline our manufacturing operations to reduce the cost of circulating coinage;
- reduced circulating cycle time from more than 300 days to 108 days;
- decreased cost per 1000 coin equivalent from \$9.88 to \$8.69;
- continued to work toward becoming a model of 21st century government with world-class performance and services;
- heightened security to protect our assets and employees;
- strengthened our internal controls for financial operations and technology management;
- launched five new state quarters into circulation;
- begun a dialogue with Congress on a proposal to redesign our national coinage; and
- improved the safety of our work environment by reducing Lost Time Accidents by 42 percent.

The safety of our employees is not only a top priority; it is a commitment in a 21st century workplace. Therefore, when the Occupational Safety and Health Administration (OSHA) cited concerns at the Philadelphia Mint, we suspended production from March 4 – April 18, 2002, while we conducted a top-to-bottom review to ensure our equipment, materials, buildings, and safety procedures were updated.

We began to transform the Philadelphia facility into a model of industrial safety. During the seven weeks production was suspended, employees participated in retraining on safety programs and procedures and worked to improve the cleanliness and the efficiency of the physical plant. In response, the Denver Mint increased production, enabling the United States Mint to meet orders for coinage without interruption. This situation demonstrated the skills and teamwork we have across the organization and I am quite proud of the results. Safety will remain a top priority throughout the organization.

We launched a number of exciting initiatives and set many new goals for the organization in Fiscal Year 2002. We developed a new Strategic Plan for 2002-2007 that allows us to clearly set and measure our goals: to be a model Government Agency that matches world-class

business practices; to value and communicate with the American people; to design, sell, and deliver quality products; and to respect and value our co-workers.

The Strategic Plan serves as a blueprint in redefining how we measure our progress and strengthen teamwork across the Mint. There is an emphasis on measurements of time, resources, and standards by which we benchmark our programs against similar organizations. These measurements are driving our focus on value. We can transform our work into clear and simple processes and shared improvements as we strive for world-class performance. We also are working with the Treasury Department and others to find innovative ways to share services, to develop thoughtful contingency plans, and to further reduce the cost of coinage in America.

I have enjoyed talking with our customers throughout the year, as we hosted a number of business and collectors' forums. Coin collectors tell us that the Nation must continue to improve the artistry and collectibility of its coinage. We are committed to listening to our customers and doing more to provide the products and services they want and need.

One of our top priorities is to engage the Administration and Congress in a dialogue to develop a process to redesign our national coinage. First, we are working with Congress on a proposal for a four-year series of nickel reverse designs to commemorate the bicentennial of the Lewis and Clark expedition. Second, we will continue our discussions on the purpose and value of national coin redesign for other denominations. We are in a renaissance of coin design in America and artistry is an essential part. We are exploring the creation of an exchange program with other Mints to bring artists together to share ideas and techniques. We also have embarked on the 50 State Quarters® Program process outreach project to refine our design selection process to ensure continuous improvement and fresh approaches.

The business of the United States Mint mirrored the national events and trends of the past year. The United States Mint closed for one day on September 12, 2001, and then we all went back to work, but the economy was slower. In response, we made necessary decisions regarding budget cuts and staffing to adjust to the lower demand for coinage. We reduced our original Fiscal Year 2002 budget by 20 percent to start the year. We saved even more by canceling procurements, renegotiating contracts, consolidating office space, cutting back on marketing, reducing excessive inventories by 28 percent, and trimming other non-critical expenses. As a result, we held expenses to 8.4 percent below our already reduced plans.

We worked very closely with the Federal Reserve Banks (FRBs) to successfully schedule and coordinate coin shipments to ensure fulfillment of all coin orders. We formed a workgroup to streamline the coin manufacturing and distribution system and reduce the overall supply chain costs. The workgroup developed and implemented a joint macroeconomic coin demand forecasting model, a shared pallet tracking application, and a more responsive monthly coin ordering process.

As we work to transform the Mint into a world-class business, we have also looked back and learned from our past. This annual report blends together our history and our united vision for the future. Since 1792, the United States Mint has stood for quality, service, and integrity. Two hundred ten years later, the Mint is revolutionizing how coins are made, sold, protected, and how a government agency operates. Through our commitment to teamwork and excellence we can continue to build upon two centuries of progress to become a leaner, smarter, innovative organization.

Sincerely,



Henrietta Holsman Fore
Director
United States Mint

MANUFACTURING CIRCULATING COINAGE

This has been a year of transformation for the manufacturing Mints. They are cleaner, safer, and employees are better trained and technologically smarter than ever before.

Responding to trends in the last fiscal year, the Manufacturing Strategic Business Unit (SBU) has been making adjustments to meet the demand for circulating coinage. In Fiscal Year 2002 (FY02), demand for all coin denominations declined to reflect the slower pace of commercial activity in the United States. The United States Mint launched the state quarters of Tennessee, Ohio, Louisiana, Indiana, and Mississippi into circulation during the 2002 calendar year.

Though not the first circulating U.S. coin to bear the image of a Native American profile, the 1913 Indian Head or Buffalo Head nickel has certainly been the most popular. Designed by James Earle Fraser, the bison was said to be modeled after one named "Black Diamond," who lived in the New York Zoological Gardens at the time. The Native American was a composite of three different individuals. When the Mint released a commemorative coin displaying the Fraser's design in 2001, it sold out in record time.

	FISCAL YEAR 2002 PRODUCTION						
	PENNY	NICKEL	DIME	QUARTER	HALF DOLLAR	DOLLAR	TOTAL
Philadelphia	3,410,800,000	553,680,000	1,171,000,000	1,656,600,000	1,200,000	20,945,610	6,814,225,610
Denver	4,240,440,000	714,480,000	1,388,500,000	1,800,868,000	0	3,732,000	8,148,020,000
Total	7,651,240,000	1,268,160,000	2,559,500,000	3,457,468,000	1,200,000	24,677,610	14,962,245,610

The United States Mint was able to continue producing its American Eagle Silver bullion products due to the passage of the "Support of the American Eagle Silver Bullion Program Act." This bill authorized the Treasury Secretary to purchase silver on the open market because the Defense Logistics Agency's Strategic and Critical Materials silver stockpile has been depleted.

Revenues generated by the Mint's numismatic products grew slightly, led by a strong demand for American Eagle Silver Uncirculated products. In an uncertain economy, customers were again looking at precious metals. The Mint sold 11.02 million ounces of Silver American Eagle bullion coins — its second highest year in the history of the program. In addition, 335,502 ounces of gold bullion and 38,200 ounces of platinum bullion were sold.

To assist in the effort to anticipate coin demand, the Mint has strengthened its partnership with the Federal Reserve Banks (FRB). The Mint-FRB workgroup share information to better forecast future coin demand. The workgroup also is working to streamline the manufacturing and distribution system and reduce supply chain costs. It developed and implemented a joint macroeconomic coin demand forecasting model, and a shared pallet tracking application.

The Manufacturing SBU also worked to reduce the cost of making coinage. Specifically, a Mintwide team worked with suppliers to arrange direct shipments of strip and blanks to the Philadelphia Mint. A reduction in the level of inventory on-hand also meant less need for storage space and the elimination of double handling of materials, as well as the need for a warehouse in New Jersey, which will result in an annual savings to the Mint of more than \$2 million.

The installation of new coining presses — the Graebener GMP-360 and Schuler MRV-300 — for Proof and Uncirculated coinage, respectively, has added to the efficiency of those programs. The Mint also finished installing its bulk bag filling stations in Philadelphia and Denver which are safer for employees because they do not require manual handling of large, heavy bags of coins.

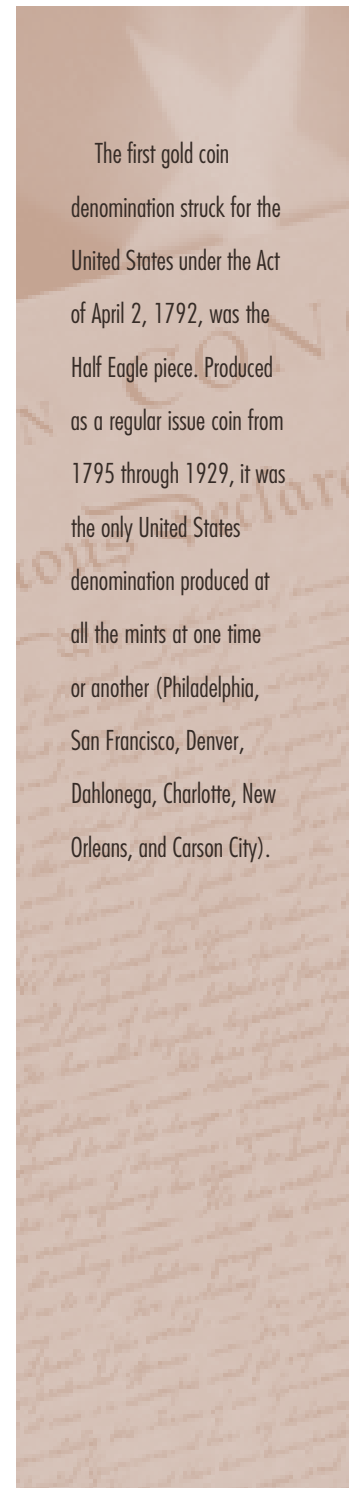
In addition to improving the safety and conditions of its physical plants, the Mint's efforts contributed to the reduction in Lost Time Accidents (LTAs) from 3.93 in FY01 to 2.27 in FY02, a 42 percent reduction. While this is a significant achievement and a great benefit to the workforce, the Mint is committed to a goal of zero LTAs.

SALES AND MARKETING

Our Sales and Marketing division marked a number of notable events in FY02. In July, the United States Mint made headlines when it auctioned the 1933 \$20 gold coin known as a "Double Eagle" for \$6.6 million to an anonymous bidder. With the addition of a 15 percent auctioneer's premium, and the \$20 face value fee, the total purchase price totaled \$7,590,020. It is now the world's most valuable coin.

The net proceeds from the sale will be divided between the United States Mint Public Enterprise Fund and the coin dealer from whom the coin was recovered by the U.S. Secret Service in 1996. This is the first and only 1933 Double Eagle monetized and issued by the United States Mint.

The Double Eagle, designed by Augustus Saint-Gaudens, is considered one of the most beautiful coins in the world. As with all coins produced by the United States Mint and used in our national economy, coins are not only are tools of commerce, but also are symbols of our country that honor important events, places, and people in our history.



2002 Winter Olympic
Commemorative Gold Coin



2002 Winter Olympic
Commemorative Silver Coin



2002 United States Military Academy
Bicentennial Commemorative Coin



For that reason, the Mint is working with Congress, the Treasury Department, and the Administration to develop a process to redesign our national coinage. New coin designs not only would illustrate the country’s rich heritage and diversity, but also would increase interest in the hobby of coin collecting.

Also of interest to collectors is the offer of selected Bureau of Engraving and Printing (BEP) numismatic products in the Mint’s print and electronic catalogs — including uncut currency sets. In addition, the Mint has joined the U.S. Postal Service (USPS) in combining some of their products — the 50 State Quarters and the “Greetings from America” stamps. These sets are available on Mint and USPS web sites, at selected post offices, in the USPS philatelic catalog, and at Mint retail locations.

Commemorative Coins

In addition to these new products, the United States Mint offered two historic commemorative coins this past year. Both programs were begun in 2002, but will not conclude until FY03, so figures are reported to date.

The 2002 Olympic Winter Games Commemorative coins celebrated the 2002 Winter Games that were held in Salt Lake City, Utah, in February 2002, and proceeds from the surcharges are being distributed to the United States Olympic Committee and the Salt Lake Organizing Committee. As of September 30, 2002, 42,523 five-dollar gold coins, and 202,986 silver dollars were sold.

The other program for 2002 was the United States Military Academy Bicentennial Commemorative that celebrates the 200th anniversary of the founding of the Military Academy at West Point, New York. The coins were issued on March 16, 2002 — 200 years to the day President Jefferson signed legislation authorizing the establishment of the Academy. The coins will be sold until March 16, 2003. As of September 30, 2002, 267,184 Proof Silver Dollars, and 96,668 Uncirculated Silver Dollars were sold. The surcharges collected will be given to the Academy’s Association of Graduates to help support the academic, military, physical, moral, and ethical development programs of the Corps of Cadets.

Customer Service and Satisfaction

The Mint's Customer Care Center (CCC) was successfully relocated to the agency's headquarters building at 801 Ninth Street, N.W., in Washington, D.C. This move completes the Mint's business realignment as the CCC reports to the Sales and Marketing Strategic Business Unit, and will streamline costs.

One of the Mint's Strategic Plan objectives is to provide excellent customer service and satisfaction. For six consecutive years, the Mint has been rated among the top performers in the American Customer Satisfaction Index. In the most recent ratings published in December 2001, the Mint scored an 88 (on a 0-100 scale), well ahead of the average score of 72.6 for private sector companies and a 68.6 average rating for government agencies.

To make it easier for customers to obtain the products they want, the Mint launched its subscription program in October enabling collectors to subscribe to a series of products including the American Eagle Silver Proof Coins; 50 State Quarters Official First Day Coin Covers; United States Mint Proof Sets; 50 State Quarters Proof Sets™; Uncirculated Coin Sets®; and Silver Proof Sets™.

Consumer and Business Awareness

To assist our customers in recognizing genuine United States Mint products versus other collectibles, staff from Sales and Marketing, the Office of the Chief Counsel, and the Office of the Chief Information Officer created a Business and Consumer Affairs Section on the United States Mint's Internet web site that was launched in October 2001. The site — www.usmint.gov/consumer — discusses replicas and colorized versions of genuine U.S. coins, gives tips on identifying genuine U.S. coins, and provides links to other helpful web sites for consumers.

After three years of litigation, the United States Mint and the Department of Justice reached a settlement with the Washington Mint, LLC, a private company specializing in medallions and collectibles located in Minnesota. The U.S. District Court for the District of Minnesota found the Washington Mint liable for infringing the United States Mint trademark and for engaging in false and deceptive advertising. The Washington Mint has paid the United States government \$2.1 million and must serve notice to all of its customers that its replicas of U.S. coins and medals are not legal tender. The Washington

The motto "In God We Trust" first appeared on a U.S. coin in 1864, and had appeared on various coins for more than 90 years when Congress declared that all currency and coins of the United States bear the inscription "In God We Trust", signed into law on July 11, 1955.

Security has always been an important consideration for the United States Mint. In Philadelphia Mint records for January 7, 1793 — between notations of a \$1 payment to Thomas Dobson for an inkstand and folder and \$2.40 to Jacob Kinnard for sundries — there is a \$3 line item listing the purchase of “a dog for the yard.”

Nero, as he was soon called, was “hired” by Henry Voight, the Mint’s first superintendent and chief coiner, to work along side the night watchman to help patrol and guard all sectors of the Mint. They made their rounds every hour, and it is said Nero made the trek each evening, even if the watchman was absent.

Today, the U.S. Mint Police are responsible for protecting the assets of the United States Treasury, and as always, are ever vigilant.

Mint is also permanently prohibited from producing and marketing replicas of the Golden Dollar and must use a disclaimer in all of its advertisements featuring United States Mint-related products stating it is not affiliated with the federal government.

PROTECTION

While the safety and protection of our employees and assets was always the first priority of our United States Mint Police force, after September 11, 2001, their mission to safeguard the Mint has taken on new magnitude. The Mint is committed to investing in additional training and the latest equipment to assist them in their important responsibilities of keeping the United States Mint and its national assets secure.

To safeguard the Mint and the public, tours of the Philadelphia and Denver Mint were suspended in the wake of the September 11 tragedies. After new procedures were put into place (the same followed by the White House), the Denver Mint was reopened to the public on June 21. The Philadelphia Mint followed suit on September 5 after building renovations were completed.

Because United States Mint Police officers are highly skilled professionals, they are in great demand by other agencies and therefore, the Mint is focusing on recruiting and training more new officers in the coming year.

The United States Mint Police measure achievement by what did *not* happen. Due to their vigilance and expertise, the United States Mint’s assets, including the gold in Fort Knox, continue to be as safe as the gold in Fort Knox. — watch dog in Philly)

OFFICE OF THE CHIEF FINANCIAL OFFICER

Helping the United States Mint to achieve world-class status is the major goal of the Office of the Chief Financial Officer (OCFO). The Mint’s senior managers had to make tough, but necessary, decisions regarding budget cuts and staffing to adjust to the demand for coinage. Total expenses were cut by 10 percent and the Mint saved money by canceling procurements, renegotiating contracts, consolidating office space, cutting back on marketing, reducing excessive inventories by 28 percent, and trimming other non-critical expenses.

In addition, the OCFO staff was responsible for providing excellent service using stronger internal controls to internal and external customers during the fiscal year. For example, to provide more effective management of human resources functions throughout the United States Mint, in November 2001, the Corporate Office of Human Resources (OHR) assumed the responsibility for supervising and providing oversight to all OHR field offices. This included the consolidation of all human resources personnel in the field sites and Strategic Business Units who provide staffing, classification, training, labor and employee labor relations to these customers.

Along with assisting in the Customer Care Center relocation, a new Program Review Division in the Office of Management Services was established. The Program Review Division was charged with providing a more proactive approach to determining the effectiveness of management controls and United States Mint corrective actions taken in response to audit findings from the Office of the Inspector General and the General Accounting Office.

The Mint made major changes in its Office of Procurement, including the institution of additional checks and balances to assure that guidelines are being followed and that prudent business decisions are being made. A Mintwide policy was implemented that requires a multi-discipline acquisition team to be formed for any acquisition over \$100,000.

During FY02, the Office of Accounting was a leader in Treasury Department efforts to improve the timeliness and quality of financial reporting. The Mint was one of the first bureaus to meet Secretary O'Neill's target of closing the books three business days after the end of the month. The Mint routinely submits all its monthly financial information within three business days. Upon review of its financial reporting, the Mint has earned a *ninth* consecutive clean opinion from independent auditors.

In addition, the Office of Management and Budget's (OMB) assessment of the Mint's circulating coinage program using the Program Assessment Rating Tool (PART) resulted in a total score of 85 percent — the highest ranking among all Treasury agencies. PART measures and diagnoses program performance in four critical aspects: purpose, strategic planning, program management, and program results. OMB reported that the program's purpose and design is clear; it has good strategic goals and performance measures; it has good financial oversight;



The Thomas Jefferson Peace Medal was designed to commemorate the third President of the United States, featuring a bust of Jefferson and two hands clasped together, with crossed pipe and tomahawk above. This medal was carried across the country by Meriwether Lewis and William Clark, and given to a variety of Native American chiefs from the Omaha, Arikara, Mandan, Oto or Pawnee, and Ponca tribes that they met along the way during their journey. Their journal indicates that the first peace medal was presented on August 3, 1804, at Council Bluffs, to a party of Otos and Missouri tribe members.

Congress adopted the motto *E Pluribus Unum* (Out of many, one) as part of the Great Seal on June 20, 1782. On September 15, 1789, as one of the first acts of government under the Constitution, Congress declared the seal of 1782 to be the seal of the United States, making this the national motto. It was first used by the United States Mint on coins of the late 1790's and has continued to be used on coins of various issues to this day.

and it has a good system of evaluating and correcting program management deficiencies. The Mint's score and other relevant information will be published in the President's FY04 budget.

Finally, the Office of Financial Planning, Analysis, and Review made major strides in the area of performance-based management. Ten new performance indicators were developed and integrated into the budget formulation and execution process. These measures provide meaningful feedback on critical elements of United States Mint operations, and move the Mint one step closer to its goal of "one-click" decision making.

OFFICE OF THE CHIEF INFORMATION OFFICER

In addition to its work on the consumer website, the Office of the Chief Information Officer (OCIO) addressed a number of challenges in FY02. As a result of the 2001 financial audit, two material weaknesses and a number of other findings related to information security were revealed. The OCIO led a successful effort to mitigate the security risks, mitigate future information security threats and close all the findings by September 30, 2002. These efforts included centralizing Enterprise Resource Planning (ERP) and e-commerce systems security management, re-engineering PeopleSoft security, logging details of key transactions, developing a policy framework, providing information security training, and conducting disaster recovery testing.

In response to the Secretary's goals of providing a safe work environment for all Treasury employees, OCIO worked closely with the Office of the Chief Financial Officer (OCFO) to implement the Safety and Health Information Management System (SHIMS), an electronic reporting system for tracking safety incidents and filing workers' compensation claims.

OCIO was also responsible for developing Information Technology (IT) threat assessment strategies and counteracting any security threats against Mint operations and leading the IT contingency planning efforts.

OCIO, in partnership with Manufacturing, created a secure Extranet application — the Pallet Tracking System (PTS). PTS was selected as one of 16 "Federal CIO Showcase of Excellence" displays at the FOSE Convention based on its excellence in leveraging web technologies and responding to the executive requirement for increased e-government initiatives.

Organizationally, OCIO is a streamlined, functional and more responsive organization. We have reduced the number of layers and the number of Divisions. Budgets and projects have become more customer-centric with requirements driven by Manufacturing and Sales and Marketing. Furthermore, the IT function in the field offices report to the OCIO, resulting in uniform policies throughout the organization.

CONCLUSION

In the years to come, the United States Mint will continue to accomplish greater results by working across business lines as a more efficient and effective cross-functional team. That includes continuing to improve its service to customers, reduce the number of lost time accidents to zero, and increasing the quality of its products. Much was achieved during FY02, and in the months and years to come the United States Mint plans to accomplish the many goals and objectives it has set in its effort to become a model of 21st century government with world-class performance and services.

When introduced in June of 1997, the American Eagle Platinum Bullion Coin represented many “firsts” for the United States Mint:

- the first time the United States has offered a legal tender platinum coin;
- the first time the Secretary of the Treasury, not Congress, specifies the weight, size and design of the coin;
- the first American bullion coins to contain an engraving of the coin’s weight (reverse side), and;
- this \$100, one-ounce coin represents the highest-ever denomination for a U.S. coin, to date.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

The United States Mint's financial results are prepared in accordance with the Chief Financial Officer's (CFO) Act of 1990. The Act requires federal agencies to issue annual accountability reports. The reports include both consolidated financial statements reflecting the results of operations (for the Mint consisting of three distinct business components: Circulating Coinage, Numismatic Operations, and Protection) and a Management's Discussion and Analysis (MD&A), which explains program performance.

This entire document is presented to our stakeholders to inform them of our growth and progress.

HIGHLIGHTS

The major factor that affects the operations of the United States Mint in any given year is the state of the economy. In times of robust economic conditions, the demand for circulating coinage increases, reflecting an increase in the amount of commerce being transacted on a daily basis across the nation. Factors such as the recession, the declines in the stock market and the consequences of the September 11 attacks slowed the economy in FY02. In spite of a weak economy and the corresponding low demand for new coinage, the Mint was able to mitigate some of the effects on profits through cost cutting and improved business practices.

The United States Mint has developed and is continuing to refine a new set of agency-wide strategic performance measures that focus on critical issues such as safety and health, customer service and satisfaction, effective and efficient production operations, and improved results. Examples of efforts that align with the Mint's objectives include:

- Suspension of production operations at the Philadelphia Mint from March 4 to April 18, 2002, to ensure that all safety concerns cited in a report by OSHA had been addressed.
- Implementation of a Customer Relationship Management (CRM) software system for Numismatic coinage products that is expected to be more customer and user friendly. Start-up issues with the new CRM software are being addressed.
- Reduction in excessive inventories by 27.8 percent.
- Improved collaboration with the Federal Reserve Bank (FRB) — the distributor for circulating coinage — to institute new procedures and tools for forecasting demand, ordering coinage, and managing inventories. These improved procedures are expected to create a more stable production environment that allows the Mint to proactively respond to anticipated changes in the underlying economic conditions.

REVENUES

The United States Mint's revenues for FY02 were \$1,804.2 million compared with FY01 revenues of \$2,423.4 million. This decline can be largely attributed to lower demand for circulating coins coupled with finished goods inventory reductions at the Federal Reserve.

COST & EXPENSES

The United States Mint's Cost of Goods Sold (COGS, or the costs incurred in producing sold products) was \$638.4 million in FY02 compared with \$719.5 million in FY01. The Gross Margin declined to 64.6 percent of FY02 revenues from 70.3 percent of FY01 revenues. Higher costs, lower revenues, and the difficulty in making fixed costs behave in a variable manner during a downturn contributed to this percentage decline.

Sales, General and Administrative (SG&A) costs totaled \$204.6 million in FY02, as compared with \$203.8 million in FY01. The Mint distinguishes the administrative support necessary to support ongoing operations from various marketing efforts. In FY02, \$136.2 million was spent on general and administrative costs (G&A) in comparison with \$133.8 million in FY01. The \$2.4 million increase is attributable to several factors: including higher unemployment and workers' compensation costs and higher depreciation expenses related to prior years' investments in the Mint's increasingly sophisticated automated systems. As a percentage of revenues, these expenses increased to 7.5 percent in FY02, up from 5.5 percent in FY01.

As depicted in the Circulating & Numismatic Profit & Loss tables, marketing and advertising expenses consumed \$63.5 million in FY02 as compared to \$63.1 million in FY01. The large drop in advertising expenses is primarily due to a reduction in promoting the awareness of the 50 State Quarter Program and the Golden Dollar. Senate Report 107-57 prohibited the Mint from drawing funds from the Public Enterprise Fund (PEF) to promote the \$1 coin or the circulating commemorative quarters until Congress approves a marketing plan.

EARNINGS

The United States Mint's FY02 earnings of \$961.1 million fell 35.9 percent from FY01. This decrease in earnings is attributable to slow economic conditions and reductions in finished goods inventories at the Federal Reserve. Although the Mint aggressively reduced planned FY02 expenditures and pursued other cost savings initiatives, we were unable to reduce expenses — many of which are fixed in nature — in the same proportion as the decline in sales revenues.

CIRCULATING & NUMISMATIC PROFIT AND LOSS FOR THE YEAR ENDED SEPTEMBER 30, 2002 (Amounts in Millions)

	CIRCULATING	NUMISMATIC	TOTAL
REVENUE LESS SURCHARGES	\$1,364.2	\$440.0	\$1,804.2
COST OF GOODS SOLD ¹	309.1	329.3	638.4
GENERAL & ADMINISTRATIVE	116.8	19.4	136.2
DISTRIBUTION TO FRB	5.0	-	5.0
TOTAL EXPENSES PRIOR TO MARKETING & ADVERTISING	\$ 430.9	\$348.7	\$ 779.6
MARKETING	0.1	51.3	51.4
ADVERTISING	5.4	6.7	12.1
PROFIT/(LOSS)	\$ 927.8	\$ 33.3	\$ 961.1

CIRCULATING & NUMISMATIC PROFIT AND LOSS FOR THE YEAR ENDED SEPTEMBER 30, 2001 (Amounts in Millions)

	CIRCULATING	NUMISMATIC	TOTAL
REVENUE LESS SURCHARGES	\$2,021.4	\$402.0	\$2,423.4
COST OF GOODS SOLD ¹	421.0	298.5	719.5
GENERAL & ADMINISTRATIVE	116.6	17.2	133.8
DISTRIBUTION TO FRB	6.7	-	6.7
TOTAL EXPENSES PRIOR TO MARKETING & ADVERTISING	\$ 544.3	\$315.7	\$ 860.0
MARKETING	-	35.8	35.8
ADVERTISING	19.7	7.6	27.3
PROFIT/(LOSS)	\$1,457.4	\$ 42.9	\$1,500.3

¹ The Cost of Goods Sold figure includes other costs associated with mutilated coins (Note 14).

CIRCULATING COIN PRODUCTS

In comparing the above Circulating and Numismatic Profit and Loss tables, FY02 revenues from all Circulating products dropped 32.5 percent from the prior fiscal year to \$1,364.2 million. However, Circulating COGS were \$309.1 million in FY02 compared with \$421.0 million in FY01. COGS, as a percentage of revenue, rose to 22.7 percent in FY02 from 21 percent in FY01. During the last several years, the United States Mint has increased its circulating coinage capacity significantly. However, at the same time, the Mint has been able to maintain a low level of manufacturing costs during periods of lower coin demand as proven by the small percentage increase between the two years. Profits declined to \$927.8 million in FY02 from \$1,457.4 million in FY01.

The following Unit Cost of Producing and Distributing Coins charts for FY02 and FY01 reveal that unit costs per coin rose slightly as a result of lower sales. The unit costs were also affected by the suspension of production in Philadelphia to address safety and health issues (see above “Highlights” section). The Mint incurred operating and cleaning costs during the shutdown and there were no revenues generated. As safety and health are priorities at the Mint, management undertook the suspension with the knowledge that it would negatively affect performance as the facility was cleaned and painted. Simultaneously, employees were trained and reviewed safety procedures for the six weeks that there was no production.

UNIT COST OF PRODUCING AND DISTRIBUTING COINS FOR THE YEAR ENDED SEPTEMBER 30, 2002

	PENNY	NICKEL	DIME	QUARTER	HALF	DOLLAR
COST OF GOODS SOLD	\$0.0085	\$0.0306	\$0.0187	\$0.0400	\$0.0664	\$0.0607
GENERAL & ADMINISTRATIVE	\$0.0002	\$0.0023	\$0.0089	\$0.0229	\$0.0433	\$0.1049
DISTRIBUTION TO FRB	\$0.0002	\$0.0003	\$0.0002	\$0.0008	\$0.0013	\$0.0011
TOTAL EXPENSES PRIOR TO MARKETING	\$0.0089	\$0.0332	\$0.0278	\$0.0637	\$0.1110	\$0.1667

UNIT COST OF PRODUCING AND DISTRIBUTING COINS FOR THE YEAR ENDED SEPTEMBER 30, 2001

	PENNY	NICKEL	DIME	QUARTER	HALF	DOLLAR
COST OF GOODS SOLD	\$0.0077	\$0.0313	\$0.0169	\$0.0368	\$0.0558	\$0.0372
GENERAL & ADMINISTRATIVE	\$0.0002	\$0.0016	\$0.0059	\$0.0149	\$0.0297	\$0.0891
DISTRIBUTION TO FRB	\$0.0001	\$0.0002	\$0.0002	\$0.0007	\$0.0037	\$0.0029
TOTAL EXPENSES PRIOR TO MARKETING	\$0.0080	\$0.0331	\$0.0230	\$0.0524	\$0.0892	\$0.1292

Along with all other Circulating products, the Golden Dollar experienced declining revenues. Launched in FY00, the new dollar coin features an image representing Sacagawea and her infant son traveling with the Lewis and Clark expedition. Both interest in the new design and a Federal Reserve Bank/United States Mint strategy to build inventory contributed to the Mint's FY00 dollar coin sales of \$1,019.4 million. In FY01, sales of new dollar coins dropped to \$102.2 million. As the economy slowed and the FRB and Mint worked to reduce inventories of existing dollar coins, this decline continued in FY02 to \$52.2 million. The Mint did expect the demand for the coin to level off after the initial excitement, and is working with Congress and the FRB to improve the presence of the new Golden Dollar in circulation.

Beginning in FY99, the 50 State Quarters Program replaced the eagle on the reverse side of the quarter. During the last full period (FY98) of the eagle on the reverse, sales of quarters were \$419.3 million. In FY00, revenues were \$1,541.9 million, and in FY01, revenues fell to \$1,382.2 million. FY02 revenues further dropped to \$904.0 million. Although revenues from the 50 State Quarters program are down 41.4 percent from peak demand in FY00 and 34.6 percent from FY01, the program has more than doubled revenues over what existed before its inauguration. The FRB has built a stockpile of State Quarters that exceeds inventory targets by 80 percent. We expect that demand for newly minted quarters will be suppressed in FY03 until this inventory is worked down.

The United States Mint shipped 7.5 billion pennies to the FRB in FY02, down from 12.8 billion pennies in FY01. Revenues and earnings are down as a result. Unit production costs for the penny remain below face value of \$0.01.

Demand for the nickel, dime, and half dollar also fell from the last fiscal year. Revenue for these coins in FY02 was \$332.8 million, while revenue for these same products in FY01 was \$409.3 million. This led to lower earnings across the board — both in absolute terms and as a percentage of revenue — due largely to spreading fixed costs across fewer units produced.

The charts below illustrate the Circulating activity to produce each of the denominations for FY02 and FY01. The Mint depended on a mixture of both purchased and internally produced five-cent blanks to produce the nickel in FY01. These inventories of purchased blanks were eliminated in FY01. In FY02, the Mint used the less expensive, internally produced blanks, thereby preventing a significant increase in the unit cost.

CIRCULATING PROFIT AND LOSS
FOR THE YEAR ENDED SEPTEMBER 30, 2002 (Amounts in Millions)

	PENNY	NICKEL	DIME	QUARTER	HALF	DOLLAR	OTHER ¹	TOTAL
REVENUE	\$ 75.2	\$65.1	\$263.3	\$ 904.0	\$ 4.4	\$ 52.2	\$ -	\$1,364.2
COST OF GOODS SOLD	63.7	39.8	49.2	144.6	0.6	3.2	8.0	309.1
GENERAL & ADMINISTRATIVE	1.5	3.0	23.5	83.0	0.4	5.4	-	116.8
DISTRIBUTION TO FRB	1.2	0.4	0.6	2.7	-	0.1	-	5.0
TOTAL EXPENSES PRIOR TO MARKETING & ADVERTISING	\$ 66.4	\$43.2	\$ 73.3	\$ 230.3	\$ 1.0	\$ 8.7	\$ 8.0	\$ 430.9
MARKETING	-	-	-	0.1	-	-	-	0.1
ADVERTISING	-	-	-	3.7	-	1.7	-	5.4
PROFIT/(LOSS)	\$ 8.8	\$21.9	\$190.0	\$ 669.9	\$ 3.4	\$ 41.8	\$(8.0)	\$ 927.8

CIRCULATING PROFIT AND LOSS
FOR THE YEAR ENDED SEPTEMBER 30, 2001 (Amounts in Millions)

	PENNY	NICKEL	DIME	QUARTER	HALF	DOLLAR	OTHER ¹	TOTAL
REVENUE	\$127.7	\$83.5	\$312.3	\$1,382.2	\$13.5	\$102.2	\$ -	\$2,021.4
COST OF GOODS SOLD	97.8	52.3	52.9	203.7	1.5	3.8	9.0	421.0
GENERAL & ADMINISTRATIVE	3.7	2.6	18.3	82.1	0.8	9.1	-	116.6
DISTRIBUTION TO FRB	1.6	0.4	0.7	3.6	0.1	0.3	-	6.7
TOTAL EXPENSES PRIOR TO MARKETING & ADVERTISING	\$103.1	\$55.3	\$ 71.9	\$ 289.4	\$ 2.4	\$ 13.2	\$ 9.0	\$ 544.3
MARKETING	-	-	-	-	-	-	-	-
ADVERTISING	-	-	-	12.4	-	7.3	-	19.7
PROFIT/(LOSS)	\$ 24.6	\$28.2	\$240.4	\$1,080.4	\$11.1	\$ 81.7	\$(9.0)	\$1,457.4

¹Other references costs associated with mutilated coins (Note 14).

NUMISMATIC OPERATIONS

Revenues for Numismatic Operations remained strong despite a weakened economy. Overall, total revenues actually increased to \$440.0 million in FY02 from \$402.0 million in FY01. Demand for the American Eagle Uncirculated product was the largest factor contributing to the increase in revenues, roughly \$38.6 million higher from the previous fiscal year. The American Eagle Bullion Uncirculated program has historically performed well when there is greater volatility in the equities markets, and FY02 was no exception as investors moved to defensive positions that included precious metals. These revenues/profits were further bolstered by the July 30, 2002 sale of the Augustus Saint-Gaudens 1933 Double Eagle for \$7.59 million at Sotheby's. The United States Mint's staple collectible programs — recurring and commemorative products — were flat or down from prior years. The Numismatic Profit and Loss charts below show the detail of the changes by major numismatic program. In addition, the same charts show the costs and profitability of those programs.

NUMISMATIC PROFIT AND LOSS FOR THE YEAR ENDED SEPTEMBER 30, 2002

	AMERICAN EAGLE UNCIRCULATED	AMERICAN EAGLE PROOF	COMMEMORATIVES	RECURRING	TOTAL
REVENUE					
LESS SURCHARGES	\$186.7	\$56.6	\$21.9	\$174.8	\$440.0
COST OF GOODS SOLD	181.0	33.0	10.3	105.0	329.3
GENERAL & ADMINISTRATIVE	\$ 1.5	\$ 3.5	\$ 1.6	\$ 12.8	\$ 19.4
TOTAL EXPENSES PRIOR TO MARKETING & ADVERTISING	\$182.5	\$36.5	\$11.9	\$117.8	\$348.7
MARKETING	-	8.9	5.1	37.3	51.3
ADVERTISING	0.1	1.1	1.4	4.1	6.7
PROFIT/(LOSS)	\$ 4.1	\$10.1	\$ 3.5	\$ 15.6	\$ 33.3

**NUMISMATIC PROFIT AND LOSS
FOR THE YEAR ENDED SEPTEMBER 30, 2001**

	AMERICAN EAGLE UNCIRCULATED	AMERICAN EAGLE PROOF	COMMEMORATIVES	RECURRING	TOTAL
REVENUE LESS SURCHARGES	\$148.1	\$63.5	\$23.8	\$166.6	\$402.0
COST OF GOODS SOLD	147.3	41.3	15.5	94.4	298.5
GENERAL & ADMINISTRATIVE	0.4	3.4	1.5	11.9	17.2
TOTAL EXPENSES PRIOR TO MARKETING & ADVERTISING	\$147.7	\$44.7	\$17.0	\$106.3	\$315.7
MARKETING	0.6	6.3	3.0	25.9	35.8
ADVERTISING	0.5	1.9	2.0	3.2	7.6
PROFIT/(LOSS)	\$ (0.7)	\$10.6	\$ 1.8	\$ 31.2	\$ 42.9

Numismatic costs rose as a percentage of revenue, as indicated by weakened profits from normal operations that declined to \$33.3 million in FY02 from \$42.9 million in FY01. Even though revenues increased, a major portion of this was due to increased sales in the American Eagle Uncirculated (Bullion) program — a high revenue, low margin product. As the American Eagle Uncirculated program constitutes a larger portion of numismatic operations, the numismatic profit margin will correspondingly decrease.

The increase of G&A costs for Numismatic Operations as a percent of numismatic revenue is consistent with the United States Mint's approved allocation methodology. Reduced demand for circulating coins relative to Numismatic revenues resulted in more general and administrative costs being allocated to Numismatics. Marketing costs also increased as a percent of revenue due to inflation, a one time charge for the Customer Care Center (CCC) move to Headquarters, and increased cost associated with the eSP system (the Mint's new CRM software solution).

PROTECTION

The United States Mint's police force conducts business each year in a quiet, extremely efficient and professional manner. The Mint secures approximately \$79.4 billion of the Nation's gold and silver reserves. In FY02, the Mint shipped \$1.3 billion in coins to the FRB. Mint Police protect these assets while safeguarding approximately 2,500 Mint employees against potential threats at six facilities.

Protection expenses declined by 7.2 percent, or \$2.5 million less than FY01. This decline can be attributed to efforts to cut costs early in the fiscal year.

Increased Protection expenditures are expected in the future as a direct result of the September 11, 2001 terrorist attacks. United States Mint police officers are highly trained law enforcement personnel and are in demand for positions in new areas such as the Transportation Safety Administration and the Air Marshal program. A renewed effort to recruit and train new Mint Police Officers will require more spending.

CAPITAL INVESTMENTS

Investment in capital is crucial to the United States Mint's ability to meet public demand for coinage, maintain the United States Mint and FRB inventories, as well as manage costs.

Major capital investments identified in the United States Mint's plan included 1) improving coin press equipment and operations, 2) renovating and upgrading the Mints, and 3) upgrading the ERP system. Enhancing the United States Mint's Internet operations was also included in the plan. Progress was made on the first two items. A review of business priorities led the Mint to postpone action on the ERP upgrade while it focused its resources on other challenges.

Equipment and facility improvements enabled the United States Mint to better control and reduce production cost, maintain quality of product while improving overall equipment effectiveness, provide safe working conditions for United State Mint employees, and increase employee productivity. It also enabled the United States Mint to maintain production capacity by replacing worn equipment with new equipment to ensure that our factories can operate without interruption.

The United States Mint will now be upgrading the ERP system to a web-based platform at a later date to facilitate e-government initiatives that support government-to-government and government-to-business interactive processing.

Also in the plan, the Internet will enable the United States Mint to accomplish initiatives such as supply chain management, which will include paperless transactions with suppliers. The Mint will further capitalize on the Internet's intrinsic connectivity and expand the ordering, tracking and fulfillment choices now available to our customers.

DOUBLE EAGLE GOLD COIN AUCTION

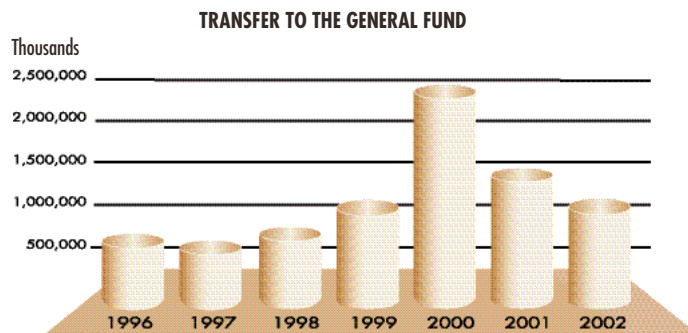
The United States Mint has struck gold coins in various denominations since 1795. The first \$20 Double Eagle coin was minted in 1849. After the 1933 Double Eagle was struck, President Franklin Delano Roosevelt took the United States off the gold standard. The newly minted but never-issued gold coins were destroyed because they were not legal tender. The recently auctioned coin is one of only a few 1933 Double Eagles to have survived destruction. Two were given to the Smithsonian Institution for historic safe-keeping. Several others — all of which were stolen — were believed to be either spirited away or smuggled out of the United States. One of these coins reappeared in 1996 when a British coin dealer tried selling it to undercover Secret Service agents in New York. An out-of-court settlement between the Justice Department and the dealer in 2001 set the stage for the auction.

The coin, auctioned by Sotheby’s in New York City, preceding the American Numismatic Association annual convention, sold for \$6.6 million to an anonymous bidder. An additional 15 percent auction fee brought the sales price to \$7.59 million and an additional \$20 was needed to “monetize” the face value of the coin so it would be legal to own, bringing the final sales price to \$7,590,020. It is believed to be the most ever paid for a coin at auction.

The United States Mint’s Public Enterprise Fund (PEF) received the entire amount. The PEF then disbursed a portion to Sotheby’s to pay for the services it rendered to the Mint in marketing and auctioning the coin. The PEF also deducted the Mint’s expenses in administering the contract and protecting the coin. Half the proceeds were retained under an out-of-court settlement — slightly more than \$3 million, which was transferred to the United States Treasury as a miscellaneous receipt.

TRANSFERS OF PROFITS TO THE TREASURY GENERAL FUND

In FY02, contributions to the Treasury General Fund were \$1,030 million. This total was comprised of \$990 million off-budget (from Circulating operations) and \$40 million on-budget (from Numismatic operations). In comparison, \$1,283 million off-budget and \$100 million on-budget dollars were transferred in FY01.



PERFORMANCE MEASURES

One of the most effective means of determining how well a business is doing is through the use of performance measures. As described in Sections 4 and 5 of the Government Performance & Results Act (GPRA), agencies are to identify critical activities, devise pertinent performance measures, and report on these activities to the President and Congress. The Mint originally devised the following list of measures to meet internal and external reporting requirements. However, a new set of measures believed to be more representative of our actual performance has been designed and will replace these in our discussion for FY03. A brief description of the FY03 measures is at the end of the Performance Measures section. The measures we are reporting on for FY02 are:

- Frequency of time meeting a minimum, seasonal-adjusted inventory level,
- Federal Reserve Board Customer Satisfaction Survey results,
- Conversion cost to produce 1000 coin equivalents,
- American Customer Satisfaction Index,
- Percentage of commemorative orders shipped within standard,
- Percentage of recurring orders shipped within standard,
- Numismatic profit margin for bullion,
- Numismatic profit margin for non-bullion, and
- Dollar losses of Reserve Value.

FREQUENCY OF TIME MEETING A MINIMUM, SEASONAL-ADJUSTED INVENTORY LEVEL

The Mint met the target inventory levels 72 percent of the time during FY02. Previously, in both FY00 and FY01, the Mint achieved 100 percent compliance with this measure.

Quarter, half, and dollar coin inventories have been at or above target 100 percent of the time. Penny, nickel, and dime inventories have had periods when they did not meet targeted levels. As of the end of September, all denominations were at or above target inventory levels.

Frequency of time meeting target inventory levels

<i>Fiscal Year</i>	<i>Percentages</i>
FY00	100%
FY01	100%
FY02	72%

FEDERAL RESERVE BOARD (FRB) CUSTOMER SATISFACTION SURVEY RESULTS

The Mint's target of 85 percent was passed in FY99 (91 percent), missed in FY00 (83 percent), and met in FY01 (87 percent). The FY02 survey is currently being conducted.

The FRB Customer Satisfaction Survey is an annual survey that allows our customer for circulating coinage to rate our performance. This survey is distributed to the inventory managers at the district and branch banks in the FRB system. It is administered and analyzed by a third party office within the Mint that is not responsible for the distribution of coin to the FRB. The survey, in addition to rating the performance, also provides a forum for feedback such as the development and implementation of a secure Internet-based Pallet Tracking Inventory System in FY02. This system has transformed pallet tracking, which was once a burdensome activity, into an easier and better process that benefits both the Mint and FRB.

CONVERSION COST TO PRODUCE 1,000 COIN EQUIVALENTS

A major indicator of the United States Mint's success is the conversion cost per 1,000 coin equivalents for the circulating coinage. Since different coin denominations use different amounts of resources, this measure compares the resources used in our production indexed to the production levels of one denomination, the quarter. Comparisons between coin equivalents facilitate product mix changes.

By 2005, the Mint's goal is to reduce the controllable cost of circulating coinage by 15 percent (excluding metal costs). The Mint's FY02 result of \$11.50 missed the target of \$8.97 and greatly exceeded the FY01 amount of \$8.33. The high result is caused by the low demand together with the suspension of production at Philadelphia from March 4 to April 18. As noted previously, the production was suspended to ensure that all safety concerns cited in a report by OSHA had been addressed.

AMERICAN CUSTOMER SATISFACTION INDEX

The Mint has a target of 85, which was exceeded in FY01 (88). The results for FY02 are expected in December 2002.

The American Customer Satisfaction Index (ACSI) is a survey performed annually by University of Michigan Business School's National Quality Research center. The ACSI is conducted for many private sector companies as well as other government agencies. This allows comparison of our customer satisfaction index score to the best private sector performers in the retail and manufacturing sectors. Benchmarking Mint performance against private sector companies is important to us, since we produce the numismatic coins and sell them directly to the public. The Mint results ranged from 84 to 86 during 1995 to

2000, the index surged to a high of 88 in 2001. These results represent a very high level of customer satisfaction as shown by similar ratings for high ranking companies such as DaimlerChrysler AG (Mercedes Benz), the Maytag Corporation, and the H.J. Heinz Company. For more information on the ACSI, please visit their web-site at <http://www.theacsi.org/>.

PERCENTAGE OF COMMEMORATIVE ORDERS SHIPPED WITHIN STANDARD

The Mint’s FY02 score of 95 percent missed the targeted 98 percent. However, we have markedly improved over both FY01 (89 percent) and FY00 (87 percent).

The Mint shipped 95 percent of commemorative coin orders within the four week standard. The Mint implemented a new online catalog, a new centralized pick and pack product distribution facility, and a new integrated customer relationship management system in the fourth quarter of FY01 to better serve our customers. Performance early in FY02 was impacted by problems experienced during this major implementation. The Mint, however, improved performance throughout the year and nearly achieved the target of 98% commemorative orders shipped within four weeks. The Mint will continue to focus on improving service to customers. Efforts to improve efficiency by improving forecasting and production planning and tracking yield, cycle time, and inventory turnover will result in a more nimble Mint with the ability to quickly serve our customers.

Commemorative orders shipped within standard

<i>Fiscal Year</i>	<i>Percentages</i>
FY00	87%
FY01	89%
FY02	95%

PERCENTAGE OF RECURRING ORDERS SHIPPED WITHIN STANDARD

The Mint shipped 88 percent of recurring coin orders within the three week standard. The Mint implemented a new online catalog, a new centralized pick and pack product distribution facility, and a new integrated customer relationship management system in the fourth quarter of FY01 to better serve our customers. Performance early in FY02 was impacted by problems resulting from this major implementation. The Mint, however, improved performance throughout the year. While performance did not meet the target of 98 percent, it did improve from 85 percent in FY01. The Mint will continue to focus on improving service to customers. Efforts to improve efficiency by improving forecasting and production planning and tracking yield, cycle time, and inventory turnover will result in a more nimble Mint with the ability to quickly serve our customers.

Recurring orders shipped within standard

<i>Fiscal Year</i>	<i>Percentages</i>
FY00	90%
FY01	85%
FY02	88%

NUMISMATIC PROFIT MARGIN FOR BULLION

Numismatic operations generated a three percent profit margin in FY02, which exceeded the two percent target. This is an improvement over both FY01 (-0.2 percent) and FY00 (1.9 percent).

Bullion Profit Margin

<i>Fiscal Year</i>	<i>Percentages</i>
FY00	1.9%
FY01	-0.2%
FY02	3.0%

NUMISMATIC PROFIT MARGIN FOR NON-BULLION

Non-bullion operations produced a 22 percent profit margin in FY02, greater than the 15 percent target. However, this is weaker than both FY01 (24 percent) and FY00 (32 percent). The forces that led to this have been previously discussed.

Non-bullion Profit Margin

<i>Fiscal Year</i>	<i>Percentages</i>
FY00	32.0%
FY01	24.0%
FY02	22.0%

DOLLAR LOSSES OF RESERVE VALUE

The Mint's goal of eliminating losses of Treasury owned bullion reserves was achieved in FY02. No losses occurred in the last three fiscal years.

FUTURE STRATEGIC GOALS AND MEASURES

As mentioned, the United States Mint is planning to set the stage for improved performance through a new strategic plan and new bureau-wide strategic performance measures described below. The United States Mint has developed a new strategic plan and is looking forward to feedback from our stakeholders to ensure a quality plan. The new plan encourages improvement in all areas of operation, from production to administration, by setting targets for bureau-wide strategic performance measures. Success at the United States Mint will be shown if we can make, sell, and protect our coinage with:

- Lower lost time accident rates,
- A work environment that reflects our values of honesty, integrity and accountability,
- Less cycle-time for materials to run through our production processes,
- Higher yield of good products as the result of our production process,
- Higher availability of our machines to run when they are needed,
- Higher turnover of our inventories,
- Lower conversion costs per 1,000 coin equivalents reflecting all products that we make,
- Adequate levels of selling, general and administrative (SG&A) expenses,
- Satisfied customers getting the right product at the right time, and
- Balance between the level of readiness and physical security when compared to the level of threat.

As we improve on these bureau-wide strategic performance measures, the American public will benefit as our efficiency improves.

**UNITED STATES MINT FMFIA / FFMIA ANNUAL ASSURANCE STATEMENT
FOR FISCAL YEAR 2002**

The United States Mint has evaluated its systems of management control for the fiscal year ending September 30, 2002, in accordance with procedures and standards prescribed by the Office of Management and Budget and the General Accounting Office.

The Mint provides reasonable assurance that the objectives of Section 2 of the FMFIA were achieved during fiscal year (FY) 2002.

For FY 2002, the Mint provides reasonable assurance that the objectives of Section 4 of the FMFIA were met, with the exception of material weaknesses related to information system controls. We took decisive action throughout FY 2002 to correct two material weaknesses reported in our FY 2001 Annual Assurance Statement, including the issuance of Mint-wide information security policies, defining and enforcing stringent system access roles, strengthening security access controls, and performing enhanced reviews of system vulnerabilities. However, because certain conditions contributing to these weaknesses existed during most of FY 2002, and additional related conditions were identified during the FY 2002 audit, we are reporting one material weakness related to information system controls. Because these conditions were present for much of FY 2002, we acknowledge that material weaknesses existed for the fiscal year. However, we believe the actions taken effectively mitigate these material weaknesses.

For FY 2002, we have also identified several second tier issues. First, the Mint needs to improve controls in the following areas: review and acceptance of vendor invoices for payment; establishment and maintenance of vendors in the systems master vendor files; the review process for submitting payroll data; purchase card procedures; and, inventory temporarily held by outside parties.

The next second tier issue is that the Mint had no systems certified and accredited as of September 30, 2002. The Mint completed an Interim Approval to Operate for each of its field sites in February 2002, and intends to achieve certification and accreditation for all systems by the end of FY 2003. The final second tier issue is that the Mint needs to implement systemic business process controls for its e-commerce systems.

In all of its program activities, the Mint is actively engaged in developing and implementing management controls designed to support designated program results, consistent use of resources, elimination of program waste, fraud and mismanagement, adherence to laws and regulations, decrease improper or erroneous payments, and ensure reliable performance information. During FY 2003, the Mint intends to correct the three second tier weaknesses identified above, and has begun implementing corrective actions or has plans in place for doing so. The Mint also is in the final stages of completing the required Continuity of Operations (COOP) Plan. The Mint's performance information is reliable as most of it comes directly from the enterprise resource planning system.

The material weaknesses dealing with information systems as noted above existed throughout most of FY 2002. Therefore, the Mint cannot provide reasonable assurance that it was in substantial compliance with requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) for FY 2002.



Henrietta Holsman Fore
Director
United States Mint



Silver Proof

The annual United States Mint Silver Proof Set™ features proof versions of all circulating coins. The five quarters, dime and half dollar are struck in 90% silver, also known as “coin silver”.



10-Coin Proof

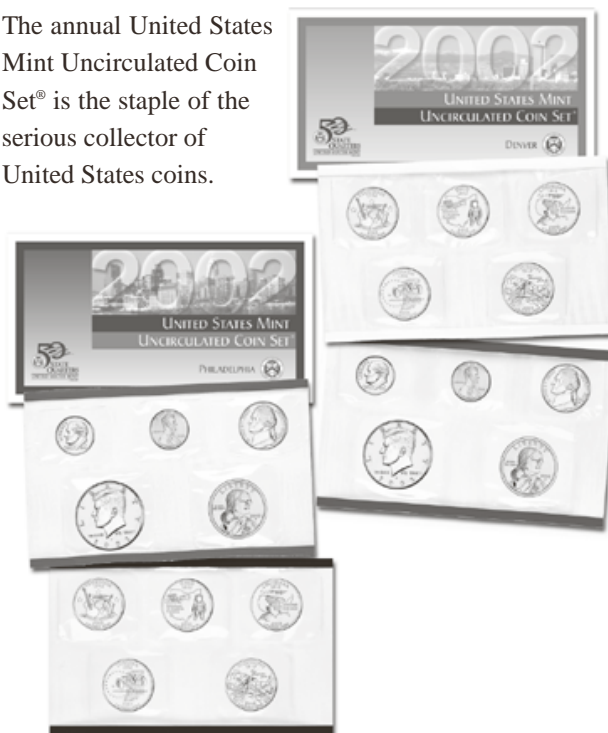
The annual United States Mint Proof Set® is the United States Mint's best-selling numismatic coin product.



5-Coin Proof

The annual United States Mint 50 State Quarters Proof Set™ features the five quarters honoring different states each year.

Uncirculated Coin Set
 The annual United States Mint Uncirculated Coin Set® is the staple of the serious collector of United States coins.



American Eagle Gold Proof Coin

American Eagle Gold Proof Coins, issued annually, are packaged in rich blue velvet and white satin presentation cases. Pictured here are the four-coin set and the one-ounce coin.



American Eagle Silver Proof Coin

The classic American Eagle Silver Proof Coin, issued annually, is presented in a white satin and blue velvet presentation case.

American Eagle Platinum Proof Coin

Dramatic black velvet and white satin presentation cases highlight the United States Mint's premier annual product, American Eagle Platinum Proof Coins (pictured here with the Certificate of Authenticity) in the four-coin set and one-ounce coin.





The 50 State Quarters® & Euro Coin Collection

The 50 State Quarters® & Euro Coin Collection is a unique collection representing each of the 12 original participating European Union member nations, along with the 2002 uncirculated quarters from the United States Mint 50 State Quarters® Program – with the (D) Denver mint mark.

Commemorative Coins

The United States Mint produces limited edition, non-circulating modern commemorative coins. They are authorized by Congress through enabling legislation and are designed to celebrate and honor American people, places, events and institutions. Modern commemoratives are typically produced in gold, silver or clad. Surcharges raised from the sale of the United States Mint's modern commemorative coin programs are designated for specific purpose.



U.S. Military Academy
Commemorative Coins

2002 Winter Olympic Commemorative Coins



DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF FINANCIAL POSITION (in thousands)

	Years Ended September 30,	
	2002	2001
ASSETS		
Current assets		
Fund balances with Treasury and cash (Note 3)	\$ 301,067	\$ 278,180
Accounts receivable, net (Note 4)	17,956	7,508
Operating inventories, net (Note 5)	336,194	465,804
Advances and prepayments (Note 6)	4,677	6,712
Total current assets	<u>\$ 659,894</u>	<u>\$ 758,204</u>
Non-current assets		
Property, plant and equipment, net (Note 7)	\$ 313,501	\$ 326,548
Other assets (Note 8)	12,744	5,146
Total non-current assets	<u>\$ 326,245</u>	<u>\$ 331,694</u>
TOTAL ASSETS	\$ 986,139	\$ 1,089,898
LIABILITIES AND NET POSITION		
Liabilities:		
Current liabilities		
Accounts payable - Federal (Note 9)	\$ 2,985	\$ 5,216
Accounts payable - Non-Federal	27,900	30,758
Surcharges payable	8,396	10,816
Unearned revenue	1,747	2,730
Accrued salaries and benefits/unemployment insurance	4,120	9,751
Total current liabilities	<u>\$ 45,148</u>	<u>\$ 59,271</u>
Non-current liabilities		
Accounts payable - Federal (Note 9)	\$ 163,959	\$ 154,585
Accrued workers' compensation benefits	36,486	34,635
Accrued annual leave	8,960	9,106
Other liabilities	-	-
Total non-current liabilities	<u>\$ 209,405</u>	<u>\$ 198,326</u>
TOTAL LIABILITIES	\$ 254,553	\$ 257,597
NET POSITION		
Fund balance	<u>\$ 731,586</u>	<u>\$ 832,301</u>
TOTAL LIABILITIES AND NET POSITION	\$ 986,139	\$ 1,089,898
CUSTODIAL GOLD AND SILVER RESERVES		
United States' gold and silver reserves (Note 10)	\$10,364,687	\$10,364,687
Custodial liability to Treasury (Note 10)	<u>10,364,687</u>	<u>10,364,687</u>
NET CUSTODIAL POSITION	\$ 0	\$ 0

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION (in thousands)

	Years Ended September 30,	
	2002	2001
REVENUES		
Circulating coinage revenue	\$ 1,364,176	\$ 2,021,344
Sales to the public (numismatic sales)	447,756	410,679
Surcharges collected for beneficiary organizations (Note 11)	(7,741)	(8,653)
TOTAL REVENUES	\$ 1,804,191	\$ 2,423,370
COSTS AND EXPENSES		
Cost of goods sold (Note 12)	\$ 630,395	\$ 710,421
Selling, general and administrative expenses (Note 13)	204,646	203,751
Other costs and expenses (Note 14)	8,033	9,009
TOTAL COSTS AND EXPENSES	\$ 843,074	\$ 923,181
FINANCING SOURCES AND COSTS NOT ASSIGNED TO PROGRAMS		
Imputed financing (Note 15)	\$ 8,854	\$ 9,139
Less: Additional employee benefit expenses (Note 15)	(8,854)	(9,139)
TOTAL FINANCING SOURCES AND COSTS NOT ASSIGNED TO PROGRAMS	\$ 0	\$ 0
Excess of revenues over total costs and expenses and financing sources, before protection activity	\$ 961,117	\$ 1,500,189
Protection revenue	8	46
Protection costs	(31,840)	(34,325)
TOTAL PROTECTION ACTIVITY	(\$ 31,832)	(\$ 34,279)
Excess of revenues over total costs and expenses and financing sources	\$ 929,285	\$ 1,465,910
Net position, beginning of year	832,301	749,391
Transfers to Treasury's General Fund	(1,030,000)	(1,383,000)
NET POSITION, END OF YEAR	\$ 731,586	\$ 832,301

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF CASH FLOWS** (in thousands)

	Years Ended September 30,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over total costs and expenses and financing sources	\$ 929,285	\$ 1,465,910
Adjustments affecting operating cash flows:		
Decrease (Increase) in accounts receivable	(\$ 10,448)	(\$ 4,977)
Decrease (Increase) in other assets	124,047	(1,570)
Increase (Decrease) in accounts payable	4,285	(33,665)
Increase (Decrease) in other liabilities	(7,329)	(2,013)
Increase (Decrease) in accumulated depreciation and amortization	34,815	13,759
Total adjustments	\$ 145,370	(\$ 28,466)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,074,655	\$ 1,437,444
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase (Decrease) in property, plant and equipment	(\$ 21,768)	(\$ 115,672)
NET CASH USED BY INVESTING ACTIVITIES	(\$ 21,768)	(\$ 115,672)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Funds transferred to Treasury	(\$1,030,000)	(\$1,383,000)
NET CASH USED BY FINANCING ACTIVITIES	(\$1,030,000)	(\$1,383,000)
NET CASH PROVIDED (USED) BY OPERATING, INVESTING AND FINANCING ACTIVITIES	\$ 22,887	(\$ 61,228)
FUND BALANCES WITH TREASURY AND CASH AT BEGINNING OF YEAR	278,180	339,408
FUND BALANCES WITH TREASURY AND CASH AT END OF YEAR	\$ 301,067	\$ 278,180

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2002**

(Dollars are in thousands except Fine Troy Ounce information)

Note 1 Reporting Entity

Established in 1792, the United States Mint is an integral part of the Department of the Treasury. The mission of the United States 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 certain federal assets in its custody. Numismatic products include medals, proof coins, uncirculated coins, platinum, gold, and silver bullion coins, and commemorative coins. Custodial assets consist of United States' gold and silver metal reserves. These custodial reserves are often referred to as "deep storage" and 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 United States Mint's Public Enterprise Fund (PEF).

Pursuant to Public Law (P.L.) 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 metals (gold, silver, platinum, cupro-nickel, magnesium and zinc) used in numismatic coin production, fabrication and transportation 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 United States gold and silver reserves. A separate Schedule of Custodial Gold and Silver Reserves has been prepared for that portion of the Treasury gold and silver reserves for which the United States Mint acts as custodian.

Note 2 Summary of Significant Accounting Policies**Basis of Presentation**

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

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. All intra-Mint transactions and balances have been eliminated.

Revenues

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 when the product is shipped to the Federal Reserve Banks.

Numismatic Sales: Revenue is recognized when products are shipped to customers. Prices for numismatic products are based on the product cost plus a reasonable profit. Bullion products are priced based on the market price of the precious metals plus a market premium.

Unearned Revenues: These are amounts received from customers for which the numismatic products have not been shipped.

Fund Balances with Treasury

All cash is maintained at the Treasury.

Operating Inventories

Inventories of circulating coinage and most numismatic products are valued at the lower of cost or market value, with cost being determined by the average cost method. 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. All work-in-process gold and silver inventories have been included in the United States Mint’s financial statements.

Advances

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.

Property, Plant and Equipment

Property, plant and equipment are valued at cost less accumulated depreciation. The United States Mint’s threshold for capitalizing new property, plant and equipment is \$25,000 for single purchases and \$500,000 for bulk purchases. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets as follows:

ADP Software	2 to 10 years
Machinery and Equipment	7 to 20 years
Structures, Facilities, and Leasehold Improvements	10 to 20 years

Depreciation of plant and equipment assets used jointly in numismatic and circulating coinage production is allocated to each activity based on usage percentages.

Major alterations and renovations are capitalized over the shorter of a 20-year period or the remaining useful life of the asset 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.

P.L. 104-208, *Omnibus Consolidated Appropriations for Fiscal Year 1997* (the Act), became law on September 28, 1996 and changed the requirements of paying surcharges for commemorative coin programs. Prior to the Act, any surcharges received were to be

restricted to the benefiting organization. However, the Act made the benefiting organizations full partners in bearing costs, risks, and marketplace realities of selling coins. Benefiting organizations cannot receive surcharge payments unless all of the United States Mint's operating costs of the coin program are fully recovered. The United States 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 United States 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 United States Mint based on prior claims payment experience.

Displays and Archives

The United States 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 balances reported in these financial statements. Records are maintained of all coins, commemoratives, and valuable artifacts. Physical inspections are performed to assure accountability.

Protection Costs

Virtually all of the Treasury's gold and silver reserves are held by the United States Mint, which is responsible for safeguarding the reserves in its custody. These costs are borne by the United States Mint, but are not directly related to the circulating or numismatic coining operations of the United States Mint. Organizationally, the Protection Strategic Business Unit is a separate line of business from coining operations.

Reclassification

Certain FY 2001 balances have been reclassified to conform to the presentation in FY 2002.

Hedging

For FY 2002, the United States Mint is in compliance with Statement of Financial Accounting Standards No. 133, as amended, and follows the accounting guidelines for “cash flow” hedging. Cash flows (gains or losses) generated from the United States Mint’s hedging activities are accounted for in the Statement of Operations during the accounting period in which the hedges are resolved. Gains and losses generated from hedging activities in FY 2002 are not material. During FY 2002, the United States Mint closed out existing hedge commitments and did not enter into any new commitments.

Note 3 Fund Balances with Treasury and Cash

Components of Fund Balances with Treasury and Cash at September 30 are as follows:

	2002	2001
Revolving fund	\$301,067	\$278,176
Imprest fund	0	4
Total fund balance with Treasury and cash	\$301,067	\$278,180

At September 30, 2002 and 2001, revolving fund balances included \$ 8.40 million and \$10.82 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 as follows:

	2002	2001
Accounts receivable, Federal	\$ 0	\$ 192
Accounts receivable, Non-Federal	18,563	7,742
Less allowance for doubtful accounts	(607)	(426)
Total Accounts Receivable	\$ 17,956	\$ 7,508

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 United States Mint will continue collection action as specified by the Debt Collection Improvement Act of 1996.

Note 5 Operating Inventories

The components of operating inventories at September 30 are summarized below:

	2002	2001
Operating components	\$313,509	\$451,380
Supplies	23,175	24,531
Allowance for program closeout	(490)	(10,107)
Total Operating Inventories	\$336,194	\$465,804

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 (including dies), utilities, and depreciation. Costs of precious metals (without fabrication and transportation) in the operating components at September 30 are as follows:

	2002	2001
Gold (\$42.2222/oz.)	\$118,681	\$121,065
Silver (\$1.292929292/oz.)	17,740	32,139
Platinum (Lower of cost or market)	40,483	48,907
Total cost of precious metals in operating component	\$176,904	\$202,111

Note 6 Advances and Prepayments

The components of Advances and Prepayments at September 30 are summarized below:

	2002	2001
Advances		
Federal:	\$ 4,587	\$ 6,553
Non-Federal:	90	159
Total Advances	\$ 4,677	\$ 6,712

Advances-Federal is the amount the United States Mint pays into the Treasury Working Capital Fund (the Fund), a revolving fund that operates as an accounting entity. In the Fund, the assets are capitalized and all income is in the form of offsetting collections derived from each of the Treasury bureaus and available to finance the Fund's operations. Advances-Non-Federal consists primarily of advances to employees for travel.

Note 7 Property, Plant and Equipment

Components of Property, Plant and Equipment at September 30 are as follows:

	2002	2001
Land	\$ 2,529	\$ 2,529
Structure, Facilities and Leasehold Improvements	169,739	154,753
Computer Equipment	21,668	17,572
ADP Software	89,597	74,259
Machinery and Equipment	211,720	224,372
Assets Under Capital Lease	0	0
	<u>\$ 495,253</u>	<u>\$ 473,485</u>
Less Accumulated Depreciation and Amortization	(181,752)	(146,937)
Total Property, Plant and Equipment, Net	<u>\$ 313,501</u>	<u>\$ 326,548</u>

United States Mint facilities used to manufacture circulating coinage and numismatic products are owned by the United States Mint and located in San Francisco, California; Philadelphia, Pennsylvania; Denver, Colorado; and West Point, New York. In addition, the United States Mint owns the land and buildings at the Fort Knox Bullion Depository in Kentucky.

Depreciation and amortization expense charged to operations for FY 2002 and FY 2001 were \$44.20 million and \$29.54 million, respectively.

Note 8 Other Assets

Included in other assets are progress payments (advances) for equipment and building improvements under construction. The United States Mint initiated a Mint-wide security upgrade, which requires progress payments be made to the construction contractors. As of September 30, 2002 the cumulative balance for such payments is \$8.18 million.

Note 9 Accounts Payable – Federal

Effective FY 2000, Treasury’s working stock of gold and silver used in numismatic coin production is recorded in the accounts of the Public Enterprise Fund and is not included in the Schedule of Custodial Gold and Silver Reserves. The major portion of the non-current Accounts Payable-Federal is the non-custodial gold and silver used as working stock for numismatic coin production.

A summary of Accounts Payable-Federal at September 30 are as follows:

	2002	2001
Current:		
Funds to be transferred to others	\$ 2,985	\$ 5,216
	<u>\$ 2,985</u>	<u>\$ 5,216</u>
Non-Current:		
Metal used as working stock inventory	\$163,959	\$154,585
	<u>\$163,959</u>	<u>\$154,585</u>
Total Accounts Payable - Federal	<u>\$166,944</u>	<u>\$159,801</u>

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.

Note 10 Custodial Gold and Silver Reserves

The United States Mint is responsible for safeguarding much of the nation's precious metals and is the custodian of virtually all 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 United States Mint. An offsetting custodial liability is also reported for these assets. 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 as follow:

	2002	2001
Gold:		
Inventories (FTO)	245,262,897	245,262,897
Market Value (\$ per FTO)	\$ 323.70	\$ 293.10
Market Value (\$ in thousands)	\$79,391,600	\$71,886,555
Statutory Value (\$ in thousands)	\$10,355,539	\$10,355,539
Silver:		
Inventories (FTO)	7,075,171	7,075,171
Market Value (\$ per FTO)	\$ 4.5325	\$ 4.5825
Market Value (\$ in thousands)	\$ 32,068	\$ 32,422
Statutory Value (\$ in thousands)	\$ 9,148	\$ 9,148
Total Market Value of Custodial Gold and Silver Reserves (\$ in thousands)	<u>\$79,423,668</u>	<u>\$71,918,977</u>
Total Statutory Value of Custodial Gold and Silver Reserves (\$ in thousands)	<u>\$10,364,687</u>	<u>\$10,364,687</u>

Note 11 Surcharges Collected

The following chart shows surcharges collected by product and beneficiary organization for FY 2002 and FY 2001. The surcharge recipients of programs subject to the provisions of P.L. 104-208 must meet certain requirements before the United States Mint can make surcharge payments. These requirements include raising matching funds and providing audited financial statements.

Commemorative Program	Beneficiary Organization	2002	2001	Sales Period
American Buffalo Coin	National Museum of the American Indian	\$ 38	\$4,962	2001-2002
Capitol Visitor Center	Capitol Preservation Fund	545	2,982	2001-2002
US Military Academy	Association of Graduates US Military Academy	3,639	0	2002-2003
2002 Winter Olympic	Salt Lake Organizing Committee U.S. Olympic Committee	3,518	0	2002
Library of Congress	Library of Congress Trust Fund Board	0	246	2000-2001
Yosemite Medal	National Park Foundation	1	0	open ended
Leif Ericson	Liefur Eiriksson Foundation	0	463	2000-2001
Total Surcharges Collected		\$7,741	\$8,653	

Note 12 Cost of Goods Sold

Components of Cost of Goods Sold as of September 30 are as follows:

	2002	2001
Finished Goods, Beginning	\$ 74,880	\$ 61,601
Cost of Goods Manufactured:		
Work-In-Process, Beginning	\$ 390,924	\$ 247,835
Direct Labor	11,703	19,134
Manufacturing Overhead	491,179	847,655
Work-In-Process, Ending	(262,354)	(390,924)
Total Cost of Goods Manufactured	\$ 631,452	\$ 723,700
Cost of Goods Available for Sale	\$ 706,332	\$ 785,301
Finished Goods, Ending	(75,937)	(74,880)
Total Cost of Goods Sold	\$ 630,395	\$ 710,421

Note 13 Selling, General and Administrative Expense

Following are components of selling, general and administrative expenses as of September 30:

	2002	2001
Selling expenses:		
Marketing	\$ 51,358	\$ 35,864
Advertising (including postage to mail brochures)	6,710	7,602
Advertising for coin awareness	5,424	19,726
Transportation to Federal Reserve Banks (FRB)	4,977	6,765
	\$ 68,469	\$ 69,957
General and administrative:		
Labor/Benefits/Benefits to Former Personnel	\$ 43,255	\$ 38,503
Non-Capitalized Equipment	1,659	1,908
Travel/Transportation	861	4,850
Supplies	1,628	2,960
Depreciation	10,102	9,949
Rent/Communications/Utilities less Postage Mail Drop	17,806	14,995
Printing less Other Print/Report/Advertising	96	297
Services less Product Advertising	60,762	60,306
Insurance Claims/Interest & Dividends	8	26
	\$136,177	\$133,794
Total Selling, General and Administrative	\$204,646	\$203,751

Note 14 Other Costs and Expenses

These consist primarily of returns of mutilated or uncurrent coins to the United States Mint. The United States Mint reimburses the entity that sent in the coins for the face value of these coins if the coins are individually identifiable. If the coins have melted (as in a fire), the United States Mint reimburses the entity an amount based on the metal content of the melted mass.

Note 15 Retirement Plans and Other Postemployment Costs (Imputed Financing)

At the end of FY 2002, five hundred twelve (512) Mint employees participated in the Civil Service Retirement System (CSRS), to which the United States Mint contributes 24.2 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 had the option to join FERS or remain in CSRS.

A primary feature of FERS is that it offers a savings plan to which the United States Mint automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. FERS employees are allowed a maximum annual

contribution of 12 percent of salary to a maximum of \$11,000. Employees participating in FERS are covered by the Federal Insurance Contribution Act (FICA) for which the United States Mint contributes a matching amount to the Social Security Administration.

Although the United States 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 United States Mint does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to Mint employees. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM). OPM has provided the United States Mint with certain cost factors that estimate the cost of providing the pension benefit to current employees. The cost factors of 24.2 percent of basic pay for CSRS-covered employees and 11.5 percent of basic pay for FERS-covered employees were in use for both FY 2002 and FY 2001.

The amounts that the PEF contributed to the retirement plans and Social Security as of September 30 are as follows:

	2002	2001
Social Security System	\$ 7,826	\$ 8,502
Civil Service Retirement System	2,623	2,685
Federal Employees Retirement System (Retirement & Thrift Savings Plan)	12,945	12,895
	\$23,394	\$24,082

The United States 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 with an offset classified as imputed financing. 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 \$3,473 and \$2,999 per employee enrolled in the Federal Employees Health Benefits Program in FY 2002 and FY 2001, respectively. 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 2002 and FY 2001.

The amount of Imputed Cost incurred by the Mint for FY 2002 and FY 2001 is as follows (before the offset for Imputed Financing):

	2002	2001
Health Benefits	\$ 5,885	\$ 6,868
Life Insurance	22	18
Pension Expense	2,947	2,253
Total Imputed Cost	\$ 8,854	\$ 9,139

Note 16 Lease Commitments

The United States Mint leases space in five buildings in Washington, D.C. and office and warehouse space near other Mint facilities. Space in Denver and San Francisco is leased from the General Services Administration (GSA), which charges a fee that approximates the commercial rental rates for similar properties. The remaining buildings are leased from private sources.

Total rental expense was \$17.92 million and \$12.66 million in FY02 and FY01, respectively.

Operating Lease

Schedule of Minimum Future Rental Payments (in thousands)

Year Ended September 30:

2003	\$ 16,477
2004	15,926
2005	15,416
2006	15,462
2007	15,388
After 2007	<u>122,131</u>
Total minimum future rental payments	<u><u>\$200,800</u></u>

Note 17 Contingencies

The United States Mint is subject to legal proceedings and claims which arise in the ordinary course of its business. Judgments, if any, resulting from pending litigation against the United States Mint generally would be satisfied from the Department of Treasury Judgment Fund. In the opinion of management, the ultimate resolution of these actions will not materially affect the United States Mint's financial position or the results of its operations.

The United States Mint has a pending bankruptcy claim for about \$13 million against a silver refining vendor for the not-returned Mint silver. At the same time, the United States Mint has a pending claim under an insurance policy for the loss of this silver.

Note 18 Related Parties

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

Related Parties who were paid at least \$100,000 as of September 30 are below:

	2002	2001
Office of Personnel Management	\$21,055	\$20,883
Department of Labor	11,683	2,318
United States Postal Service	8,846	12,404
Social Security Administration	7,826	8,502
Treasury Departmental Offices	3,899	1,864
General Services Administration	1,144	2,282
Department of Agriculture	624	100
Internal Revenue Service	373	287
General Accounting Office	250	0
Department of the Army	210	149
Federal Law Enforcement Training Center	198	169
Department of Health and Human Services	181	80
Department of Energy	136	9
Department of Veterans Affairs	0	468
Government Printing Office	0	281
Total Related Parties	\$56,425	\$49,796

The United States Mint shipped approximately \$1,326 million in coins to the Federal Reserve Bank in FY02. This amount represents a 33.8 percent decrease from FY01 shipments.

Numismatic orders, checks, and credit card orders are processed by a commercial bank. Fees associated with these services are absorbed by the Treasury and are not reflected in the United States Mint's financial statements.

Note 19 Executive Compensation

The United States Mint employs one Presidential Appointee and six members of the Senior Executive Service. The annual salaries range from \$125,972 to \$138,200. Other nominal compensation arrangements supplement these salaries.

**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 United States Department of the Treasury, as of September 30, 2002 and 2001, 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Office of Management and Budget Bulletin No. 01-02, Audit Requirements for Federal Financial Statements*. 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 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, 2002 and 2001, and the results of its operations, the changes in its net position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued reports dated November 15, 2002, on our consideration of the Mint's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and, in considering the results of the audit, those reports should be read in conjunction with this report.

Urbach Kaba & Winston LLP

Washington, DC
November 15, 2002

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

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 United States Department of the Treasury, as of and for the year ended September 30, 2002, and have issued our report thereon, dated November 15, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the Mint's internal control over financial reporting by obtaining an understanding of the Mint's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Mint's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses or noncompliance may nevertheless occur and not be detected.

However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions, and, with respect to the first item below, a material weakness.

REPORTABLE CONDITION 1 (Material Weakness)

Information System Controls Need Improvement (Updated Finding)

Our audit of the Mint's fiscal year 2001 financial statements identified numerous information system general and application control weaknesses. Due to the number and magnitude of the issues, we reported the weaknesses as two separate material internal control weaknesses, one for general controls and one for application controls. During fiscal year 2002, the Mint made significant improvements in its control environment and system security control activities, which included the development of a comprehensive corrective action plan. The Mint's efforts addressed most of the prior year weaknesses, however, most of these weaknesses existed for much of the current year, and some were still being addressed at year-end. Additionally, certain new weaknesses were identified during the current year audit.

For fiscal year 2002, we considered the above weaknesses, in the aggregate, to be one material weakness. The weaknesses in controls relate to the areas of system documentation, policies and procedures, network infrastructure, and e-commerce security controls. These controls are necessary elements required by OMB Circulars A-127, *Financial Management Systems* and A-130, *Management of Federal Information* to ensure the reliability of key management information. The details are provided below:

General Controls

During our audit of the Mint's FY 2002 financial statements, weaknesses were noted in the information system general controls relating to its network infrastructure, systems documentation, software change control and related policies and procedures that are essential to ensuring the effectiveness of the Mint's systems control environment. However, during fiscal year 2002, significant improvements were made in this area including the hiring of a new Chief Information Officer and regular oversight and financial support by the new Mint Director to ensure the resolution to the numerous system control weaknesses reported in previous years.

Application Controls

During fiscal year 2002, many of the core financial system and e-commerce system security weaknesses identified during the fiscal year 2001 audit of the Mint's financial statements were corrected, after extensive efforts by the Office of the Chief Information Officer with oversight by senior Mint management. However, many of these improvements were not completed until late in the fiscal year and several key weaknesses are currently being addressed relating primarily to insufficient business process controls and systems segregation of duties.

We recommend that the Director of the Mint ensure that the Chief Information Officer and Chief Financial Officer:

1. Continue efforts to implement the appropriate information systems controls with respect to the network architecture and systems processes, and improve internal processes for monitoring compliance with all Federal laws and guidelines (e.g., OMB Circular A-130) as they relate to information systems security.
2. Continue to improve the controls for software systems change management across the agency by ensuring that segregation of duties controls are continually enforced as part of the software change management process.
3. Centralize systems security and security administration across the agency for all applications, databases, operating systems and telecommunications or develop a formal demarcation for a decentralized process for enterprise security administration.

We recommend that the Director of the Mint ensure that the Chief Financial Officer:

4. Conduct a more detailed data review for the ERP system to identify anomalous financial transactions.

REPORTABLE CONDITION 2

Management Control Environment Needs Improvement (Updated Finding)

During the fiscal year 2002 audit, we identified several weaknesses in certain critical management controls necessary to ensure the timely and accurate processing of business and financial transactions. Although somewhat unrelated, these weaknesses, in aggregate, represent a significant weakness in the Mint's control environment that may impact the reliability of the Mint's financial reporting processes. While some of these issues relate to inadequate policies or guidance, others suggest that established policies and controls are not operating as designed.

Vendor Payments

The fiscal year 2001 audit identified the need for the Mint to improve its controls over vendor payments. Although the Mint did initiate a new policy requiring mandatory training for Contracting Officer's Technical Representatives (COTR) during fiscal year 2002, our testing and review indicated there were still payments made on invoices that did not match supporting documentation.

We also noted inadequate controls over the establishment and maintenance of vendors in the system's master vendor files. Vendor files containing both external vendors and internal employee vendors has not been periodically reviewed or validated in over two years. No individual or group was assigned these responsibilities, and there has been no management approval before a new vendor was added to the file. This has resulted in many duplicate vendors, incorrect and missing information for vendors and vendors that have been inactive for over a year.

5. We recommend the Mint continue its COTR training program, and initiate an internal process to review invoices for proper COTR review on a sample basis.
6. We recommend the Mint assign the responsibility of approving all vendor additions to a specified department, assign the task of entering the new vendors outside this department, and issue a policy requiring periodic validation, by a separate person, of vendors in the files on a sample basis, ensuring all vendors are validated once a year.

Payroll Processing

The Mint's review process for submitting payroll data needs to be strengthened. There were instances where employees were overpaid due to lack of review of payroll data submitted to NFC. In addition, there were other errors in the employee data, and missing source documents related to employee elections and pay grade approvals.

7. We recommend the Mint implement controls to review payroll data submitted to NFC for accuracy, and ensure the completeness and accuracy of supporting payroll documentation.

Purchase cards

Purchase card procedures are not consistently being followed and may need to be revised. Proper source supporting receipts are not always supplied and kept with the statement for review and all employees are not always properly classifying and completing a purchase summary document to ensure proper classification of expenses. The Mint recently expanded its current purchase card policy to incorporate purchase card documentation requirements and ensure expenses are properly classified and supported by receipts at all Mint locations.

8. We recommend the Mint establish monitoring controls to ensure ongoing adherence with its expanded purchase card policy.

Temporary Inventory Transfers

Maintenance of inventory temporarily held by outside parties needs to be improved. Although we have seen improvement in this area this year, there were still inventory items unaccounted for and transfer forms that were not signed by the recipient stating they had possession of the inventory. In addition, many of the items are held by outside parties for well over six months, which is not the purpose of a temporary transfer.

- 9 We recommend the Mint implement a policy stating the purpose and maximum length of time inventory transfers should be outstanding. The log should be uniform, promptly updated, and track operating inventory items separately from display and other items, to ensure more accurate tracking of accountable assets on loan.

REPORTABLE CONDITION 3

E-commerce system process controls need improvement (new finding)

The Mint does not have clearly defined business processes and controls for its e-commerce system. These business controls were not designed as part of the systems implementation, but are an imperative part of the ongoing management of any e-commerce system and are supported by a combination of control activities integrated into complex information systems technologies and traditional business processes. In addition, this control integration ensures the ongoing support and continuation of reliable and cost effective customer service and increases the reliability of business transaction reporting. Steps for identifying required business process controls include mapping of manual and systems processes, identifying key business processes and control points, defining roles and responsibilities at these control points that ensure management accountability, and identify other feeder systems and related controls required for core systems to support reliable business and financial activity reporting.

The absence of integrated processes in the Mint's e-commerce solution that define business rule sets and process definitions have effectively undermined the functional internal controls related to management, systems, financial and manual processes.

10. We recommend that the Mint initiate and fund a comprehensive point to point business process integration review to map out key business process control points associated with the e-commerce environment. This review should examine key automated systems, and all related functional, financial, operational, manual and organizational processes. Integrated processes and controls in the Mint's e-commerce system should be defined to ensure that business rule sets and process definitions have effectively been established to ensure the reliability of financial and operational activities and reporting.

In addition, with respect to internal controls related to performance measures reported in Management's Discussion and Analysis contained within accompanying information, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We also noted other less significant matters involving the internal control and its operation, which we have reported to the management of the Mint in a separate letter, dated November 15, 2002.

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

Urback Kahn & Worton LLP

Washington, DC
November 15, 2002

**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 United States Department of the Treasury, as of and for the year ended September 30, 2002 and have issued our report thereon, dated November 15, 2002. The United States' gold and silver reserves, for which the Mint serves as custodian, were audited by the Office of Inspector General (OIG). We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

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 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Mint.

The results of our tests of compliance disclosed no instances of noncompliance with the laws and regulations discussed in the preceding paragraph, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the Mint's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed instances, described below, where the Mint's financial management systems did not substantially comply with Federal financial management system requirements, including OMB Circulars A-127, *Financial Management Systems* and A-130, *Management of Federal Information Resources*.

There were certain instances of noncompliance with Federal financial management system requirements, primarily due to (1) internal control weaknesses related to software change control, security program planning and management, and access controls; and (2) internal control weaknesses at the application level within the financial management and electronic commerce systems relating to access controls, policy implementation and segregation of duties.

Specific conditions attributable to this noncompliance and related recommendations for corrective actions are more fully described in our report on internal control dated November 15, 2002. The Chief Information Officer of the Mint is responsible for the financial management systems within the Mint.

The results of our tests disclosed no instances in which the Mint's financial management systems did not substantially comply with applicable Federal accounting standards and the United States Standard General Ledger at the transaction level.

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

Urbach Kahan & Werten LLP

Washington, DC
November 15, 2002

SUPPLEMENTAL SCHEDULES OF NET COST

This supplemental section provides additional information related to the financial condition of the United States Mint. Office of Management and Budget (OMB) Bulletin 01-09 (Form and Content of Agency Financial Statements) generally requires two additional statements of federal entities – the Statement of Financing and the Statement of Budgetary Resources. These statements are generally intended for organizations that operate under an annual appropriation from Congress. However, the United States Mint is a full revolving fund and receives no appropriated funds. Accordingly, these financial statements have been prepared in accordance with form and content standards applicable to commercial activities. Therefore, we do not present either the Statement of Financing or the Statement of Budgetary Resources as they may mislead the reader.

However, to ensure consistency for reporting at the Department level, we have prepared the following Supplemental Schedule of Net Cost. The Supplemental Schedules of Net Cost are modeled primarily on OMB Bulletin 01-09, using proprietary accounting data. The United States Mint's three programs are reported separately in the Supplemental Statements of Net Cost, but are combined in the Statements of Operations and Changes in Net Position.

**DEPARTMENT OF THE TREASURY
UNITED STATES MINT
SUPPLEMENTAL SCHEDULES OF NET COST** (in thousands)

	Years Ended September 30,	
	2002	2001
COSTS:		
NUMISMATIC PRODUCTION AND SALES		
Intragovernmental		
Selling, General and Administrative	\$ 33,207	\$ 17,822
Other costs and expenses	885	914
Total Intragovernmental	<u>\$ 34,092</u>	<u>\$ 18,736</u>
With the Public		
Cost of Goods Sold	\$ 329,382	\$ 298,570
Selling, General and Administrative	44,147	42,705
Total With the Public	<u>\$ 373,529</u>	<u>\$ 341,275</u>
Less earned revenues	440,015	402,027
NET PROGRAM COSTS (PROFIT)	(\$ 32,394)	(\$ 42,016)
CIRCULATING PRODUCTION AND SALES		
Intragovernmental		
Selling, General and Administrative	\$ 14,657	\$ 12,615
Other costs and expenses	7,969	8,225
Total Intragovernmental	<u>\$ 22,626</u>	<u>\$ 20,840</u>
With the Public		
Cost of Goods Sold	\$ 301,013	\$ 411,852
Selling, General and Administrative	112,635	130,610
Other costs and expenses	8,033	9,009
Total With the Public	<u>\$ 421,681</u>	<u>\$ 551,471</u>
Less earned revenues	1,364,176	2,021,344
NET PROGRAM COSTS (PROFIT) (A)	(\$ 919,869)	(\$1,449,033)
PROTECTION OF ASSETS (Net of Receipts)	\$ 31,832	\$ 34,279
NET COST OF (PROFIT FROM) OPERATIONS	(\$ 920,431)	(\$1,456,770)

(A) Net Program cost (profit) from circulating production and sales on this statement will not agree with the supplemental schedule for Circulating SBU Profit and Loss because imputed cost is not included in the supplemental schedule.

GLOSSARY OF TERMS

AMERICAN EAGLE PROGRAM – Gold, platinum, or silver coins issued in proof or uncirculated qualities. Gold and platinum coins are issued with one-tenth, one-quarter, one-half and one ounce precious metal content. Silver coins are issued with one ounce of silver metal content. The proof quality coins are considered numismatic products and are sold directly to consumers either as individual coins or in various combinations of sizes and metals. Uncirculated quality coins are considered investment-quality coins and are sold directly to a limited number of precious metal dealers.

CIRCULATING COINS – the penny, nickel, dime, quarter dollar, half-dollar, and one-dollar coins used in daily commerce. The Federal Reserve System distributes circulating coins into the economy.

COMMEMORATIVE COIN PROGRAMS – coins that Congress directs the Mint to produce and market based on legislation. These programs generally honor significant people (i.e., Dolly Madison), events (i.e., the Olympic Games), or things (i.e., the National Law Enforcement Officers Memorial). Commemorative coins are generally sold for a 12-month period or as defined in the legislation.

NUMISMATIC PRODUCTS – the coins and coin-related products produced by or for the Mint for sale to the public. These products are separate from the circulating coins sold to the Federal Reserve System.

PROOF QUALITY COINS – coins that are struck multiple times with specially treated dies to produce a mirrored background, sharp relief, and a frosted image on the finished coin. Coins offered as numismatic products are produced in proof quality as well as uncirculated quality.

RECURRING OR ANNUAL COIN PROGRAMS – proof and uncirculated quality sets of all circulating coins for a year that are specially packaged for collectors. The uncirculated set includes coins of each denomination produced at both the Denver and Philadelphia Mints. The annual and silver proof sets include one of each circulating coin and are produced only at the San Francisco Mint. The silver proof set includes a silver dime, quarter dollar(s), and a half-dollar; the cent, nickel, and dollar coins are their normal metal make-up.

UNCIRCULATED QUALITY COINS – coins that are struck only once with regular coinage dies. Uncirculated coins have a satin finish versus the mirrored background and frosted image of the proof coins.

REPORT OF THE OFFICE OF INSPECTOR GENERAL THE DEPARTMENT OF THE TREASURY

To the Director of the United States Mint:

We have audited the accompanying Schedule of the Custodial Gold and Silver Reserves (Custodial Schedule) of the United States Mint (U.S. Mint) as of September 30, 2002 and 2001. This report presents our unqualified opinion on this Custodial Schedule. Our audit disclosed no material weaknesses and no instances of reportable noncompliance with laws and regulations in fiscal year 2002. However, we noted a matter involving internal control and its operation that we have reported to the management of the U. S. Mint in a separate letter dated October 31, 2002.

Management's Responsibilities

Management is responsible for:

- Preparing the Custodial Schedule in conformity with accounting principles generally accepted in the United States of America.
- Establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of internal control policies and procedures.
- Complying with laws and regulations applicable to the U.S. Mint's custodial responsibilities for the Gold and Silver Reserves.

Scope of Audits

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and applicable provisions of the Office of Management and Budget (OMB) Bulletin No. 01-02, Audit Requirements for Federal Financial Statements. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Custodial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Custodial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall custodial schedule presentation. Our responsibility is to express an opinion on the Custodial Schedule based on our audits. We believe that our audits provide a reasonable basis for our opinion.

In planning and conducting our audit of the U.S. Mint's Custodial Schedule as of September 30, 2002, we considered its internal control over financial reporting and compliance with laws and regulations. Specifically, we obtained an understanding of the design of the U.S. Mint's internal controls, determined whether these internal controls had

been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the Custodial Schedule and not to provide assurance on the internal control over financial reporting and compliance with laws and regulations. Consequently, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the Custodial Schedule is free of material misstatement, we performed tests of the U.S. Mint's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of Custodial Schedule amounts as of September 30, 2002, and certain other laws and regulations. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the U. S. Mint. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Results of Audits

Opinion on the Custodial Schedule

In our opinion, the accompanying Custodial Schedule presents fairly, in all material respects, the balance of the United States' Gold and Silver Reserves in the custody of the U.S. Mint as of September 30, 2002 and 2001, in conformity with accounting principles generally accepted in the United States of America.

Consideration of Internal Control

The objectives of internal control are the following:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of the Custodial Schedule in conformity with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Compliance with applicable laws and regulations: Transactions are executed in accordance with laws and regulations that could have a direct and material effect on the Custodial Schedule.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. Material weaknesses are conditions in which the design or operation of one or more the internal control components does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the Custodial Schedule being audited may occur and not be detected within a timely period

by employees in the normal course of performing their assigned functions. For those controls we tested, we found no material weaknesses in internal control over financial reporting and compliance.

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

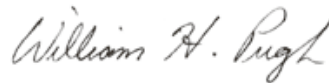
We noted a matter involving internal control and its operation that we have reported to the management of the U. S. Mint in a separate letter dated October 31, 2002.

Compliance with Laws and Regulations

Our tests of compliance with selected provisions of laws regulations disclosed no instances of noncompliance that are required to be reported in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States or applicable OMB audit guidance. We caution that non-compliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

This report is intended solely for the information and use of the management of the U.S. Mint, and the U.S. Department of the Treasury, OMB, the Congress, and Urbach, Kahn & Werlin, LLP, and is not intended to be and should not be used by anyone other than these specified parties.

Your staff has reviewed our report, and has no comments. Should you have any questions, please contact me on (202) 927-5430, or a member of your staff may contact Louis King, Director, Financial Audits on (202) 927-5774. We appreciate the cooperation and the courtesies extended to our staff.



William H. Pugh
 Deputy Assistant Inspector General for
 Financial Management and Information
 Technology Audits
 October 31, 2002

**DEPARTMENT OF THE TREASURY
UNITED STATES MINT
SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 2002 AND 2001** (in thousands)

CUSTODIAL GOLD AND SILVER RESERVES	2002	2001
United States gold and silver reserves (Note 2)	\$10,364,687	\$10,364,687
Liability to Treasury (Note 2)	<u>\$10,364,687</u>	<u>\$10,364,687</u>
Net gold and silver reserves custodial position	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this Schedule.

**NOTES TO THE SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 2002 AND 2001**

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, bullion coins (gold, platinum, and silver), 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 reserves segment of the U.S. Mint's Statements of Financial Position. The U.S. Mint uses the term custodial to identify gold and silver reserves held for the U.S. Treasury. The custodial reserves are not assets of the U.S. Mint, but are assets of the U.S. Treasury.

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

B. Basis of Presentation

This Schedule has been prepared to report the 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 Schedule has been prepared in accordance with accounting principles generally accepted in the United States of America and U.S. Mint accounting policies.

This Schedule includes all gold and silver classified by the U.S. Mint as "custodial reserves" as defined in Note 2. This Schedule does 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 is authorized to use gold and silver from the custodial reserves to support its numismatic operations. This Schedule does not reflect any United States’ gold and silver reported by the U.S. Mint in its operating inventory or any reserve amounts due to be replenished by the PEF, nor does it include gold held at Federal Reserve Banks.

Note 2. Gold and Silver Reserves

The gold and silver reserves reported in this Schedule are exclusive of the gold and silver reserves considered to be operating inventory in the Mint’s financial records and of the Treasury gold held by the Federal Reserve Banks. The custodial gold and silver reserves included in this Schedule are primarily in bar form, but may occasionally be in coin or other form. The custodial reserves also include foreign gold coins that have been held by Treasury for many years.

The gold and silver reserves are reported in this Schedule at the lower of cost or market value. Absent historical records to determine the acquisition cost of the gold and silver over the decades, the reserves are valued at the rates stated in U.S. Code Title 31, Sections 5116 and 5117 (statutory rates) which are \$42.2222 per Fine Troy Ounce (FTO) of gold and \$1.292929292 per FTO of silver. An offsetting liability is also reported for these assets.

At September 30, 2002 and 2001, the market value of gold was \$323.70 per FTO and \$293.10 per FTO respectively. Gold inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
2002	245,262,897.040	\$10,355,539,091	\$79,391,599,772
2001	245,262,897.040	\$10,355,539,091	\$71,886,555,122

At September 30, 2002 and 2001, the market value of silver was \$4.5325 per FTO and \$4.5825 per FTO respectively. Silver inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
2002	7,075,171.14	\$ 9,147,696	\$ 32,068,213
2001	7,075,171.14	\$ 9,147,696	\$ 32,421,972

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

	Statutory Value	Market Value
2002	\$10,364,686,787	\$79,423,667,985
2001	\$10,364,686,787	\$71,918,977,094

In prior years, custodial gold and silver FTOs were transferred to the PEF for numismatic operations. The PEF is responsible for either replenishing the custodial reserves with purchases of newly mined gold or paying the Treasury General Fund for the custodial reserves used.

**2001 DATED NUMISMATIC COINS SHIPPED IN FY 2001 AND FY 2002
OCTOBER 2000 TO SEPTEMBER 2002**

2001 United States Mint Annual Proof Set (10 coins)	final	2,294,043
2001 United States Mint Annual 50 State Quarters Proof Set (5 coins)	final	799,231
2001 United States Mint Annual Uncirculated Set (20 coins)	final	1,113,623
2001 United States Mint Annual Silver Proof Set (10 coins)	final	889,694
2001 American Eagle Gold Proof Program	final	
One-Ounce Coins		24,544
Half-Ounce Coins		23,227
Quarter-Ounce Coins		25,594
Tenth-Ounce Coins		37,515
Total		110,880
2001 American Eagle Platinum Proof Program	final	
One-Ounce Coins		8,962
Half-Ounce Coins		8,246
Quarter-Ounce Coins		8,839
Tenth-Ounce Coins		12,163
Total		38,210
2001 American Eagle Silver Proof Program	final	
One-Ounce Coins		742,651
2001 American Buffalo Commemorative Coin Program	final	
Silver \$1 Proof Coins		272,869
Silver \$1 Uncirculated Coins		227,131
Total		500,000
2001 Capitol Visitor Center Commemorative Coin Program	final	
Gold \$5 Proof Coins		27,652
Gold \$5 Uncirculated Coins		6,761
Silver \$1 Proof Coins		143,793
Silver \$1 Uncirculated Coins		35,380
Clad \$.50 Proof Coins		77,962
Clad \$.50 Uncirculated Coins		99,157
Total		390,705
2001 American Eagle Gold Bullion	final	
One-Ounce Coins		143,572
Half-Ounce Coins		48,047
Quarter-Ounce Coins		69,245
Tenth-Ounce Coins		268,913
Total		529,777
2001 American Eagle Platinum Bullion	final	
One-Ounce Coins		14,070
Half-Ounce Coins		12,810
Quarter-Ounce Coins		21,810
Tenth-Ounce Coins		51,662
Total		100,352
2001 American Eagle Silver Bullion	final	
One-Ounce Coins		9,000,876
TOTAL SHIPPED		16,510,042

**2002 DATED NUMISMATIC COINS SHIPPED IN FY 2002
OCTOBER 2001 TO SEPTEMBER 2002**

2002 United States Mint Annual Proof Set (10 coins)	ongoing	1,817,547
1999-2001 United States Mint Proof Set Collection (29 coins)	ongoing	14,453
2002 United States Mint Annual 50 State Quarters Proof Set (5 coins)	ongoing	617,893
2002 United States Mint Annual Uncirculated Set (20 coins)	ongoing	854,097
2002 United States Mint Annual Silver Proof Set (10 coins)	ongoing	603,876
2002 American Eagle Gold Proof Program	ongoing	
One-Ounce Coins		22,827
Half-Ounce Coins		21,095
Quarter-Ounce Coins		22,089
Tenth-Ounce Coins		31,206
Total		97,217
2002 American Eagle Platinum Proof Program	ongoing	
One-Ounce Coins		6,090
Half-Ounce Coins		5,505
Quarter-Ounce Coins		5,869
Tenth-Ounce Coins		7,903
Total		25,367
2002 American Eagle Silver Proof Program	ongoing	
One-Ounce Coins		481,800
2002 Winter Olympics Commemorative Coin Program	ongoing	
Gold \$5 Proof Coins		32,351
Gold \$5 Uncirculated Coins		10,172
Silver \$1 Proof Coins		163,773
Silver \$1 Uncirculated Coins		39,213
Total		245,509
2002 United States Military Academy Commemorative Coin Program	ongoing	
Silver \$1 Proof Coins		267,184
Silver \$1 Uncirculated Coins		96,668
Total		363,852
2002 American Eagle Gold Bullion	ongoing	
One-Ounce Coins		156,000
Half-Ounce Coins		56,000
Quarter-Ounce Coins		48,000
Tenth-Ounce Coins		180,000
Total		440,000
2002 American Eagle Platinum Bullion	ongoing	
One-Ounce Coins		9,500
Half-Ounce Coins		21,000
Quarter-Ounce Coins		21,400
Tenth-Ounce Coins		15,000
Total		66,900
2002 American Eagle Silver Bullion	ongoing	
One-Ounce Coins		9,049,000
TOTAL SHIPPED		14,677,511

CY2001 U.S. CIRCULATING COIN MINTAGE UPDATE (in pieces)
JANUARY - DECEMBER 2001

DENOMINATION	PHILADELPHIA	DENVER	TOTAL
Lincoln Cents	4,959,600,000	5,374,990,000	10,334,590,000
Jefferson 5 Cents	675,704,000	627,680,000	1,303,384,000
Roosevelt Dimes	1,369,590,000	1,412,800,000	2,782,390,000
50 State Quarters	2,482,400,000	2,324,584,000	4,806,984,000
Kennedy Half Dollars	21,200,000	19,504,000	40,704,000
Golden Dollars	62,468,000	70,939,500	133,407,500
TOTAL	9,570,962,000	9,830,497,500	19,401,459,500

CY2001 STATE QUARTER MINTAGE (in pieces)

STATE QUARTER	PHILADELPHIA	DENVER	TOTAL
New York	655,400,000	619,640,000	1,275,040,000
North Carolina	627,600,000	427,876,000	1,055,476,000
Rhode Island	423,000,000	447,100,000	870,100,000
Vermont	423,400,000	459,404,000	882,804,000
Kentucky	353,000,000	370,564,000	723,564,000
TOTAL	2,482,400,000	2,324,584,000	4,806,984,000

CY2002 U.S. CIRCULATING COIN MINTAGE UPDATE (in pieces)
JANUARY - SEPTEMBER 2002

DENOMINATION	PHILADELPHIA	DENVER	TOTAL
Lincoln Cents	2,635,200,000	3,520,040,000	6,155,240,000
Jefferson 5 Cents	453,360,000	620,880,000	1,074,240,000
Roosevelt Dimes	1,006,500,000	1,224,500,000	2,231,000,000
50 State Quarters	1,303,400,000	1,430,704,000	2,734,104,000
Kennedy Half Dollars	—	—	—
Golden Dollars	3,445,610	3,732,000	7,177,610
TOTAL	5,401,905,610	6,799,856,000	12,201,761,610

CY2002 STATE QUARTER MINTAGE (in pieces)

STATE QUARTER *	PHILADELPHIA	DENVER	TOTAL
Tennessee	361,600,000	286,468,000	648,068,000
Ohio	217,200,000	414,832,000	632,032,000
Louisiana	362,000,000	402,204,000	764,204,000
Indiana	362,600,000	327,200,000	689,800,000
Mississippi	—	—	—
TOTAL	1,303,400,000	1,430,704,000	2,734,104,000

* Production numbers are published only after completion of a given state quarter program.

NOTES