Audit Report

OIG-05-031

Audit of the United States Mint's Fiscal Years 2004 and 2003 Financial Statements

March 15, 2005

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

March 15, 2005

**MEMORANDUM FOR HENRIETTA HOLSMAN FORE, DIRECTOR
UNITED STATES MINT**

FROM: William H. Pugh William H. Pugh
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Audit of the United States Mint's
Fiscal Years 2004 and 2003 Financial Statements

I am pleased to transmit the attached audited United States Mint's (Mint) Fiscal Years (FY) 2004 and 2003 Financial Statements. We contracted with the independent certified public accounting firm of Urbach Kahn & Werlin LLP (UKW) to audit the financial statements for FY 2004 and 2003. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by UKW, are incorporated in the attachment:

- Independent Auditor's Report on the Financial Statements;
- Independent Auditor's Report on Internal Control; and
- Independent Auditor's Report on Compliance with Laws and Regulations.

In its audit of the Mint's financial statements, UKW found:

- the financial statements were fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America,
- no matters involving internal control and its operation that are considered material weaknesses, and

- no instances of reportable noncompliance with laws and regulations tested.

In addition, UKW issued a management letter dated October 29, 2004, discussing various issues that were identified during the audit, which were not required to be included in the audit reports.

In connection with the contract, we reviewed UKW's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the Mint's financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. UKW is responsible for the attached auditor's reports dated October 29, 2004 and the conclusions expressed in the reports. However, our review disclosed no instances where UKW did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5400, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

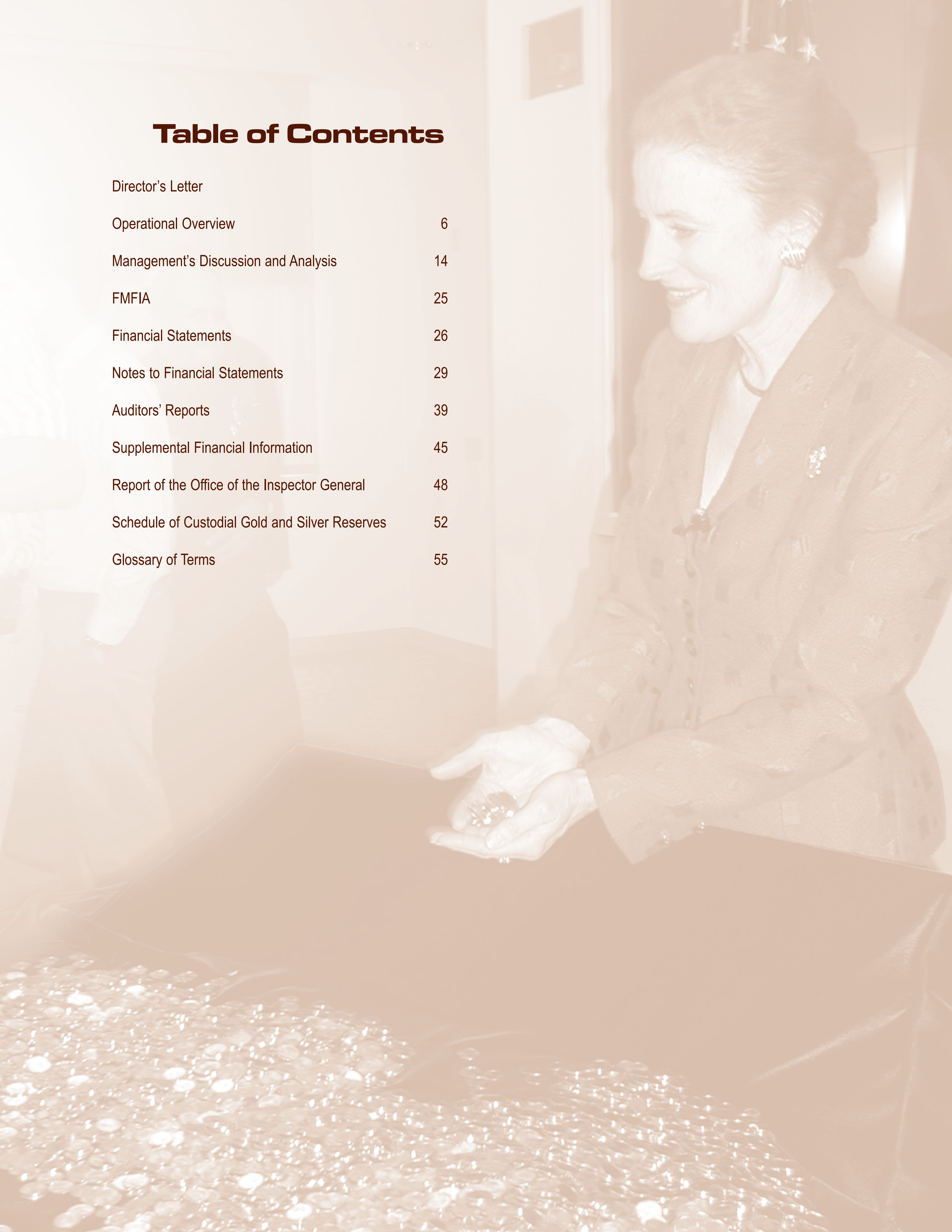
Attachment

UNITED STATES MINT

2004

ANNUAL REPORT

Table of Contents



Dear Collectors, Customers and Colleagues:

Change is happening at the United States Mint: Efficiency is up…Costs are down…A renaissance in coin design is in full swing…We earned the highest score on the American Customer Satisfaction Index ever earned by a federal agency…and Lost Time Accidents (LTAs) decreased for the fourth straight year. These and other achievements are helping the United States Mint to successfully confront the worldwide decline in coin demand and the lean business climate of the 21st Century.

Many of this year's achievements reflect our top three management priorities for FY 2004:

Top Priorities

Cutting costs: We seized every opportunity to automate and standardize everything we do — from processing orders from collectors to scheduling coin shipments to the Federal Reserve Banks. We also renegotiated numerous contracts, reduced the size of our staff, cut our leased space and lowered transportation costs. These activities have significantly reduced our selling, general and administrative (SG&A) costs as well as our conversion costs.

Speeding the development of new products: We are streamlining the approval and production processes for new coins so that we can meet the demand for new products around the world.

Fostering a model workplace: We are continuing to foster a respectful work environment for all of our employees. To further this effort, we realigned our organization to heighten the visibility of programs for our people throughout the United States Mint.

Renaissance in Coin Design

Our efforts to modernize are hardly confined to our management strategies. During FY 2004, we pursued excellence in artistry through varied methods. For example, the United States Mint made history by releasing two new nickels in the Westward Journey Nickel Series™ — the nation's first new nickels in 66 years. In addition, our Artistic Infusion Program broke new numismatic ground. This program is enabling 24 of the nation's top artists/engravers to contribute to new coin designs. The United States Mint won two esteemed Coin of the Year Awards this year.

Growing Our Business

By producing new products and creatively packaging our products, we are expanding the appeal of coin collecting. The success of these activities is reflected in our 34 percent increase in sales revenues during FY 2004 and our many sell-out products, including the new 2004 United States Mint 50 State Quarters Silver Proof Set™ and the one ounce 2004 American Eagle Gold Proof Coin, which sold out in just 66 days, and the 5-Coin Silver Proof Set™ that sold out in 71 days.

In addition, this year we released the Lewis and Clark Coinage and Currency Set, the ultimate numismatic and philatelic collectable commemorating the Lewis and Clark Expedition. This product featured expedition-themed coins, stamps and booklets and sold out in only six days. Also, the Lewis and Clark Coin and Pouch Set sold out in 23 days.

New Technology/ New Materials

During FY 2004, the United States Mint improved its Information Technology (IT) resources by implementing various systems and programs; among them, a comprehensive and fully tested IT disaster plan that is supported by a backup eSP website that can go live at any time; establishing an Automated Data Collection System (ADCS) that enables us to use bar codes and bar code readers to automate data; and enhancing our financial control systems.

Also, the first comprehensive coinage material study for circulating coins was started this fiscal year. The objective is to review and consider cost effective alternative materials for current and future coin denominations.

International

As we innovate and streamline within our own organization, we are also leading change within the international community. As the new President of the international Mint Directors' Conference (MDC), I am promoting international collaboration on a range of pressing global mintage issues, such as changes in the demand for collectibles and circulating coins, opportunities for jointly developing new collectibles with other countries and possibilities for incorporating new materials and new technologies into our products.

Education

During FY 2004, we continued our spirited dialogue with the public and coin collectors by posting new materials on our website. These new resources include lesson plans for K through 12th graders on the Westward Journey Nickel Series™ and on this year's five commemorative state quarters. This year, we also added to our website a virtual tour of our circulating coin production process. Testifying to the popularity of these resources, our website received 1,365,567 visits this year — up by 25 percent from last year.

Additionally, our 12 festive, educational coin launches drew nearly 25,000 children and adults. We also continued to talk to our customers through our business forums for collectors and customer surveys.

Security

The United States Mint is continually expanding the training of the Mint Police, updating our security equipment and enhancing emergency planning to safeguard our people and assets.

By advancing the business and art of minting, we are providing value to U.S. taxpayers, producing the top quality products that our customers deserve, energizing the numismatic community and creating a model workplace for our employees.

SELECTED HIGHLIGHTS

The United States Mint is the world's largest Mint. During FY 2004, we accomplished the following:

- *Produced about 13,479,620,000 coins for circulation.*
- *Contributed $665 million to the United States Treasury General Fund.*
- *Sold almost $.5 million worth of coins and coin-related products over the Internet daily.*
- *Ranked as #1 government agency on the American Customer Satisfaction Index.*
- *Served as the #1 seller of gold, silver and platinum bullion coins in the world.*
- *Launched two new nickels and launched state commemorative quarters for Arkansas, Michigan, Florida, Texas and Iowa.*
- *Shortened our product delivery time to customers to seven days or less.*
- *Reduced our Lost Time Accident (LTA) rate to 1.36 per 200,000 work hours — down by 5 percent from FY 2003.*

OPERATIONAL OVERVIEW

TOP MANAGEMENT PRIORITIES:

CUTTING COSTS

COIN INVENTORY MANAGEMENT: The United States Mint is currently working with the Federal Reserve Bank (FRB) and the armored carrier and commercial banking industries to reduce and balance coin inventories and reduce the costs of coin production and inventories management. In addition, we are preventing shortages of coin supplies by transferring excess coins at the FRB to nearby facilities that need more coins. To this end, during FY 2004, we achieved the following:

- Developed a centralized coin ordering and inventory management system at the national level.
- Improved the tracking of coin inventories at coin receiving terminals located throughout the nation.
- Implemented policies for managing and reducing excess inventories of commemorative state quarters.

PROTECTION: We saved about $3.5 million by adopting various site-specific efficiency measures on protection and safety that incorporated employee suggestions. These savings offset the costs of the 11 percent pay raise given to the United States Mint Police this year.

CUSTOMER SERVICE: The United States Mint continually works to further refine our already first-rate customer service. For example, this year, we added features to our online catalogue that reduced maintenance problems and improved the site's user-friendliness. We also upgraded and streamlined the software supporting our call centers. These software improvements are, by themselves, saving the United States Mint $200,000 per month.

E-COMMERCE: Also during FY 2004, the United States Mint negotiated a contract, to be awarded in early FY 2005, to replace our e-commerce system with a more efficient system. This system is expected to reduce annual operating expenses by $15 - $20 million. The new system will be fully implemented and operational during FY 2005.

OFFICE SPACE: The United States Mint is also consolidating our office space to cut costs. By subleasing more than 140,000 square feet of our headquarters office space in Washington, DC during FY 2004, we saved more than $5.5 million and FY 2005 efforts to consolidate further will result in an additional annual savings of approximately $1.8 million beginning in FY 2006.

SPEEDING THE DEVELOPMENT OF NEW PRODUCTS

The United States Mint is working to speed our introduction of new products to the market. As part of this effort, we are mapping and streamlining all steps involved in crafting and selecting new designs for coins and coin-related products; obtaining necessary approvals for new designs from the Commission of Fine Arts (CFA), Citizens Coinage Advisory Committee (CCAC) and Treasury Department; manufacturing new products; developing and procuring product packaging; and producing promotional materials. Largely because of these efforts, our development of products for calendar year 2005 is well ahead of previous years' schedules.

FOSTERING A MODEL WORKPLACE

MODEL WORKPLACE INITIATIVE: The United States Mint is continuing to foster a model workplace where all of our employees are treated with fairness and respect. Our model workplace achievements for FY 2004 include:

- Realigning our Office of Human Resources (OHR), Office of Equal Employment Opportunity (EEO), the Alternative Dispute Resolution (ADR) Program and the Ombudsman Program under the Senior Advisor to the Director. By strengthening the administrative ties between these key offices, this realignment has enhanced inter-office cooperation and raised the profile of our model workplace initiative throughout the agency.
- Improving communication between managers and employees. To advance this effort, the Director regularly hosts "town hall" meetings and open forums with employees; encourages all managers and supervisors to regularly "walk the floor" and address employee concerns with their staffs, and; promotes a "talk first" policy between managers and employees when disagreements do arise.
- Providing the first agency-wide computer-based annual training on preventing workplace harassment.
- Rolling out Leadership Notes — a monthly communication provided to all supervisors and managers that enhances leadership competencies.
- Awarding the first "Director's Awards" to individuals and teams that promote the United States Mint's values and help foster a model workplace.
- Initiating rotational assignments — like those used by other federal organizations and private companies — that familiarize employees with other employees' jobs and broaden their understanding of the entire organization.

Evidence of the success of our model workplace activities includes our scores on our 2004 pulse survey — an annual survey of employee attitudes about their work environment. These scores show that the United States Mint is exceeding industry benchmarks in 11 of 14 measured areas. In addition, the numbers of informal and formal complaints processed by the Alternative Dispute Resolution (ADR) and EEO Programs significantly decreased this year. This decrease has produced significant savings for the United States Mint.

SAFETY: During FY 2004, the United States Mint implemented PerforMax™, an employee-driven process that is designed to increase safe work habits, safety awareness and productivity. By involving the entire workforce of an organization and using measurement and feedback to change work habits, PerforMax™ increases the level of safety performance.

Secretary John Snow Congratulates the United States Mint for Being the Top Federal Agency for Customer Service

"I congratulate the United States Mint and Director Henrietta Holsman Fore for receiving the highest score of all Federal agencies in the University of Michigan Business School's 2003 American Customer Satisfaction Index. For eight years in a row, the U.S. Mint has been a leader among government agencies and the private sector in customer satisfaction by consistently offering its customers exciting new products and exemplary customer care. The dedicated public servants of the U.S. Mint have made their agency an example for others to follow and I commend them for their hard work."

2004 Director's Awards
Model Workplace Attributes recipient Nanatte Evans.

Excellence in Government Awards

Federal Executive Boards (FEB) in many cities present "Excellence in Government" awards to outstanding Federal staffers in their geographic areas. On May 6, 2004, during Public Service Recognition Week, twenty staffers of the United States Mint at Philadelphia - competing against more than 300 nominees - were honored by the FEB. They include two Minters who placed as Gold Medal finalists, two Minters who won Bronze Medals, 11 Minters who won Community Service Awards and five Minters who won Improved Federal Image Awards.

CUSTOMER SERVICE: The United States Mint ranked as the #1 Federal agency and second among all companies on the University of Michigan's American Customer Satisfaction Index (ACSI) for calendar year 2003. This marks the eighth consecutive year that the United States Mint ranked among the leaders in the government and private sectors — an unprecedented achievement for a government agency.

The United States Mint's score of 89 on the ACSI's 1-to-100 scale is the highest score ever earned by a Federal agency. The only private sector company that scored higher than the United States Mint was H.J. Heinz, which bested the United States Mint by only one point.

Also, based on information gathered and analyzed by ForeSee Results, using the ACSI methodology, the United States Mint's 2004 third quarter score of 80 in the e-commerce/transaction category, outpaced the average government score of 71.2 and is notably close to the overall private sector e-commerce score of 80.8. The United States Mint's score shows that government can and does perform alongside private companies to the same demanding customer standards.

The nickel is the only U.S. coin that is identified by a name that refers to its metal content. However, the nickel only contains 25 percent nickel; the rest is copper.

A RENAISSANCE IN COIN DESIGN:

The United States Mint's most high-profile achievement of FY 2004 was our kick-off of the historic Westward Journey Nickel Series™. This series, which will continue through 2005, honors the bicentennials of the Louisiana Purchase and the Lewis and Clark Expedition. In FY 2004, we launched two new nickels: the Peace Medal and the Keelboat — the nation's first new nickels in 66 years.

The Peace Medal and the Keelboat nickels both bear new designs on their reverse (tails) sides; their obverse (heads) sides retain the profile of Thomas Jefferson from the familiar Jefferson nickel that preceded the Westward Journey Nickel Series™.

THE PEACE MEDAL NICKEL

Production of the Peace Medal nickel began on January 20, 2004. This coin showcases a rendition of the Indian Peace Medal that was given by Lewis and Clark as a goodwill token to almost 100 Native Americans along the trail.

The Peace Medal nickel shows two hands clasped in friendship — one wearing a military uniform cuff symbolizing the American government, and the other wearing a silver band adorned with beads and a stylized American eagle representing the Native American community.

THE KEELBOAT NICKEL

Production of the Keelboat nickel began on April 16, 2004. This coin depicts Captains Lewis and Clark standing in uniform on the bow of the keelboat that transported them on their expedition through the Louisiana Territory in search of a northwest passage to the Pacific Ocean. Lewis and Clark's 55-foot keelboat could be sailed, rowed, poled like a raft or towed along the riverbank.

ORIGINS OF DESIGNS

The American 5-Cent Coin Design Continuity Act authorized the modification of the nickel through 2005 in recognition of the bicentennials of the Louisiana Purchase and the Lewis and Clark Expedition. The Peace Medal nickel was designed by United States Mint sculptor/engraver Norman E. Nemeth; the Keelboat nickel was designed by United States Mint sculptor/engraver Al Maletsky. All designs used in the Westward Journey Nickel Series™ were reviewed by the Citizen Coinage Advisory Committee and Commission of Fine Arts. About 15 million 2004-dated nickels will be produced.

Like the 2004-dated nickels, the 2005-dated nickels will have new designs on their reverse sides; and on their obverse, a new image of Jefferson will be displayed. In 2006, Jefferson's famous home, Monticello, will return to the reverse side of the nickel. This image will be different from the pre-2004 nickels and its obverse side is expected to have a new image of Jefferson as well.

ARTISTIC INFUSION PROGRAM

The Artistic Infusion Program is an essential component of the ongoing Renaissance in coin design. During FY 2004, the United States Mint — with the assistance of the National Endowment for the Arts — selected 24 artists (six visual art students and 18 professional visual artists) to participate in the Artistic Infusion Program and contribute new coin designs. These 24 artists range in age from 20 to 79 years old; they include sculptors, engravers, graphic designers, painters and water colorists from all over the United States. In their first assignment, the artists of the Artistic Infusion Program submitted beautiful and evocative proposed designs for the 2005-dated nickels in the Westward Journey Nickel Series™.

2004 Congressional Gold Medal presented to Dr. Dorothy I. Height

In FY 2004, the United States Mint produced a Congressional Gold Medal honoring Dr. Dorothy I. Height, one of the Nation's foremost civil rights leaders, in a record nine days. This enabled President George W. Bush to award it to her on her birthday, March 24, 2004.

GROWING OUR BUSINESS:

The United States Mint is expanding revenue sources by targeting new market niches. During FY 2004, we advanced this effort by:

- Advertising the many uses of coins and coin-related products beyond collecting. These uses include gift giving and marking important life events, such as births.
- Working with other federal agencies to produce novel products. Together with the Bureau of Engraving and Printing and the National Archives and Records Administration, we launched the limited-edition 2004 Lewis and Clark Coinage and Currency Set — a novel product that features expedition-themed coins, stamps, a United States Note and two insightful booklets about the expedition. This product sold out in just six days.
- Creating innovative packaging. For example, we offered a unique packaging option for both of this year's commemorative coins. This year's commemorative coins were:
  - The Lewis & Clark Bicentennial Silver Dollar. This coin's obverse (heads) side features an image of Lewis and Clark standing on a stream bank; its reverse (tails) side features a peace medal presented to American Indian Nations by Lewis and Clark; 17 stars representing the number of states in the Union at that time; and two feathers representing American Indians. The Lewis & Clark Bicentennial Silver Dollar is available in uncirculated and proof versions.
  - The uncirculated version of the Lewis & Clark Bicentennial Silver Dollar was featured in the Lewis and Clark Coinage and Currency Set, and the proof version was featured in the Lewis & Clark Coin & Pouch Set. Each Lewis and Clark Coin & Pouch Set includes a unique leather pouch that was personally cut, tanned and decorated by members of Tribes that figured prominently in the Lewis and Clark saga.
  - The Thomas Alva Edison Commemorative Coin. This coin's obverse (heads) side features an image of Thomas Alva Edison with the "Edison Effect" bulb in his laboratory; its reverse (tails) side features an image of a light bulb sending out rays of light. This coin was available in standard packaging and in a collector's box that contains a small bulb that illuminates when the box is open.
- Working with other nations. Our limited-edition "Legacies of Freedom" Set contains an uncirculated 2003 $1 Eagle Silver Bullion Coin from the United States and an uncirculated 2002 £2 Silver Britannia Coin from the United Kingdom. The designs of both coins evoke the freedoms and values shared by the United States and the United Kingdom.
- Creating new, popular products. For example, the 2004 United States Mint 50 State Quarters Silver Proof Set™ and the 2004 Westward Journey Nickel Series™ Coin Set.

LICENSING AGREEMENTS

During FY 2004, the United States Mint signed new licensing agreements with Fuller Fine Jewelry and KARS Jewelry for the distribution of coin-related jewelry. At the same time, we maintained existing licensing agreements with Whitman Publishing Company (formerly, H.E. Harris & Co.) to distribute coin folders and holders for 50 State Quarters®, Golden Dollars and other coin-related products in outlets such as Borders, Walden Books, Wal-Mart and Target; with Peak Capital Group to distribute albums that hold 50 State Quarters®; and with Wonderland Marketing to distribute various products that incorporate 50 State Quarters®, the 50 State Quarters® Logo and Greetings from America stamp images.

During FY 2004, we sold a total of $62.1 million in face value of circulating coins from sales of licensed products, sales of circulating coins that were included in licensed products and sales of circulating coins directly from the United States Mint to coin collectors.

NEW TECHNOLOGY/NEW MATERIALS

INFORMATION TECHNOLOGY

During FY 2004, the United States Mint improved its Information Technology (IT) resources by implementing the following systems and programs:

- A Systems Development Life Cycle (SDLC) that defines a systematic, documented, multi-step process for managing the entire life cycle of new applications — from the identification of initial requirements through implementation and maintenance of software and hardware.
- An Automated Data Collection System (ADCS) that enables us to use bar codes and bar code readers to automate data, such as quantities of raw materials delivered to our facilities, inventories of materials moving through production, quantities of products manufactured, scrap volumes generated and labor hours involved in production. In addition, because our ADCS directly interfaces with PeopleSoft®, the system eliminates the need to manually input many types of data. It thereby speeds data input and improves data accuracy.
- An Automated Shipping Transaction that speeds the management of coin shipments to Federal Reserve Banks.
- A comprehensive and fully tested IT disaster plan. This plan is supported by a backup eSP website that can go live at any time.
- The Department of Treasury's Public Key Infrastructure (PKI) system, which limits access to various Extranet resources to the appropriate raw materials suppliers.
- Enhanced financial controls, which have aided the United States Mint in achieving its eleventh straight unqualified audit opinion.
- Tools for portfolio management and tools for satisfying the Office of Management and Budget's requirements that agencies submit justifications for major acquisitions, including IT systems. In recognition of our leadership role in developing these tools, the Treasury Department named the United States Mint as a Founding Co-Chair of its department-wide Portfolio Management Committee and presented us with a formal award commending our leadership.
- A structured Enterprise Architecture (EA) that aligns with the United States Mint's business practices and addresses our portfolio management, asset management and security management needs.

NEW MATERIAL STUDY

The first comprehensive coinage material study for circulating coins was started this fiscal year. The objective is to review and consider cost effective alternative materials for current and future coin denominations. Initially targeting single layer materials for cent and nickel, the study will expand to look at alternatives to the clad materials used on higher denominations. The study is in the early stages with results made available after summarizing tests are performed on all materials.

INTERNATIONAL:

MINT DIRECTORS CONFERENCE

From March 19 to 23, 2004, the United States Mint hosted the XXIII biennial Mint Directors' Conference (MDC) in San Francisco, California. The MDC is an international body that promotes the exchange of information about manufacturing, technical, marketing and financial issues among its international membership of the world's mints and industry leaders.

The XXIII MDC marked the first time in 16 years that the MDC was held in the United States. At this meeting, which was attended by more than 280 representatives of national mints, banks and corporations, United States Mint Director Henrietta Holsman Fore became MDC President. Her term expires in 2006. Director Fore, who had been serving as the XXIII MDC's Vice President, is only the second woman to serve as President of the MDC in its 42-year history.

The high points of the XXIII Mint Directors' Conference included the official formation of the MDC Marketing Committee. This committee, which was created at the suggestion of Director Fore, will help mints develop new markets for their products. In addition, the Benchmarking Committee, which was also recently formed at the suggestion of Director Fore, reported on its creation of a repository for information on coin specifications and best practices.

EDUCATION:

THE UNITED STATES MINT EDUCATION INITIATIVE (MEI)

The United States Mint's Education Initiative (MEI) promotes the use of coins as teaching tools and helps teachers and parents bring the excitement of coin collecting into the nation's classrooms and living rooms. MEI's educational website features free, downloadable coin-centric games, fun facts, cartoons, news updates and other resources. The website is called the United States Mint H.I.P. Pocket Change™ and is posted at www.usmint.gov/kids.

The popularity of H.I.P. Pocket Change™ is steadily growing. During FY 2004, H.I.P. Pocket Change™ received 1,365,567 visits — up by 25 percent since FY 2003.

Features added to H.I.P. Pocket Change™ during FY 2004 include curriculums for each of the two new nickels launched this year through the Westward Journey Nickel Series™ and curriculums for each of the five quarters released this year through the 50 State Quarters® Program. By popular demand, this year, we expanded our curriculums for each topic to address K through 12th graders, rather than just K through 6th graders.

Also during FY 2004, the MEI led facility tours of the United States Mint's manufacturing facilities in Philadelphia and Denver, managed in-class school presentations and organized special events. Together, these outreach activities drew more than 43,500 children and adults. In addition, thousands of educational experts visited MEI's booth at the National Education Association's annual meeting in Washington, DC.

Communicating with the Public
United States Mint Director Henrietta Holsman Fore discusses the United States Mint's programs with Associated Press reporter Jeanine Aversa following the unveiling of the first new nickel in 66 years.

COMMUNICATING WITH THE PUBLIC

Getting the word out about the United States Mint's products is important for educating the public, improving the Mint's brand and sparking interest in coin collecting. The United States Mint strategically reaches out to news media whenever we launch new programs or products.

During FY 2004, the United States Mint's activities were featured in many high-profile outlets including CBS *Sunday Morning with Charles Osgood,* Fox's *Power Player with Chris Wallace*, *The New York Times*, *The Washington Post*, *The Wall Street Journal*, *Businessweek*, *USA Today* and *John Ratzenberger's Made in America* on the Travel Channel.

This year, the United States Mint's activities were also featured in scores of local newspapers, radio and TV stations across the nation and various new Internet sources.

SECURITY:

PROTECTION

The United States Mint Police protects over $100 billion in Treasury and other government assets, over 2,000 employees and the many visitors who tour our facilities every year. During FY 2004, the United States Mint Police bolstered its protections by:

- **STRENGTHENING THE MINT POLICE:** We improved retention and recruitment by awarding the United States Mint Police an 11 percent pay raise. In addition, we expanded the coverage of training given to new recruits and annual refresher training to cover Weapons of Mass Destruction (WMDs), convoy tactics, civil disturbances and techniques for collaborating with other police forces.

- **IMPROVING EMERGENCY PREPAREDNESS:** All United States Mint employees received mandatory training on emergency evacuation, use of escape hoods and shelter-in-place. In addition, the United States Mint initiated an intensive emergency preparedness pilot program at the Philadelphia Mint that includes advanced planning, training and practice exercises. This program will soon be implemented at other United States Mint facilities, as well. The United States Mint Police also participated in a series of government-wide exercises designed to improve inter-agency communication and coordination during emergencies.

THE 50 STATE QUARTERS® PROGRAM:
(A 10-YEAR CELEBRATION OF OUR NATIONAL HERITAGE)

The 50 State Quarters® Program is an ambitious 10-year (1999 through 2008) program that honors each state with its own commemorative quarter. Each state quarter features a unique design on its reverse (tails) side and the traditional profile of George Washington on its obverse (heads) side. A new state quarter is issued every ten weeks, and minted only for ten weeks — never to be minted again (about 450 million quarters are minted every ten weeks). States are honored in the order in which they joined the Union.

The 50 State Quarters® Program celebrates the fact that we are one nation comprised of many states. Each coin produced by this program provides a visual representation of our country's motto, "E Pluribus Unum," out of many, one. The design of each state quarter reflects input from the state, the United States Mint, the Citizens Coinage Advisory Committee and the Commission of Fine Arts.

More than 130 million Americans — one person per U.S. household — collects 50 State Quarters®. No other coin product in history has ever achieved such popularity. Educational events marking the unveilings of state quarters always elicit enthusiastic community involvement and draw thousands of children and adults. About 20,000 people participated in the launches of the state quarters. Such successes prove that the 50 State Quarters® Program is fulfilling Congress's mandate to promote "the diffusion of knowledge about the individual states, their history and geography, and the rich diversity of the national heritage," among the youth of the United States of America.

By the end of FY 2004, 29 state quarters had been released. Reflecting our common national pride, the designs of these coins neatly define several themes: Courage, discovery and exploration; our nation's rich, natural resources; our nation's quest for liberty; and our heritage and tradition.

The 50 State Quarters ® Program is entirely self-supporting. With the help of this program, the United States Mint returned $665 million in results and profits to the United States Treasury General Fund in FY 2004.

Courage, Discovery and Exploration

Our Nation's Rich, Natural Resources

Our Nation's Quest for Liberty

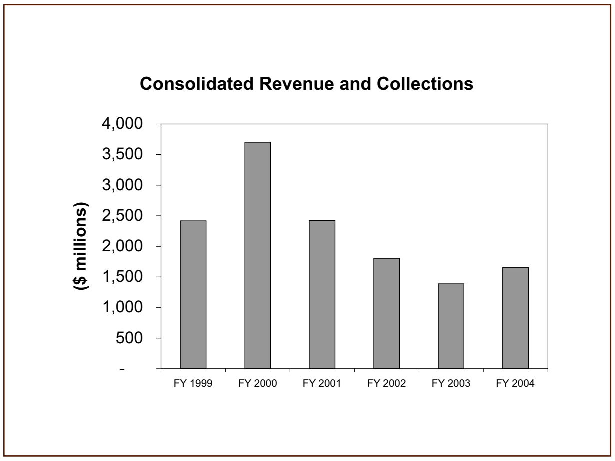
Heritage and Tradition

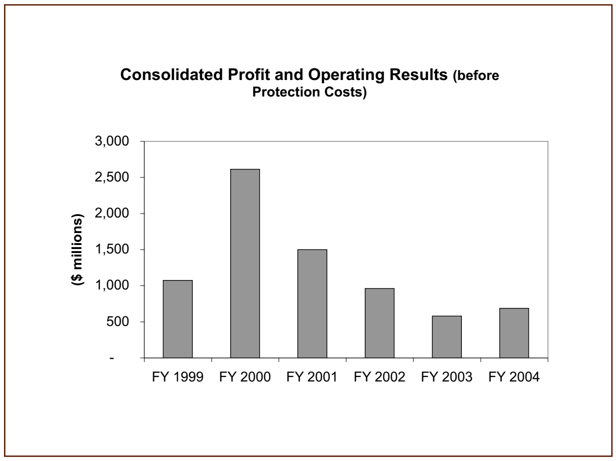
MANAGEMENT'S DISCUSSION & ANALYSIS

OVERVIEW

The United States Mint's financial results are prepared in accordance with the Chief Financial Officer's (CFO) Act of 1990. The consolidated financial statements represent the operations of the entire United States Mint, comprised of the circulating, numismatic, and protection programs. The management discussion and analysis serves to explain the consolidated financial statements as well as to explain program performance. The United States Mint uses a set of key performance indicators to manage operations. An analysis of these indicators follows the discussion of the financial results.

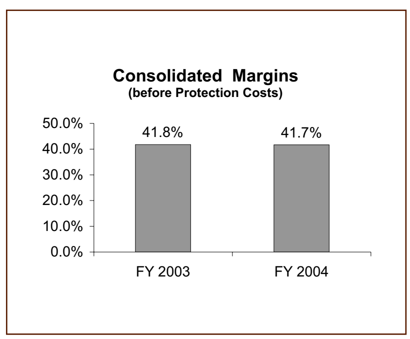
CONSOLIDATED OPERATIONS





The United States Mint's total revenues and collections increased to $1,650.4 million in FY 2004 from $1,386.4 million in FY 2003. Circulating collections from coins shipped to the Federal Reserve Banks (FRB) increased to $993.5 million in FY 2004 from $916.1 million in FY 2003 as the FRB increased orders in FY 2004. Numismatic sales (net of surcharges and commissions) to the public increased to $594.8 million in FY 2004 from $449.1 in FY 2003 due to increased bullion sales, the introduction of new products, and increased selling prices of core products. Numismatic sales of circulating coinage increased to $62.1 million in FY 2004 from $21.2 million in FY 2003 primarily due to a large purchase of quarters by a licensee for the purpose of packaging and selling the quarters to the public.

Total operating results and profits before protection costs increased to $688.1 million in FY 2004 from $578.9 million in FY 2003. Total margins[1] before protection costs remained relatively unchanged at 41.7 percent compared to 41.8 percent in the prior year despite a significant rise in the prices of the metals that are used in the fabrication of coins. The United States Mint was able to maintain margins by shipping more coins, increasing the selling prices of key numismatic products, and reducing manufacturing and SG&A costs. As a result of the improved operating results and profits, the United States Mint returned $665 million to the Treasury General Fund in FY 2004 compared with $600 million in FY 2003.

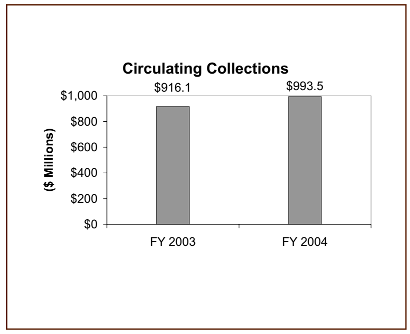


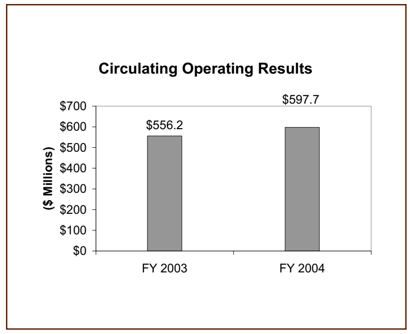
[1] Margin is used much as a private sector company would. The margin refers to profit and operating results as a percentage of revenues and collections.

CIRCULATING COINAGE SHIPPED TO FEDERAL RESERVE BANKS

The United States Mint produces the circulating coins used to conduct commercial transactions across the nation. New coins are shipped to Federal Reserve Banks (FRB) as they are needed to replenish inventory and fulfill commercial demand. The FRB reimburses the United States Mint at face value for the coins when they are shipped.

Total circulating collections from coins shipped to the FRB increased to $993.5 million in FY 2004 from $916.1 million in FY 2003. In FY 2003, the FRB made efforts to reduce inventories by supplying the country's coin demand from existing inventory. With system-wide inventory at lower levels, the FRB's orders in FY 2004 more closely matched the demand for coin in the economy. Shipments for all denominations increased over the prior year except for the quarter. Nickel denomination collections benefited from the Westward Journey Nickel Series™, featuring two new designs in FY 2004 commemorating the Louisiana Purchase and the Lewis and Clark Expedition. Nickel collections increased to $69.6 million in FY 2004 from $37.2 million in FY 2003. Quarter collections declined to $560.4 million in FY 2004 from $604.5 million in FY 2003. Quarter demand has gradually decreased as the 50 State Quarters® Program has matured. In addition, system-wide quarter inventories have been above historical averages due to the high quarter collections in FY 2000 and FY 2001. As a result, quarter collections have decreased each year since FY 2000. In FY 2004, the United States Mint issued quarters commemorating Arkansas, Michigan, Florida, Texas, and Iowa.





CIRCULATING COLLECTIONS AND OPERATING RESULTS (in Millions) FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Penny	Nickel	Dime	Quarter	Half	Dollar	Mutilated & Other	Total
Collections	$71.3	$69.6	$256.9	$560.4	$3.5	$31.8	$0.0	$993.5
Cost of Goods Sold[2]	65.7	62.7	55.1	106.9	0.8	3.2	0.0	294.4
Selling, General & Administrative	1.0	0.8	25.6	57.6	0.4	3.5	0.0	88.9
Other Costs and Expenses	0.0	0.0	0.0	0.0	0.0	0.0	12.5	12.5
Operating Results	$4.6	$6.1	$176.2	$395.9	$2.3	$25.1	($12.5)	$597.7
Margin	6.5%	8.8%	68.6%	70.6%	65.7%	78.9%		60.2%

CIRCULATING COLLECTIONS AND OPERATING RESULTS (in Millions) FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Penny	Nickel	Dime	Quarter	Half	Dollar	Mutilated & Other	Total
Collections	$64.3	$37.2	$188.4	$604.5	$2.7	$19.0	$0.0	$916.1
Cost of Goods Sold	61.2	26.2	37.6	111.7	0.5	4.0	0.0	241.2
Selling, General & Administrative	2.1	2.1	23.0	76.6	0.6	3.5	0.0	107.9
Other Costs and Expenses	0.0	0.0	0.0	0.0	0.0	0.0	10.8	10.8
Operating Results	$1.0	$8.9	$127.8	$416.2	$1.6	$11.5	($10.8)	$556.2
Margin	1.6%	23.9%	67.8%	68.9%	59.3%	60.5%		60.7%

2 The United States Mint did not produce half-dollar and dollar coins for circulation during FY 2004. The costs of good sold for FY 2004 for these coins represent the costs of the product that was shipped from existing inventory.

Operating results from circulating coinage increased to $597.7 million in FY 2004 from $556.2 million in FY 2003. Higher market prices for the base metals used in the fabrication of the coins caused the cost of goods sold (COGS) as a percentage of collections to increase to 29.6 percent from 26.3 percent in the prior year. The average market price of nickel, copper, and zinc increased 68 percent, 60 percent, and 27 percent respectively over prior year prices. Although the COGS percentage increased, total margins declined only slightly to 60.2 percent from 60.7 percent in the prior year as the rise in base metal prices was partially offset by cost reductions at the manufacturing facilities and SG&A expenses. The margin was also helped by the increase in coin shipments, which allowed fixed costs to be allocated over a larger collection base. SG&A costs as a percentage of collections decreased to 8.9 percent from 11.8 percent in the prior year and margins increased for every coin except for the nickel. Nickel margins decreased because the price of the nickel base metal increased by a greater percentage compared to the other metals. The following charts show the COGS, SG&A, and Distribution costs on a per unit basis for each denomination.

UNIT COST OF PRODUCING AND DISTRIBUTING COINS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

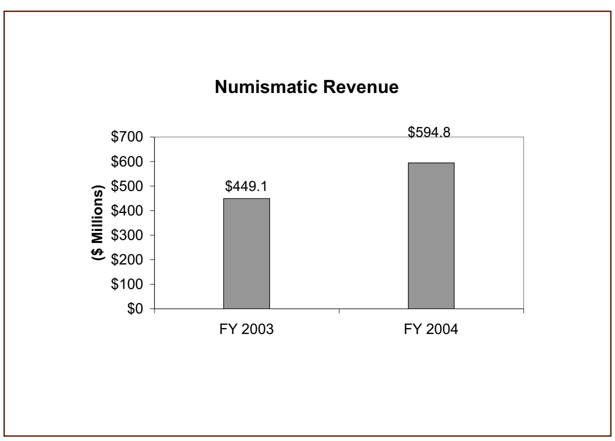
	Penny	Nickel	Dime	Quarter	Half	Dollar
Cost of Goods Sold	$0.0090	$0.0446	$0.0212	$0.0466	$0.1101	$0.0984
General & Administrative	0.0001	0.0006	0.0100	0.0257	0.0569	0.1114
Distribution to FRB	0.0002	0.0004	0.0002	0.0010	0.0027	0.0016
Total Cost per Unit	$0.0093	$0.0456	$0.0314	$0.0733	$0.1697	$0.2114

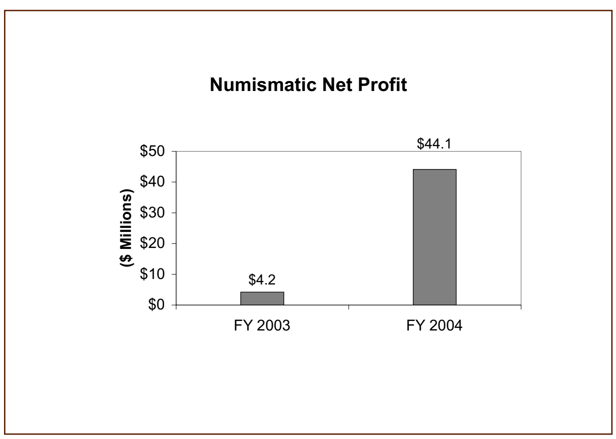
UNIT COST OF PRODUCING AND DISTRIBUTING COINS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Penny	Nickel	Dime	Quarter	Half	Dollar
Cost of Goods Sold	$0.0093	$0.0346	$0.0197	$0.0452	$0.0902	$0.1694
General & Administrative	0.0003	0.0028	0.0122	0.0311	0.0583	0.1410
Distribution to FRB	0.0002	0.0004	0.0002	0.0008	0.0007	0.0017
Total Cost per Unit	$0.0098	$0.0378	$0.0321	$0.0771	$0.1492	$0.3121

NUMISMATIC SALES TO THE PUBLIC

Total numismatic sales (less surcharges and commissions) to the public increased to $594.8 million in FY 2004 from $449.1 million in FY 2003. The increase in revenues was driven by the introduction of new products, price increases of major products, and the increasing price of precious metals in the world market. Bullion sales increased to $315.7 million in FY 2004 from $235.4 million in FY 2003, and comprised 53.1 percent of total numismatic sales to the public compared to 52.4 percent in the previous year. Non-bullion sales to the public increased to $279.1 million in FY 2004 from $213.7 million in FY 2003. Total margins improved to 7.4 percent in FY 2004 from 0.9 percent in FY 2003.





NUMISMATIC PROFIT AND LOSS (in Millions)
FOR THE YEAR ENDED SEPTEMBER 30, 2004

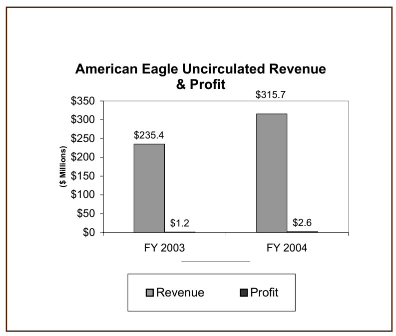
	American Eagle Uncirculated	American Eagle Proof	Commemoratives	Recurring	Total
Revenue (less surcharges)	$315.7	$75.2	$33.2	$170.7	$594.8
Cost of Goods Sold	312.5	48.0	18.5	105.2	484.2
Selling, General & Administrative	0.6	13.8	8.2	43.9	66.5
Profit (Loss)	$2.6	$13.4	$6.5	$21.6	$44.1
Profit Margin	0.8%	17.8%	19.6%	12.7%	7.4%

NUMISMATIC PROFIT AND LOSS (in Millions)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	American Eagle Uncirculated	American Eagle Proof	Commemoratives	Recurring	Total
Revenue (less surcharges)	$235.4	$61.0	$7.3	$145.4	$449.1
Cost of Goods Sold	232.8	41.9	5.5	93.7	373.9
Selling, General & Administrative	1.4	17.4	1.8	50.4	71.0
Profit (Loss)	$1.2	$1.7	$0.0	$1.3	$4.2
Profit Margin	0.5%	2.8%	0.0%	0.9%	0.9%

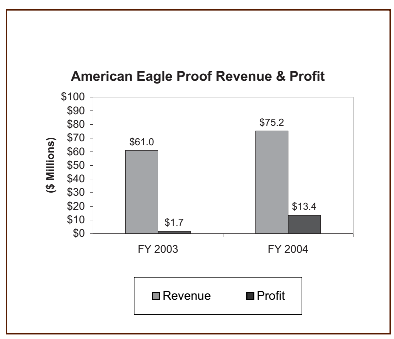
American Eagle Uncirculated (Bullion) Coins

American Eagle Uncirculated (Bullion) coins are typically purchased by investors seeking a simple, tangible means to own and invest in precious metals. Bullion sales increased to $315.7 million in FY 2004 from $235.4 million in FY 2003. This year's strong bullion sales reflect the increased demand for precious metals and the resulting higher gold, silver, and platinum prices. The demand for precious metals for investments increased due to uncertainty about international conflicts and the decline in the value of the U.S. Dollar against foreign currencies. The American Eagle Uncirculated Buillion coins are low margin products, as the United States Mint only adds a small premium to the market price of the precious metal at the time of sale. The margin was 0.8 percent in FY 2004 compared to 0.5 percent in FY 2003.



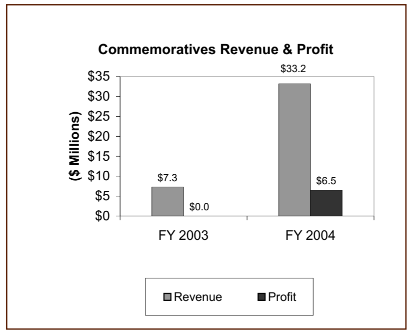
American Eagle Proof Coins

American Eagle Proof coins revenues increased to $75.2 million in FY 2004 from $61.0 million in FY 2003 due to increased unit sales and higher selling prices. The selling prices of the Eagle Proof Coins were increased in FY 2004 to reflect the higher costs of precious metals. American Eagle Proof profits increased to $13.4 million in FY 2004 from $1.7 million in FY 2003 and profit margins increased to 17.8 percent from 2.8 percent in the prior year. The 2003 American Eagle Platinum Proof Program was released in the beginning of FY 2004, while the 2004 American Eagle Platinum Proof Program was released in late FY 2004. Both programs are included in FY 2004 revenues.



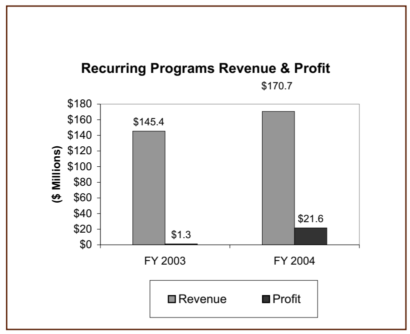
Commemorative Coins

Commemorative revenue (less surcharges and commissions) increased to $33.2 million in FY 2004 from $7.3 million in FY 2003. The Lewis and Clark and the Thomas A. Edison Commemorative Coins were issued in 2004 as authorized by Congress. Revenue from these two issuances totaled $21.1 million and generated $6.5 million in surcharges for the beneficiary organizations designated by the authorizing legislation. Also, the First Flight Centennial Commemorative Coins, authorized by Congress for issuance in 2003, were released in August 2003. Most of the revenue from the First Flight coins was realized in FY 2004. First Flight sales totaled $12.1 million in FY 2004 and generated $3.0 million in surcharges.



Recurring Programs

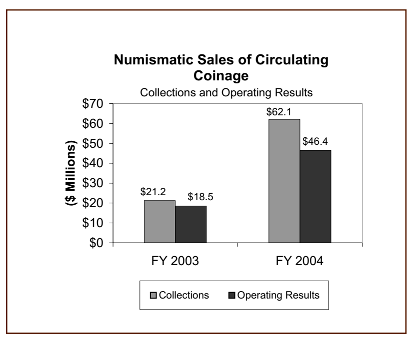
Recurring programs include proof sets, silver proof sets, uncirculated sets, 50 State Quarters® Proof Sets, 50 State Quarters Silver Proof Sets™, and other miscellaneous products. Revenue from recurring programs increased to $170.7 million in FY 2004 from $145.4 million in FY 2003. The strong performance of recurring products was due to the introduction of new products along with price increases for the annual coin sets for the first time in six years. The price increases for the annual coin sets ranged between 13 percent and 21 percent and were due to higher metal prices plus the additional material needed to include new coin designs introduced over the past few years. The new 50 State Quarters Silver Proof Set™ was introduced in FY 2004, with revenue of $15.0 million. However, the silver quarter proof set detracted from some of the sales of the quarter proof set as sales of the latter decreased to $15.1 million in FY 2004 from $18.1 million in FY 2003. The United States Mint also introduced nickel bags and rolls in FY 2004, which added $4.2 million to recurring program revenues. The combination of higher selling prices and the efforts to reduce manufacturing and SG&A costs helped increase recurring program profits. The settlement of a bankruptcy claim against one of the United States Mint's silver refiners resulted in a loss of $13.6 million and is included in this year's operating costs in the recurring programs. Despite the loss, recurring program profits increased to $21.6 million in FY 2004 from $1.3 million in FY 2003 as profit margins rose to 12.7 percent from 0.9 percent.



NUMISMATIC SALES OF CIRCULATING COINAGE

With the introduction of the 50 States Quarters® Program, the Golden Dollar, and most recently the nickel redesigns, there has been an increase in collector demand for circulating quality coins that have not yet been circulated. These coins are typically sold by the United States Mint in bags and rolls. Sales in this category represent the face value of the coins sold. All additional revenue above the face value and any additional expenses incurred in selling these products are included in the Numismatic Recurring Programs in the previous section.

Total numismatic sales of circulating coins increased to $62.1 million in FY 2004 from $21.2 million in FY 2003. The increase was primarily due to a very large purchase of quarters by a licensee for the purpose of packaging and selling the quarters to the public. The operating results of numismatic sales of circulating coinage increased to $46.4 million in FY 2004 from $18.5 million in FY 2003. As in the case of circulating coins sold to the FRB, the portion of these operating results transferred to the Treasury General Fund are off-budget transfers.



Prior to FY 2004, parts of the proceeds were included in both Circulating Coin Collections as well as Sales to the Public. The Numismatic operations of the United States Mint can obtain circulating coins in two ways. Circulating coins can either be obtained from the FRB or they may be received directly from the Philadelphia or Denver Mints. The Numismatic operation is charged the face value for those coins in either method.

By arrangement with the FRB, it was agreed that the United States Mint's Numismatic operations would obtain the coins directly from the Philadelphia and Denver Mints to eliminate the costs of shipping the coins to the FRB only to have the coins come right back to the United States Mint. In keeping with the philosophy that either method would be the same, the coins were recognized as both Circulating collections and a Numismatic expense, in the amount of the face value. Upon sale of these circulating products by the Numismatic operation, the entire amount was recognized as Sales to the Public.

In FY 2004, the amount of circulating quality coins sold directly to the public greatly increased. Therefore, it was determined that it would be more accurate to create a separate category that captures this hybrid activity; i.e., selling circulating coins directly to the public without first going to the FRB. In addition, it was determined that reporting the face value portion of the sales of these coins should only be reported one time and not as both a Circulating coin sale and a Numismatic coin sale.

Accordingly, the FY 2003 numbers have been reclassified to reflect the FY 2004 approach. The Circulating collections and costs have been reduced by $21.2 million while that portion of the Numismatic sales has been moved to the category entitled "Numismatic Sales of Circulating Coinage."

PROTECTION OPERATIONS

The Office of Protection maintains a highly professional police force with the tools and resources needed to respond to changing threats of today's environment. The United States Mint police secures approximately $102 billion in market value of the nation's gold and silver reserves. The United States Mint Police protects the United States Mint's assets while safeguarding thousands of employees against potential threats at our facilities across the country.

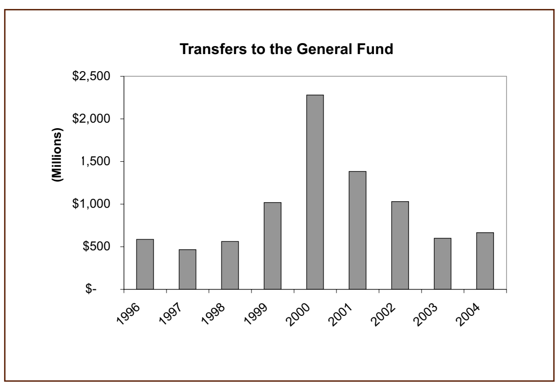
Protection costs increased to $38.0 million in FY 2004 from $37.8 million in FY 2003. The United States Mint is committed to recruiting and retaining a highly trained and professional police force. As a result, the United States Mint has been very competitive in its compensation in order to attract and retain the highest caliber of law enforcement personnel.

CAPITAL INVESTMENTS

Each year the United States Mint commits funds for capital projects to maintain, upgrade or acquire physical structures, equipment, physical security, and information technology systems. Funds obligated for capital projects totaled approximately $18.9 million in FY 2004. This included approximately $9.4 million for manufacturing projects, $5.3 million for security improvement projects, $4.0 million for information technology, and $0.2 million for miscellaneous projects. The United States Mint's capital projects are focused on improving processes, developing new coin design capabilities, and expanding information handling. These investments are planned to reduce costs, shorten the overall time from product concept to production, and achieve greater flexibility to respond to market demands.

TRANSFERS TO THE TREASURY GENERAL FUND

The Public Enterprise Fund (PEF) legislation permits the United States Mint to operate in a business-like manner allowing the United States Mint flexibility to adjust spending to adapt to ever changing economic and business conditions. The United States Mint transfers profits to the Treasury General Fund on a quarterly basis. The amount of the deposit depends on the available cash, which is determined by the amount of cash on hand offset by total liabilities.



In FY 2004, the United States Mint contributed $665 million to the Treasury General Fund. This total consisted of $661 million from the net operating results from the sale of circulating coins either to the

FRB or through numismatic channels (off-budget) and $4 million from profits on numismatic collectible and investment sales (on-budget). In comparison, $600 million ($567 million off-budget and $33 million on-budget) was transferred to the Treasury General Fund in FY 2003. The amounts transferred to Treasury are directly related to the sales of United States Mint products. Stronger circulating collections in FY 2004 plus the numismatic profits on circulating-based coin products provided a greater source for off-budget transfers to the General Fund relative to FY 2003. The $4 million on-budget transfer occurred in the first quarter of FY 2004 and reflects the numismatic profit for FY 2003. This lag in the transfer of on-budget funds is necessary, depending upon completion of the audit of the financial statements. Accordingly, the on-budget transfer in the first quarter in FY 2005 will reflect the audited profits from the sale of numismatic products in FY 2004.

PERFORMANCE SECTION

One of the most effective means of determining how well an organization is performing is through the use of performance measures. As prescribed by 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.

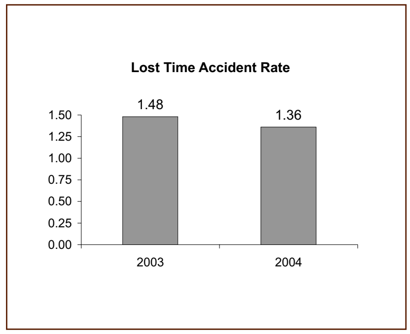
The United States Mint's strategic plan focuses on adding value, ensuring integrity, and realizing world-class performance. To direct our efforts, the United States Mint identified key performance measures that cut across the entire organization. Tied to these performance measures are world-class targets and substantive initiatives to reach our goals. These measures are presented as bureau-wide strategic performance measures, which establish a single, critical set of measures to manage our operations effectively. In addition to being the critical measures used by management, many of these key measures can be broken out at the program level. Highlighted below are these measures:

UNITED STATES MINT KEY PERFORMANCE MEASURES

Measure	September 30, 2004	FY 2004 Target	September 30, 2003
Lost Time Accident Rate	1.36	1.24	1.48
Pulse Check Survey	65%	65%	60%
Cycle-Time	85	53	73
Yield	86.10%	97%	85.93%
Machine availability	64%	64%	56%
Inventory Turnover	2.48	3.30	1.89
SG&A as a percent of Revenue	12.2%	16.0%	15.3%
Cost per 1000 coin equivalents	$7.93	$9.78	$9.96
Customer Service Index	78%	87%	87%
Total Losses	$3,109	2% of internet sales	
Protection Cost per Square Foot	$32.51	$33.02	

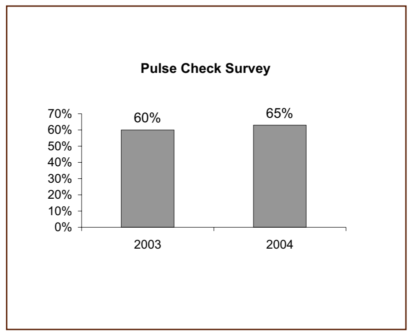
Lost Time Accident Rate

The United States Mint values its employees. Consistent with those values, the United States Mint strives to maintain a work environment that promotes the safety and well-being of employees on the job at all times. Lost Time Accidents (LTAs) are work related accidents that lead to an employee missing at least one day of work. The Lost Time Accident Rate is the number of LTAs for every 200,000 hours worked (or the LTAs per 100 employees during a full year). The LTA Rate improved to 1.36 in FY 2004 from 1.48 in FY 2003, an improvement of 8 percent. This result did not reach the target rate of 1.24. The FY 2004 final result may be adjusted at a later date pending a review or dispute of each incident's present classification. Driven by heightened awareness on safety issues and process improvements at the plants, the LTA rate has decreased three years in a row. In FY 2005 the United States Mint plans to reinvigorate the focus on safe work habits and safety awareness. Employee driven work teams have already identified and eliminated several unsafe work practices. We plan to build on this success in FY 2005 by demonstrating that employees are empowered to make meaningful changes to their work environment. The United States Mint will establish knowledge sharing networks to distribute proven solutions and develop new approaches to improve safety at its facilities.



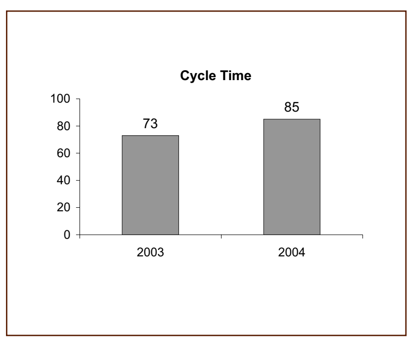
Employee Satisfaction

The United States Mint values its employees and strives to be an employer of choice, where employees are motivated and enthusiastic about coming to work. The Pulse-Check Survey is a 14-question survey designed to assess the attitudes of the United States Mint's employees concerning their work environment. It is administered each quarter to 25 percent of the United States Mint's permanent workforce. This measure captures the percentage of employees who are generally satisfied with their jobs. In the fourth quarter of FY 2004, 65 percent of survey respondents reported favorable job satisfaction, compared to a 60 percent satisfaction rate in FY 2003 and a 65 percent industry benchmark. While individual responses are kept confidential, reports are created that allow analysis across broad categories for more detail. The United States Mint's management team reviews these quarterly reports to explore options for workplace improvements in order to improve the job satisfaction levels.



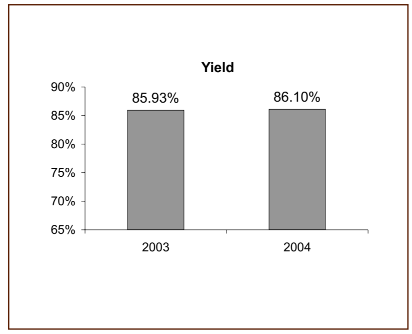
Cycle Time

The United States Mint wants to minimize the amount of time it takes to process raw materials into finished goods, eliminating non-value added steps from the processes and reducing the amount of raw material in inventory. The cycle time measure assesses the time it takes material to flow through the United States Mint's processes, from raw material to order fulfillment. Cycle-time for September was 85 days, which did not meet the target of 53 days. The cycle-time spiked 12 days from 73 in August mainly due to renovations at Philadelphia that caused a lower average production level for the month. The underlying reason that performance is not meeting the target is a large amount of dollar coins in inventory. The demand for new dollar coins after its introduction in FY 2000 was highly volatile, thereby affecting the confidence levels of the production planning. The need for the dollar coin in commerce decreased in the years following introduction, leaving inventory on hand. Dollar coins demanded for commerce are currently fulfilled solely from this inventory. Excluding the dollar coin, the cycle-time is 55 days.



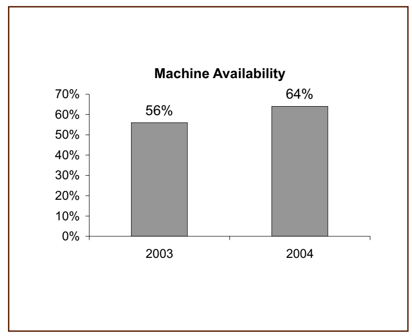
Yield

The United States Mint wants to minimize wasted material and transform as much of our materials into finished goods as is feasible. Yield measures the percentage of raw materials used that results in a finished product. The FY 2004 Yield was 86.10 percent. This is a slight increase in performance from 85.93 percent in FY 2003. Performance is short of the target of 97 percent, a stretch goal designed to encourage broad thinking and suggestions for improvement from all personnel. The main impediment to reaching the target is the fact that the target does not include an allowance for the webbing that results from stamping round blanks from rectangular sheets of metal. The resulting scrap that is generated lowers the yield measure by 10-15 percentage points depending on the mix of products that are produced. The United States Mint makes every effort to maximize the yield given our current processes. Substantial improvement will require innovative solutions.



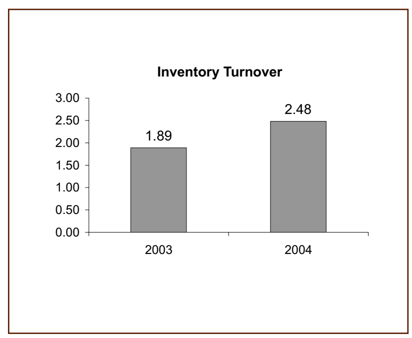
Machine Availability

Machine availability measures the amount of time production equipment is available to produce finished goods (excluding scheduled downtime). We want our machines ‘at-the-ready’ at all times to manufacture coins as warranted by the prevalent demand. The United States Mint’s equipment was available for production 64 percent of the time in FY 2004, which met the target. This is an improvement from 56 percent in FY 2003. Due to a combination of maintenance, staff planning, and older equipment, the United States Mint has had a historically low machine availability rate. Newer equipment, improved technology to schedule and monitor maintenance, and improved production management are enabling the United States Mint to have machines more available for production.



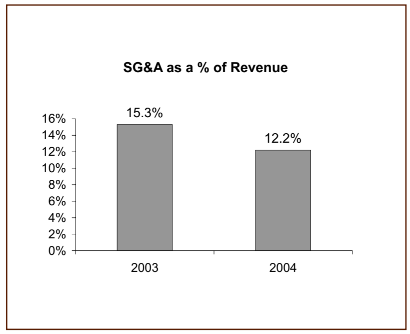
Inventory Turnover

The United States Mint seeks to minimize inventory of raw materials and finished goods to reduce the associated carrying costs. Inventory turnover is a measure of how often, during the course of a year, the United States Mint sells and replaces inventory of materials and final products. Inventory turnover is calculated as the total cost of goods sold divided by the average inventory level over a given period. The inventory turnover throughout FY 2004 was 2.48. This result is an improvement of 31 percent from 1.89 (originally 1.96, but revised with the accounting change for numismatic sale of circulating coinage) in FY 2003, achieved mainly through increased sales. Costs of goods sold increased 27 percent. However, average inventory levels decreased only slightly to $317 million in FY 2004 from $327 million (a 3 percent reduction) in FY 2003. These improvements were not enough to achieve the FY 2004 target of 3.3. Initiatives for FY 2005 are focusing on reducing the time from product concept to production and on improving production planning. Greater flexibility to respond to market demands leads to improved inventory turnover and the United States Mint expects continued improvement in this measure.



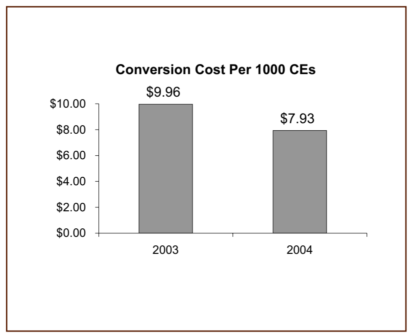
SG&A as a Percent of Revenue (Excluding Bullion Revenue)

Sales, General & Administrative (SG&A) expenses are the overhead, marketing, and advertising costs of running the United States Mint. In a production oriented, non-service intensive type business like the United States Mint, the focus is on minimizing SG&A costs where practicable to improve profitability. In the case of the United States Mint, improving margins means that more funds will be returned to the Treasury General Fund as a result of operations. The reduction of SG&A expenses was a priority in FY 2004 and will continue to be in the future. The United States Mint cut overall SG&A costs to $163 million in FY 2004 from $179 million in FY 2003. SG&A as a percent of revenue (excluding bullion revenue) decreased to 12.2 percent in FY 2004 from 15.3 percent in FY 2003. The performance is well within the current year target of 16 percent, as efforts have been made to reduce budgeted spending throughout the year. Continued reductions in costs remain a priority in order to approach a benchmark of 7.7 percent.



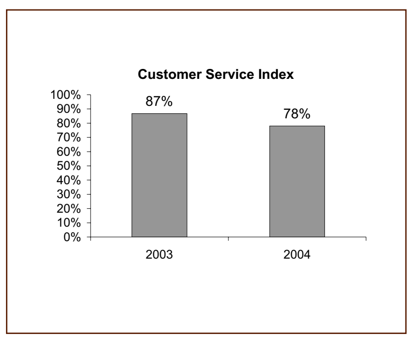
Conversion Cost per 1000 Coin Equivalents

The United States Mint's costs vary by product, and the United States Mint's product mix has been variable over time. Without a common unit of production it is difficult to compare operating results from year to year. Coin equivalents converts the United States Mint's entire production output to a common denominator (standardized from the quarter). Production costs (less metal and fabrication) are then analyzed as a ratio of this standard production level, thus "conversion costs per 1000 coin equivalents." This allows comparison of performance over time by negating the effects of changes in the product mix. The conversion cost per 1000 coin equivalents for FY 2004 was $7.93, an improvement of 20 percent from $9.96 in FY 2003. This performance beat the target of $9.78. The improvement was due to increased production and cost cutting efforts at the manufacturing facilities. Coin equivalent production in FY 2004 was 22 percent higher than FY 2003, while conversion costs decreased by 3 percent.



Customer Service Index

The Customer Service Index is an indicator of quality of our product and service to the customer. Production of quality products and excellent customer service is paramount. The Customer Service Index contains three components: the percentage of orders without returns, the percentage of phone calls answered within one minute, and the percentage of orders fulfilled within seven days. The Customer Service Index was 78 percent in FY 2004, lower than the target and baseline of 87 percent set in FY 2003. The order fulfillment and quality elements remained level from FY 2003. The call answer element was affected by back-order situations for selected products, causing call volume to increase by 26 percent from FY 2003. This took place concurrently with call center staff reductions in anticipation of fully outsourcing this function in FY 2005. This function is expected to be fully outsourced through a performance-based contract that requires the contractor to meet specified performance metrics. The United States Mint is also improving customer service by focusing on production planning and leveraging technology to reduce back-order situations.

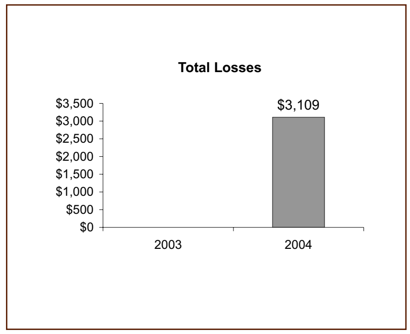


Total Losses

The United States Mint performs its protection function by minimizing the vulnerability to theft and preventing unauthorized access to critical assets. Total losses measures the dollar amount of losses incurred due to the realization of threats against the United States Mint. Total Losses measures losses within three categories representing cases that have been investigated and closed:

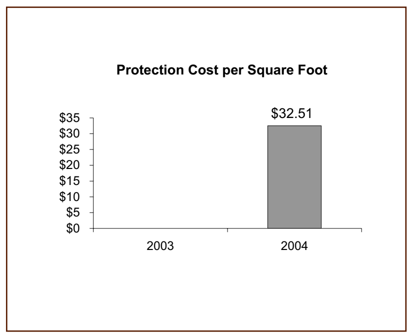
1. ***Financial Losses:*** intentional monetary losses, thefts or fraud from metal reserves, produced coinage, retail sales, and other administrative losses.
2. ***Cost of Intrusions:*** the cost of repair or recovery from an intentional intrusion into United States Mint systems and facilities either electronically or physically.
3. ***Productivity Losses:*** the cost of intentional damage or destruction to production capabilities, including related costs for continuity of operations.

There were losses of $3,109 in FY 2004. The United States Mint does keep track of "exposure" – or cases of financial loss that are still under investigation. The current exposure amount is $247,370. These cases are not yet considered losses, since there is the potential for recovery in the future. For the purposes of this measure, financial losses are recorded in the quarter in which the case is closed. The United States Mint began tracking this measure in its current format in FY 2004 and will review this measure to analyze trends and to establish meaningful targets to drive its usefulness as a key performance measure.



Protection Cost per Square Foot

Protection cost per square foot is a new measure showing the Office of Protection's total operating costs divided by the area of usable space. Usable space is defined as 90 percent of total square footage. The United States Mint Police will use the cost per square foot to provide a measurement of efficiency over time. The square footage of usable area at the United States Mint is a stable figure and will only change significantly with major events such as the addition or removal of a facility. This measurement is comparable to those used in other industries that provide security services. The result for FY 2004 is $32.51, which beat an initial target set at $33.02. As more data and analysis becomes available over time, the United States Mint will adjust targets as appropriate and review its usefulness as a key performance measure.



FMFIA / FFMIA ANNUAL ASSURANCE STATEMENT

UNITED STATES MINT
FMFIA / FFMIA ANNUAL ASSURANCE STATEMENT
FOR FISCAL YEAR 2004

The United States Mint has evaluated its systems of management control for the fiscal year ending September 30, 2004, in accordance with procedures and standards prescribed by the Office of Management and Budget and the Government Accountability Office. The United States Mint provides reasonable assurance that the objectives of Section 2 of the FMFIA were achieved during fiscal year (FY) 2004. For FY 2004, the United States Mint also provides reasonable assurance that the objectives of Section 4 of the FMFIA were met. The United States Mint had no material weaknesses from prior years that carried over to FY 2004, nor have we identified any new material weaknesses during FY 2004. However, we did take aggressive action to address issues that were identified in prior years that warranted further attention. While not considered material weakness, we have taken proactive steps to develop and implement numerous management control improvements addressing proper segregation of duties, sufficient supporting documentation, and improved property accountability.

Examples of the management control improvements implemented during FY 2004 include an ongoing management control review involving the reconciliation of payroll records with existing employee files to minimize the risk of improper or inaccurate payroll disbursements. In addition, we implemented a process utilizing automated triggers in our enterprise resource planning (ERP) system to validate manual additions and changes to commercial and employee vendor bank account data, and ensured that proper backup documentation for changes was maintained. Also, a management control review of the United States Mint's credit card purchases of information technology equipment identified ways to strengthen controls and improve property accountability. Further, improvements were made to the annual physical inventory preparation and procedures, particularly those concerning control of assets that have been temporarily transferred outside the United States Mint. A separate review was initiated of segregation of duties within the United States Mint's ERP system to identify incompatibilities between "classes" within the system and create a segregation of duties matrix to be used to approve access for United States Mint employees. We also implemented a plan to conduct regular scanning for identifying and addressing potential system vulnerabilities. The United States Mint completed certification and accreditation on our ten critical systems during FY 2004.

In all of its program activities, the United States 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, ensure reliable performance information, ensure system security compliance with all relevant requirements, and assure financial system compliance with Federal financial systems standards. The United States Mint's Continuity of Operations (COOP) Plan is operational and has been implemented. The United States Mint's performance information is reliable as most of it comes directly from the enterprise resource planning system.

The United States Mint provides reasonable assurance that it was in substantial compliance with requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA) for FY 2004.

Henrietta Holsman Fore
Director
United States Mint

DEPARTMENT OF THE TREASURY

UNITED STATES MINT

STATEMENTS OF FINANCIAL POSITION

(In Thousands)

	As of September 30, 2004	As of September 30, 2003
ASSETS		
Current assets		
Fund balance with Treasury (Note 3)	$ 322,548	$ 293,279
Accounts receivable, net (Note 4)	11,347	10,315
Operating inventories, net (Note 5)	294,452	310,358
Advances and prepayments (Note 6)	6,634	19,029
Total current assets	$ 634,981	$ 632,981
Non-current assets		
Property, plant and equipment, net (Note 7)	$ 296,187	$ 300,128
Other assets (Note 8)	5,305	5,189
Total non-current assets	$ 301,492	$ 305,317
Total assets	**$ 936,473**	**$ 938,298**
LIABILITIES AND NET POSITION		
Liabilities:		
Current liabilities		
Accounts payable - Federal (Note 9)	$ 102	$ 1,773
Accounts payable - Non-Federal	30,096	38,493
Surcharges payable (Note 3)	11,454	2,402
Unearned revenue	4,448	6,020
Accrued salaries and benefits/unemployment insurance	6,079	7,960
Total current liabilities	$ 52,179	$ 56,648
Non-current liabilities		
Accounts payable - Federal (Note 9)	$ 176,492	$ 160,811
Accrued workers' compensation benefits	41,168	39,053
Accrued annual leave	8,837	8,992
Total non-current liabilities	$ 226,497	$ 208,856
Total liabilities	**$ 278,676**	**$ 265,504**
NET POSITION		
Fund balance	$ 657,797	$ 672,794
Total liabilities and net position	**$ 936,473**	**$ 938,298**
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)	10,364,687	10,364,687
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)

	As of September 30,	
	2004	**2003**
Revenues and financing sources		
Circulating coin collections - FRB (Note 11)	$ 993,465	$ 916,145
Sales to the public (numismatic sales)	604,596	450,081
Numismatic sales of circulating coins (Note 11)	62,087	21,249
Surcharges collected and commissions received (Note 12)	(9,811)	(1,020)
Imputed financing (Note 13)	11,049	11,143
Less: Additional employee benefit expenses (Note 13)	(11,049)	(11,143)
Protection revenue	10	0
Total revenues and financing sources	**$ 1,650,347**	**$ 1,386,455**
Costs and expenses		
Cost of goods sold (Note 14)	$ 787,207	$ 617,788
Selling, general and administrative expenses (Note 15)	162,564	178,861
Other costs and expenses (Note 16)	12,506	10,848
Protection costs	38,067	37,750
Total costs and expenses	**$ 1,000,344**	**$ 845,247**
Net results	**$ 650,003**	**$ 541,208**
Net position, beginning of year	$ 672,794	$ 731,586
Transfers to Treasury's General Fund	(665,000)	(600,000)
Net position, end of year	**$ 657,797**	**$ 672,794**

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY

UNITED STATES MINT

STATEMENTS OF CASH FLOWS

(In Thousands)

	As of September 30, 2004	As of September 30, 2003
Cash flows from operating activities:		
Net results	$ 650,003	$ 541,208
Adjustments to reconcile net results to net cash provided by operating activities:		
Depreciation and amortization	$ 47,842	$ 50,254
Loss from disposal of property, plant and equipment	1,293	9,332
(Increase) / decrease in accounts receivable	(1,032)	7,641
Decrease in operating inventories	15,906	25,836
Decrease / (increase) in advances and prepayments	12,395	(14,352)
(Increase) / decrease in other assets	(116)	7,555
Increase in accounts payable	5,613	6,233
Increase in salaries and benefits payable	79	6,439
Increase / (decrease) in surcharges and unearned revenue	7,480	(1,721)
Net cash provided by operating activities	**$ 739,463**	**$ 638,425**
Cash flows from investing activities:		
Purchases and additions of property, plant and equipment	$ (45,194)	$ (46,213)
Net cash used by investing activities	**$ (45,194)**	**$ (46,213)**
Cash flows from financing activities:		
Funds transferred to Treasury	$ (665,000)	$ (600,000)
Net cash used by financing activities	**$ (665,000)**	**$ (600,000)**
Net cash provided (used) by operating, investing and financing activities	**$ 29,269**	**$ (7,788)**
Fund balances with Treasury and cash at beginning of year	**$ 293,279**	**$ 301,067**
Fund balances with Treasury and cash at end of year	**$ 322,548**	**$ 293,279**

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, 2004

(Dollars are in thousands except Fine Troy Ounce information)

NOTE 1 REPORTING ENTITY

Established in 1792, the United States Mint is a bureau of the Department of the Treasury (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 primarily of the 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 and financing sources received by the United States Mint Public Enterprise Fund (PEF).

Pursuant to Public Law 104-52, the PEF was established to account for all revenues and expenses related to production and sale of numismatic products and circulating coinage and protection activities. Expenses accounted for in this fund include the cost of metals used in circulating coin production, the cost of metals (gold, silver, platinum, cupro-nickel, manganese 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 the United States 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. GAAP), 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 U.S. GAAP. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as in accordance with U.S. GAAP 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. Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

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-United States Mint transactions and balances have been eliminated.

Revenues and Financing Sources

Circulating Coinage: P.L. 104-52, establishing the PEF, provides for the sale of circulating coinage at face value to the Federal Reserve System. Circulating coinage collections are recognized when the product is shipped to the Federal Reserve Banks.

Circulating coin collections derived from selling the circulating coins to the FRB and Numismatic sales of circulating coins are limited to the recovery of the cost of manufacturing those coins. The difference between the face value of circulating coins sold and the total cost of manufacturing those coins is considered a financing source in accordance with FASAB guidelines.

Sales to the Public (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.

Numismatic Sales of Circulating Coins: Revenue is recognized when products are shipped to customers. No Federal Reserve System sales are included in this category. Prices for numismatic circulating coins are slightly higher than the face value of the coins.

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

Fund Balance with Treasury

All cash is maintained at the Treasury.

Accounts Receivable

An allowance for uncollectible customer accounts receivable was established for all accounts that are older than 180 days. However, the United States Mint will continue collection action as specified by the Debt Collection Improvement Act of 1996.

Operating Inventories

Inventories of circulating coinage and most numismatic products are valued at the lower of cost or market value. Absent historical cost records to determine acquisition cost of the gold and silver over the decades, the statutory rates of $42.2222 per fine troy ounce (FTO) of gold and $1.292929292 per FTO of silver are used. All work-in-process gold and silver inventories have been included in the United States Mint's financial statements.

Treasury allows the United States Mint to use its gold and silver as our working stock. This working stock is reported in "Operating inventories," with an offsetting amount in "Accounts payable – Federal." Generally, the United States Mint will replace its working stock when used in production with purchases of gold and silver on the open market. In those cases where the gold is not replaced, the United States Mint reimburses Treasury the market value of the depleted gold. That reimbursement would result in a reduction of the Operating inventories, along with the Accounts payable – Federal at the statutory rates.

Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances and 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

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 paid to the benefiting organization(s) without restriction. However, the Act made the benefiting organizations full partners in the 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. P.L. 108-15 contains a provision that beneficiary organizations have two years from the end of the program sales to meet the requirements of P.L. 104-208. If the requirements are not met within two years, the surcharges collected are to be deposited in the Treasury as miscellaneous receipts. Additionally, P.L. 108-15 changed the fund raising requirement for beneficiary organizations from an amount equal to the maximum surcharges possible based on the maximum mintage to an amount equal to the surcharges actually collected based on sales.

Shipping and Handling
The United States Mint reports shipping and handling costs as Cost of Goods Sold and not as part of Selling, General and Administrative expenses. The United States Mint believes that shipping and handling of Circulating and Numismatic products is more appropriately reported as part of the manufacturing process. General postage costs for handling administrative functions continue to be reported as part of the United States Mint's General and Administrative expenses.

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. Most of 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.

Concentrations
The United States Mint purchases all of the coil used in the production of its circulating products from two vendors at competitive market prices.

Reclassifications
Certain fiscal year 2003 amounts have been reclassified to conform to current year presentation.

NOTE 3 FUND BALANCE WITH TREASURY

Components of fund balances with Treasury at September 30 are as follows:

		2004		2003
Revolving Fund	$	322,548	$	293,279
Total Fund Balance with Treasury	$	322,548	$	293,279

At September 30, 2004 and 2003, revolving fund balances included $11.45 million and $2.40 million, respectively, in restricted amounts for possible payment of surcharges to beneficiary organizations.

NOTE 4 ACCOUNTS RECEIVABLE

Components of accounts receivable at September 30 are as follows:

		2004		2003
Accounts Receivable, Federal	$	4,422	$	3,946
Accounts Receivable, Non-Federal		7,062		6,743
Less Allowance for Doubtful Accounts		(137)		(374)
Total Accounts Receivable	$	11,347	$	10,315

NOTE 5 OPERATING INVENTORIES

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

		2004		2003
Operating components	$	271,876	$	283,873
Supplies		23,356		26,485
Allowance for program closeout		(780)		
Total Operating Inventories	$	294,452	$	310,358

Operating components of inventories include direct materials, direct labor and overhead for work-in-process and finished goods inventories. Costs of precious metals (without fabrication and transportation) in the operating components at September 30 are as follows:

		2004		2003
Gold ($42.2222/FTO)	$	119,638	$	119,939
Silver ($1.292929292/FTO)		13,235		16,670
Platinum (Lower of Cost or Market)		31,648		37,861
Total Cost of Precious Metals in Operating Components	$	164,521	$	174,470

Gold and silver listed in the above chart is Treasury-owned gold and silver that the United States Mint uses as working stock. Although the gold and silver is Treasury-owned, it is listed as the United States Mint “Operating inventories” with an offsetting amount in “Accounts payable – Federal.” Platinum is a United States Mint asset that is not owned by Treasury.

NOTE 6 ADVANCES AND PREPAYMENTS

		2004		2003
Federal	$	4,095	$	18,977
Non-Federal		2,539		52
Total Advances and Prepayments	$	6,634	$	19,029

Included in Advances-Federal is the amount of $1.68 million that the United States Mint pays into the Treasury Working Capital Fund (the Fund), a revolving fund that operates as an accounting entity. Also included are the progress payments (advances) for equipment and building improvements under construction. The United States Mint initiated a United States Mint-wide security upgrade, which requires progress payments be made to the construction contractors. As of September 30, 2004, the account balance for such payments is $1.28 million.

Advances-Non-Federal consists primarily of advances for freight forwarding.

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

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

	2004	2003
Land	$ 2,529	$ 2,529
Structures, Facilities and Leasehold Improvements	195,876	175,161
Computer Equipment	34,379	28,408
ADP Software	95,516	94,223
Machinery and Equipment	225,256	216,174
	$ 553,556	$ 516,495
Less Accumulated Depreciation and Amortization	(257,369)	(216,367)
Total Property, Plant and Equipment, Net	$ 296,187	$ 300,128

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 expenses charged to operations for FY 2004 and FY 2003 were $47.84 million and $50.25 million, respectively.

NOTE 8 OTHER ASSETS

Other Assets consists primarily of a settlement agreement reached in a court action.

NOTE 9 ACCOUNTS PAYABLE – FEDERAL

Gold and silver is Treasury-owned gold and silver that the United States Mint uses as working stock. While the gold and silver is Treasury-owned, it is listed as United States Mint "Operating Inventories" since it is used in the manufacture of United States Mint products. The Accounts Payable-Federal includes an amount for gold and silver listed in "Operating Inventories" (see footnote 2), as well as any silver inventory that has been used in the manufacturing process that has not yet been replaced. The value of silver inventory used, but not replaced, is determined by the closing London Fix for silver at September 30.

Platinum is a United States Mint asset that is not owned by Treasury.

A summary of accounts payable-federal at September 30 are as follows:

		2004	2003
Current:			
	Funds to be transferred to others	$ 102	$ 1,773
		$ 102	$ 1,773
Non-Current:			
	Metal used as working stock inventory	$ 176,492	$ 160,811
		$ 176,492	$ 160,811
Total Accounts Payable - Federal		$ 176,594	$ 162,584

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 below.

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

	2004	2003
Gold:		
Inventories (FTO)	245,262,897	245,262,897
Market Value ($ per FTO)	$ 415.65	$ 388.00
Market Value ($ in thousands)	$ 101,943,523	$ 95,162,004
Statutory Value ($ in thousands)	$ 10,355,539	$ 10,355,539
Silver:		
Inventories (FTO)	7,075,171	7,075,171
Market Value ($ per FTO)	$ 6.6650	$ 5.1150
Market Value ($ in thousands)	$ 47,156	$ 36,190
Statutory Value ($ in thousands)	$ 9,148	$ 9,148
Total *Marke*t Value of Custodial Gold and Silver Reserves ($ in thousands)	$ 101,990,679	$ 95,198,194
Total Statutory Value of Custodial Gold and Silver Reserves ($ in thousands)	$ 10,364,687	$ 10,364,687

NOTE 11 CIRCULATING COIN COLLECTIONS

Circulating Coin Collections whether from the FRB or from the public are recorded upon the shipment of circulating coins. These collections are comprised of "Financing Sources" as well as "Revenue" as defined in Note 2.

Revenue is limited to the recovery of all costs associated with the production, administration and distribution of Circulating coins (both to the FRB and to the public), payment by the United States Mint for mutilated and uncurrent coins, as well as all of the United States Mint's Protection costs. Protection costs are those costs associated with protecting United States Mint property, United States Mint personnel and Treasury assets for which the United States Mint is custodian. The financing source is all additional Circulating Coin Collections (FRB and Non-FRB) over and above what has previously been defined as revenue.

The components of circulating coin collections and numismatic sales of circulating coins as of September 30 are as follows:

	2004	2003
Revenue-FRB	$ 433,827	$ 397,682
Financing Sources-FRB	559,638	518,463
Total Circulating Coin Collections	$ 993,465	$ 916,145
Revenue-Non FRB	$ 15,776	$ 2,672
Financing Sources-Non FRB	46,311	18,577
Total Numismatic Sales of Circulating Coins	$ 62,087	$ 21,249

The FY 2003 Numismatic Sales of Circulating Coins were previously reported as Circulating Coin Collections (see Note 14).

NOTE 12 SURCHARGES COLLECTED AND COMMISSIONS RECEIVED

The following chart shows surcharges collected by product and beneficiary organization for FY 2004 and FY 2003. 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**	**2004**	**2003**	**Sales Period** (Calendar Year)
Lewis and Clark Expedition Bicentennial	National Lewis and Clark Bicentennial Council National Park Service	$ 3,854	$ -	2004
US Military Academy Bicentennial	Association of Graduates US Military Academy	-	276	2002-2003
2002 Winter Olympics	Salt Lake Organizing Committee Olympic Winter Games of 2002	-	74	2002
First Flight Commemorative Coins	First Flight Foundation	3,045	668	2003-2004
Thomas Alva Edison	Museum of Arts and History Edison Birthplace Association National Park Service Edison Plaza Museum Edison Winter Home & Museum Edison Institute/Greenfield Village Edison Memorial Tower Hall of Electrical History/ Schenectady Museum Association	2,606	-	2004
Yosemite Medal	National Park Foundation	2	2	open-ended
Total Surcharges Collected		**$ 9,507**	**$ 1,020**	

In cooperation with the U.S. Fish and Wildlife Service, the United States Mint produced and sold medals commemorating the 100th anniversary of the National Wildlife Refuge System. The medals were produced under the general authority for striking national and other medals granted by United States Code Title 31, Section 5111. The agreement between the United States Mint and the U.S. Fish and Wildlife Service provides that ten percent of the price of each silver medal and five percent of the price of each bronze medal sold will be paid to National Fish and Wildlife Foundation for the benefit of the National Wildlife Refuge System and its conservation efforts. As of September 30, 2004, the commissions received from the sale of the medals total $304,000. There were no commissions received in FY 2003.

NOTE 13 RETIREMENT PLANS AND OTHER POST-EMPLOYMENT COSTS (IMPUTED FINANCING)

At the end of FY 2004, three hundred fifty five (355) United States Mint employees participated in the Civil Service Retirement System (CSRS), to which the United States Mint contributes 25.0 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 elected 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 14 percent of salary to a maximum of $13,000. 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 the United States 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 25.0 percent of basic pay for CSRS-covered employees and 12.0 percent of basic pay for FERS-covered employees were in use for FY 2004. These cost factors remain unchanged from FY 2003.

The amounts that the United States Mint contributed to the retirement plans and social security as of September 30 are as follows:

		2004		**2003**
Social Security System	$	8,405	$	8,190
Civil Service Retirement System		1,685		2,106
Federal Employees Retirement System				
(Retirement & Thrift Savings Plan)		14,330		13,838
Total Retirement Plans and Other Post-employment Cost	$	24,420	$	24,134

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 $4,420 and $3,766 per employee enrolled in the Federal Employees Health Benefits Program in FY 2004 and FY 2003, 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 2004 and FY 2003.

The amount of imputed cost incurred by the United States Mint for FY 2004 and FY 2003 is as follows (before the offset of imputed financing):

		2004		**2003**
Health Benefits	$	7,637	$	7,208
Life Insurance		22		22
Pension Expense		3,390		3,913
Total Imputed Cost	$	11,049	$	11,143

NOTE 14 COST OF GOODS SOLD

Components of cost of goods sold as of September 30 are as follows:

		2004		**2003**
Finished Goods, Beginning	$	60,168	$	75,937
Cost of Goods Manufactured:				
Work-In-Process, Beginning		250,190		262,354
Direct Labor		11,745		11,868
Manufacturing Overhead		759,556		577,987
Work-In-Process, Ending		(225,341)		(250,190)
Total Cost of Goods Manufactured	$	796,150	$	602,019
Cost of Goods Available for Sale	$	856,318	$	677,956
Finished Goods, Ending		(69,111)		(60,168)
Total Cost of Goods Sold	$	787,207	$	617,788

Prior to FY 2004, the revenue and financing sources of Numismatic sales of circulating coins were included in both Circulating coin collections as well as Sales to the public. In FY 2004, Numismatic sales of circulating coins were reported separately. To conform to the current year presentation, FY 2003 revenues and financing sources for Circulating coin collections and Sales to the public, as well as cost of goods sold have been reduced by $21.2 million.

NOTE 15 SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

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

	2004	2003
Selling Expenses:		
Marketing	$ 30,907	$ 31,716
Advertising	14,950	16,230
	$ 45,857	$ 47,946
General and Administrative:		
Labor/Benefits/Benefits to Former Personnel	$ 47,511	$ 52,403
Travel/Transportation	1,795	1,076
Rent/Communications/Utilities less Postage Mail Drop	19,403	16,611
Printing less Other Print/Report/Advertising	15	81
Services less Product Advertising	39,331	47,611
Non-Capitalized Equipment and Supplies	87	2,803
Depreciation	8,565	10,330
	$ 116,707	$ 130,915
Total Selling, General and Administrative Expenses	$ 162,564	$ 178,861

NOTE 16 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 17 LEASE COMMITMENTS

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

Total rental expense was $19.48 million and $16.52 million in FY 2004 and FY 2003, respectively.

Operating Lease

Schedule of Minimum Future Rental Payments (in thousands)

Year Ended 9/30	
2005	$ 16,285
2006	15,570
2007	15,657
2008	15,888
2009	16,465
After 2009	103,808
Total Minimum Future Rental Payments	$ 183,673

NOTE 18 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 is the subject of a class complaint alleging employment discrimination at its Denver Mint facility. If certified, the maximum liability for compensatory damages will be about $32 million.

NOTE 19 RELATED PARTIES

Related Parties who were paid at least $500,000 as of September 30 are below:

	2004	2003
Office of Personnel Management	$ 21,444	$ 21,582
Department of Labor	13,958	13,745
United States Postal Service	6,074	10,622
Social Security Administration	8,405	8,190
Treasury Departmental Offices	1,313	2,978
General Services Administration	1,315	1,325
Total Related Parties	$ 52,509	$ 58,442

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

The United States Mint shipped approximately $994 million in coins to the Federal Reserve Board in FY 2004. This amount represents an 8 percent increase over FY 2003 shipments of $917 million.

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.

UK &W Urbach Kahn & Werlin LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Office of Inspector General
United States Department of the Treasury

Director
The United States Mint

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 (Department), as of September 30, 2004 and 2003, 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 applicable provisions of 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 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, 2004 and 2003, 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 basic financial statements taken as a whole. The Management Discussion and Analysis and Supplemental Financial Information are presented for purposes of additional analysis and are not a required part of these basic financial statements. Such information, except for the Management Discussion and Analysis, on which we express no opinion, has been subjected to the auditing procedures applied in' the audit of the basic financial statements; and, in our opinion, the information is

INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS, CONTINUED

fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued reports dated October 29, 2004, 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 Kahn & Werlin LLP

Washington, DC
October 29,2004

Urbach Kahn & Werlin LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Office of Inspector General
United States Department of the Treasury

Director
The United States Mint

We have audited the financial statements of the United States Mint (Mint), a bureau of the United States Department of the Treasury (Department), as of and for the year ended September 30, 2004, and have issued our report thereon, dated October 29, 2004. 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 applicable provisions of 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL, CONTINUED

In addition, with respect to internal control related to performance measures reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. 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 noted other matters involving the internal control and its operation, which we have reported to the management of the Mint in a separate letter, dated October 29, 2004.

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

Urbach Kahn & Werlin LLP

Washington, DC
October 29, 2004

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Office of Inspector General
United States Department of the Treasury

Director
The United States Mint

We have audited the financial statements of the United States Mint (Mint), a bureau of the United States Department of the Treasury (Department), as of and for the year ended September 30, 2004 and have issued our report thereon, dated October 29, 2004. 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, applicable provisions of 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 Mint. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Mint's compliance with certain provisions of 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.

We performed tests to determine 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.

The results of our tests disclosed no instances in which the Mint's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

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.

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS, CONTINUED

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

Urbach Kahn & Werlin LLP

Washington, DC
October 29,2004

Supplemental Financial Information

In this Supplemental Section of the Report, we provide additional information related to the financial condition of the United States Mint. Each section provides its own additional insight.

Supplemental Information per Public Law 106-445 – Circulating Coin Shipments to the Federal Reserve Bank (FRB)
The following supplemental schedules were prepared in compliance with the reporting requirement per Public Law 106-445 Section 5134(e)(2) of title 31, United States Code, amended in FY 2000, which required the United States Mint to include in its annual report specific information regarding the costs and expenses for producing, marketing, and distributing circulating coinage — both in gross and on a per-unit basis — as well as gross revenue from the sales of each denomination.

The first two schedules provide the information detailing the costs and expenses for the production, marketing, and distribution of each denomination of circulating coins produced by the United States Mint during FY 2004 and FY 2003 as well as the gross circulating collections derived from the sales of each such denomination of coins. The second set of schedules provides the information for the per-unit cost of producing and distributing each denomination of such coins.

CIRCULATING COLLECTIONS AND OPERATING RESULTS - FRB (in Millions)
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Penny	Nickel	Dime	Quarter	Half	Dollar	Mutilated & Other	Total
Collections	$ 71.30	$ 69.60	$ 256.90	$ 560.40	$ 3.50	$ 31.80	$ 0.00	$ 993.50
Cost of Goods Sold	65.70	62.70	55.10	106.90	0.80	3.20	0.00	294.40
Selling, General & Adminstrative	1.00	0.80	25.60	57.60	0.40	3.50	0.00	88.90
Other Costs and Expenses	0.00	0.00	0.00	0.00	0.00	0.00	12.50	12.50
Operating Results	$ 4.60	$ 6.10	$ 176.20	$ 395.90	$ 2.30	$ 25.10	$ (12.50)	$ 597.70

CIRCULATING COLLECTIONS AND OPERATING RESULTS - FRB (in Millions)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Penny	Nickel	Dime	Quarter	Half	Dollar	Mutilated & Other	Total
Collections	$ 64.30	$ 37.20	$ 188.40	$ 604.50	$ 2.70	$ 19.00	$ 0.00	$ 916.10
Cost of Goods Sold	61.20	26.20	37.60	111.70	0.50	4.00	0.00	241.20
Selling, General & Adminstrative	2.10	2.10	23.00	76.60	0.60	3.50	0.00	107.90
Other Costs and Expenses	0.00	0.00	0.00	0.00	0.00	0.00	10.80	10.80
Operating Results	$ 1.00	$ 8.90	$ 127.80	$ 416.20	$ 1.60	$ 11.50	$ (10.80)	$ 556.20

UNIT COST OF PRODUCING AND DISTRIBUTING COINS FOR THE FRB
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Penny	Nickel	Dime	Quarter	Half	Dollar
Cost of Goods Sold	$ 0.0090	$ 0.0446	$ 0.0212	$ 0.0466	$ 0.1101	$ 0.0984
General & Adminstrative	0.0001	0.0006	0.0100	0.0257	0.0569	0.1114
Distribution to FRB	0.0002	0.0004	0.0002	0.0010	0.0027	0.0016
Total Cost per Unit	$ 0.0093	$ 0.0456	$ 0.0314	$ 0.0733	$ 0.1697	$ 0.2114

UNIT COST OF PRODUCING AND DISTRIBUTING COINS FOR THE FRB
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Penny	Nickel	Dime	Quarter	Half	Dollar
Cost of Goods Sold	$ 0.0093	$ 0.0346	$ 0.0197	$ 0.0452	$ 0.0902	$ 0.1694
General & Adminstrative	0.0003	0.0028	0.0122	0.0311	0.0583	0.1410
Distribution to FRB	0.0002	0.0004	0.0002	0.0008	0.0007	0.0017
Total Cost per Unit	$ 0.0098	$ 0.0378	$ 0.0321	$ 0.0771	$ 0.1492	$ 0.3121

Supplemental Reconciliation of Financial Statements to Budgetary Reports
Public Law 102-390 requires that the United States Mint's annual financial statements include a reconciliation of the financial statements to the budget reports of the Fund. The following supplemental schedule reconciles the expenses from the United States Mint's Total Costs and Expenses from its Statement of Operations and Changes in Net Position to the SF-133, Report on Budget Execution and Budgetary Resources.

Reconciliation of Financial Statements to Budget Reports
For the Year Ended September 30, 2004 (in Thousands)

Obligations Incurred per SF 133		$ 968,217
Expended Authority - Unpaid	$ (13,172)	
Change in Assets and Liabilities	45,299	
Total		32,127
Total Cost and Expenses per the Statement of Operations and Changes in Net Position		**$ 1,000,344**

Reconciliation of Financial Statements to Budget Reports
For the Year Ended September 30, 2003 (in Thousands)

Obligations Incurred per SF 133		$ 812,835
Expended Authority - Unpaid	$ (10,951)	
Change in Assets and Liabilities	43,363	
Total		32,412
Total Cost and Expenses per the Statement of Operations and Changes in Net Position		**$ 845,247**

Supplemental Information per Public Law 107-201
Public Law 107-201 (July 23, 2002) authorized the United States Mint to purchase silver on the open market to mint coins when the Strategic Stockpile of silver was depleted. The law requires annual reporting of the amount of silver purchased on the open market by fiscal year. The following are purchases for FY 2003 and FY 2004:

	Quantity (FTO)	Market Value
FY 2003	9,709,426.5470	$ 45,663,721.33
FY 2004	12,968,078.1850	$ 81,939,233.25

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 5, 2004

MEMORANDUM FOR HENRIETTA HOLSMAN FORE, DIRECTOR
UNITED STATES MINT

FROM: William H. Pugh *William H. Pugh*
Deputy Assistant Inspector General for Financial Management and Information Technology Audits

SUBJECT: Audit of the United States Mint's Schedule of Custodial Gold and Silver Reserves as of September 30, 2004 and 2003

The attached report presents the results of our audits of the United States Mint's (Mint) Schedule of Custodial Gold and Silver Reserves (Custodial Schedule) as of September 30, 2004 and 2003. The Custodial Schedule is the responsibility of the Mint. We conducted our audits in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

We rendered an unqualified opinion on the Custodial Schedule as of September 30, 2004 and 2003. In addition, our report contains no reportable conditions related to internal control, and no instances of noncompliance with laws and regulations that could have a direct and material effect on the Custodial Schedule.

The results of our audits will be used by Urbach, Kahn & Werlin, LLP, an independent public accountant, who performed the audits of the Mint's Fiscal Years 2004 and 2003 financial statements. In addition, copies of our report are being provided to the Secretary of the Treasury, the Treasurer of the United States, and the Department of the Treasury's Chief Financial Officer.

Your staff has reviewed our report, and has no comments. Should you have any questions, please contact me at (202) 927-5400 or Michael Fitzgerald, Director, Financial Audits, at (202) 927-5789

Attachment

The Department of the Treasury
Office of Inspector General

To the Director of the United States Mint:

We have audited the accompanying Schedule of Custodial Gold and Silver Reserves (Custodial Schedule) of the United States Mint (Mint) as of September 30, 2004 and 2003. 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.

Management's Responsibilities

Management is responsible for: (1) preparing the Custodial Schedule in conformity with accounting principles generally accepted in the United States of America; (2) establishing and maintaining internal control; and (3) complying with laws and regulations applicable to the Mint's custodial responsibilities for the Gold and Silver Reserves.

Scope of Audits

We conducted our audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 and our conclusions on internal control and compliance with laws and regulations.

In planning and conducting our audit of the Mint's Custodial Schedule, we considered internal control over financial reporting. Specifically, we obtained an understanding of the design of the Mint's internal control related to the Custodial Schedule, 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. Consequently, we do not provide an opinion on such control.

As part of obtaining reasonable assurance about whether the Custodial Schedule is free of material misstatement, we performed tests of the Mint's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of Custodial Schedule amounts. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Mint. We caution that noncompliance may occur and not be detected by these tests and that testing may not be sufficient for other purposes. 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 Mint as of

September 30, 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America.

Internal Control

Internal control is a process, effected by management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the Custodial Schedule in accordance with accounting principles generally accepted in the United States of America, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; and

- Compliance with applicable laws and regulations that could have a direct and material effect on the Custodial Schedule.

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.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting related to the Custodial Schedule that might be material weaknesses. A material weakness is a reportable condition 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 caused by errors or fraud 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. However, we noted no matters involving the internal control over financial reporting related to the Custodial Schedule and its operation that we consider to be material weaknesses as defined above.

We noted a matter involving internal control related to the Custodial Schedule and its operation that we will report to the management of the Mint in a separate letter.

Compliance with Laws and Regulations

The results of our tests of compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported under ***Government Auditing Standards.***

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We have reviewed our report with the financial management of the Mint. Based on mutual agreement, we are issuing this report as final. Should you or your staff have any questions, you may contact me at (202) 927-5400, or Michael Fitzgerald, Director, Financial Audits, at (202) 927-5789. We appreciate the cooperation and the courtesy extended to our staff.

This report is intended solely for the information and use of the management of the Mint, the Department of the Treasury, the Office of Management and Budget, Congress, and Urbach, Kahn & Werlin, LLP, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available as a matter of public record.

William H. Pugh

William H. Pugh
Deputy Assistant Inspector General for Financial Management
and Information Technology Audits
October 27, 2004

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 2004 AND 2003
(IN THOUSANDS)

CUSTODIAL GOLD AND SILVER RESERVES	2004	2003
United States gold and silver reserves (Note 2)	$10,364,687	$10,364,687
Liability to Treasury (Note 2)	$10,364,687	$10,364,687
Net gold and silver reserves custodial position	$ 0	$ 0

The accompanying notes are an integral part of this Schedule.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES AS OF SEPTEMBER 30, 2004 AND 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The United States Mint, established in 1792, is an integral part of the Department of the Treasury. The mission of the United States Mint is to manufacture coins for general circulation. In addition to manufacturing circulating coins, the United States Mint manufactures numismatic products, including medals, proof coins, uncirculated coins, bullion coins (gold, platinum, and silver), and commemorative coins. These manufacturing operations are reported in the United States Mint's consolidated financial statements. The United States 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 United States Mint's Statements of Financial Position. The United States Mint uses the term custodial to identify gold and silver reserves held for the United States Treasury. The custodial reserves are not assets of the United States Mint, but are assets of the United States Treasury.

The United States Mint's Public Enterprise Fund (PEF) funds all custodial activities, including the protection of the United States' gold and silver reserves.

B. Basis of Presentation

This Schedule has been prepared to report the gold and silver reserves custodial position of the United States Mint. The books and records of the United States Mint have served as the source of the information contained herein. This Schedule has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and United States Mint accounting policies.

This Schedule includes all gold and silver classified by the United States Mint as "custodial reserves" as defined in Note 2. This Schedule does not reflect any United States gold and silver reported by the United States 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 (FRB). The PEF is authorized to use gold and silver from the custodial reserves to support its numismatic operations.

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 United States Mint's financial records and of the Treasury gold held by the FRB. 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.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES AS OF SEPTEMBER 30, 2004 AND 2003

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, 2004 and 2003, the market value of gold was $415.65 per FTO and $388.00 per FTO respectively. Gold inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
2004	245,262,897.04	$10,355,539,091	$101,943,523,155
2003	245,262,897.04	$10,355,539,091	$95,162,004,052

At September 30, 2004 and 2003, the market value of silver was $6.6650 per FTO and $5.1150 per FTO respectively. Silver inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
2004	7,075,171.14	$ 9,147,696	$47,156,016
2003	7,075,171.14	$ 9,147,696	$36,189,500

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

	Statutory Value	Market Value
2004	$10,364,686,787	$101,990,679,171
2003	$10,364,686,787	$95,198,193,552

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 newly mined gold or paying the Treasury General Fund for the custodial reserves transferred to the PEF for numismatic operations. There were no such transfers during FY 2004 and 2003.

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 or 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 (e.g., Dolley Madison), events (e.g., the Olympic Games) or things (e.g., 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 penny, 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.