Audit Report

OIG-07-022

Audit of the United States Mint's Fiscal Years 2006 and 2005 Financial Statements

December 21, 2006

Office of Inspector General

Department of the Treasury

The Mint strives to ensure that their documents are accessible;
to obtain a text version of the Mint's 2006 Annual Report, see the Mint's:
Web Accessibility and Section 508 Compliance policy page

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 21, 2006

**MEMORANDUM FOR EDMUND C. MOY, DIRECTOR
UNITED STATES MINT**

FROM: Joel A. Grover
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Audit of the United States Mint's Fiscal Years 2006 and 2005 Financial Statements

I am pleased to transmit the attached audited United States Mint (Mint) financial statements for fiscal years 2006 and 2005. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of the Mint as of September 30, 2006 and 2005 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements;* and the *GAO/PCIE Financial Audit Manual*.

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

- Independent Auditors' Report;
- Independent Auditors' Report on Internal Control; and
- Independent Auditors' Report on Compliance and Other Matters.

In its audit, KPMG LLP found that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. However, KPMG LLP's Report on Internal Control contained one reportable condition related to improvements needed in financial accounting and reporting, which was not considered a material weakness. Further, KPMG LLP found no instances of reportable noncompliance with laws and regulations, exclusive of the *Federal Financial Management Improvement Act of 1996 (FFMIA)*, tested. However, KPMG LLP's tests of *FFMIA* Section 803 (a) requirements disclosed one instance in which the Mint's financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level.

KPMG LLP also issued a management letter dated December 8, 2006, discussing other matters involving internal control over financial reporting and its operation that were identified during the audit but were not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG LLP'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 financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated December 8, 2006, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP 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

DEPARTMENT OF THE TREASURY
UNITED STATES MINT

Annual Report

September 30, 2006

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DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D.C. 20220

DIRECTOR
OF THE
MINT

December 8, 2006

Dear Collectors, Customers and Colleagues,

In the closing month of Fiscal Year (FY) 2006, I had the honor of being sworn in as the 38th Director of the United States Mint. I am both pleased and fortunate to begin my tenure at the helm of a venerable, 214-year old American institution that is widely recognized as the world's premier manufacturer of coins. While the United States Mint has a long and rich history, let me assure you that we are also strongly positioned to fulfill the needs of the nation now and in the future.

During FY 2006, we focused our efforts on three key areas—revenue growth, increased efficiency, and commitment to our employees. I am proud to report to you that we made progress in each of these areas. Key achievements for the year included:

- Transferring $750 million to the Treasury General Fund;
- Producing 16.2 billion coins for circulation;
- Serving the needs of our collectors by launching several exciting new products and recording $1.04 billion in numismatic sales;
- Improving our efficiency by transferring some human resource, procurement and e-travel functions and setting the stage for transferring some transactional activities in accounting to a Center of Excellence shared service provider—the Administrative Resource Center of the Bureau of Public Debt;
- Increasing the safety of the work environment for our employees by reducing lost time accidents by 22 percent;
- Achieving a top ranking in the American Customer Satisfaction Survey for the seventh consecutive year.

We are also very proud of the new products we launched in FY 2006. The beautiful designs and expert workmanship were extremely well received by the public, a testament to the care and dedication of all United States Mint employees. The new products included:

- The 24-Karat American Buffalo Gold Coin—the first pure gold coin ever produced by the United States Mint;

- American Eagle Anniversary Sets—gold and silver coin sets celebrating the 20th anniversary of the American Eagle Coin Program;

- The 50 State Quarters® Program coins for West Virginia, Nevada, Nebraska, Colorado and North Dakota;

- The last 5-cent coin in the Westward Journey Nickel Series™—"Return to Monticello"; and

- The Benjamin Franklin Commemorative Silver Dollars honoring the tercentenary of the birth of one of our nation's founding fathers.

FY 2006 was not without its challenges—by the fourth quarter, steeply rising metal prices had pushed the cost of manufacturing the one-cent and 5-cent coins above face value. Although circulating coin production actually increased over the previous year, there remains continuing uncertainty on future demand levels for circulating coinage. FY 2006 also heralded the beginning of an organization-wide restructuring effort to reorient our workforce to the business requirements of the future and refocus on mission-critical objectives.

We will be facing these challenges for some years into the future, and we remain fully committed to fulfilling our mission to the nation. We will continue our efforts to modernize our coin production materials and technology; increase the flexibility and future capability of our workforce; and respond to the opportunities presented to greatly expand our numismatic business.

We look forward to a busy and exciting FY 2007 at the United States Mint as we prepare for the launch of five new 50 States Quarters coins; commemorative coins honoring the San Francisco Old Mint, the Jamestown 400th Anniversary, and the Little Rock Central High School Desegregation 50th Anniversary; and new products authorized by the Presidential $1 Coin Act of 2005. These include circulating $1 coins honoring the Presidents of the United States, featuring four coins each year minted in the order that they served. The year 2007 will feature Presidents Washington, Adams, Jefferson and Madison. The Act also authorizes the mintage of complementary gold bullion coins and bronze medals honoring the spouses of the Presidents.

Our FY 2006 successes included continuing to meet the demands for circulating coinage, delivering beautiful products to our customers, and achieving exceptional results for the American people. These successes are a result of the outstanding contributions of our workforce. We stand ready to provide the nation with an even stronger FY 2007.

Sincerely,

Edmund C. Moy

Edmund C. Moy
Director
United States Mint

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D.C. 20220

December 8, 2006

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present the United States Mint's financial statements as an integral part of the Fiscal Year (FY) 2006 Performance and Accountability Report. Our independent auditors rendered an unqualified opinion with no material weaknesses for FY 2006. The United States Mint continues to achieve superior performance and make considerable improvements in its system of financial management control. The United States Mint makes it a priority to ensure that the highest quality financial data is reported. As a result, the agency received an unqualified opinion on its financial statements for the 13th consecutive year. This record demonstrates discipline and accountability in the execution of our fiscal responsibilities to the American people.

The United States Mint had no material weaknesses from prior years that carried over to FY 2006. However, we did continue to address issues that were identified in prior years that warranted further attention. While not considered material weaknesses, we have taken deliberate steps to develop and implement numerous management control improvements addressing proper segregation of duties and sufficient supporting documentation.

In FY 2006, using the OMB Circular A-123 "Management's Responsibility for Internal Control," we implemented a substantial program for assessing the effectiveness of the internal controls over financial reporting. We evaluated controls over the Treasury designated consolidated financial statement line items, for which the United States Mint contributes 10% or greater, including accounts payable, accounts receivable, inventory and fixed assets. We were able to report as of June 30, 2006, no material weaknesses were found in the design or operation of the internal control over our financial reporting. In FY 2007, we are expanding our A-123 program to be a full scope review. We are in the initial stage of execution and we are on schedule with our project plan. We continue to be involved with the Treasury Chief Financial Officer's Council Internal Controls Work Group to coordinate efforts with the Department to ensure compliance and adequate support for the Department's assertion on internal controls.

The United States Mint is actively engaged in developing and implementing management controls designed to support designated program results; maintain consistent use of resources; eliminate program waste, fraud and mismanagement; promote adherence to laws and regulations; reduce improper or erroneous payments; foster reliable performance information; ensure system security compliance with all relevant requirements; and ensure financial system compliance with Federal financial systems standards. Strong financial management control is a strategic focus of the United States Mint, and the stewardship and safeguarding of agency resources remain high priorities.

During FY 2006, the United States Mint's management was devoted to creating initiatives to "get to green" on the scorecard for the President's Management Agenda (PMA), where "green" signals success. The PMA is the President's strategy to improve the management of the federal government. Under the Office of Management and Budget's Line of Business Initiative, all federal agencies are now expected to provide certain shared services as a Center of Excellence (COE) or migrate to a designated COE such as the Bureau of Public Debt's Administrative Resource Center (ARC). Embracing this initiative intended to reduce duplicate systems and capital expenditures and promote standardization within the federal government, the United States Mint transferred many transactional functions associated with travel, human resources and procurement to ARC in FY 2006.

The United States Mint prepared its financial statements based on accounting standards issued by the Federal Accounting Standards Advisory Board, which was designated by the American Institute of Certified Public Accountants as the standard-setting body for financial statements of federal government entities, with respect to the establishment of United States Generally Accepted Accounting Principles.

We closed a fiscal year continuing our tradition of delivering exceptional products and results to the American people and our collectors.

Patricia M. Greiner

Patricia M. Greiner
Chief Financial Officer
September 26, 2006

MANAGEMENT'S DISCUSSION and ANALYSIS

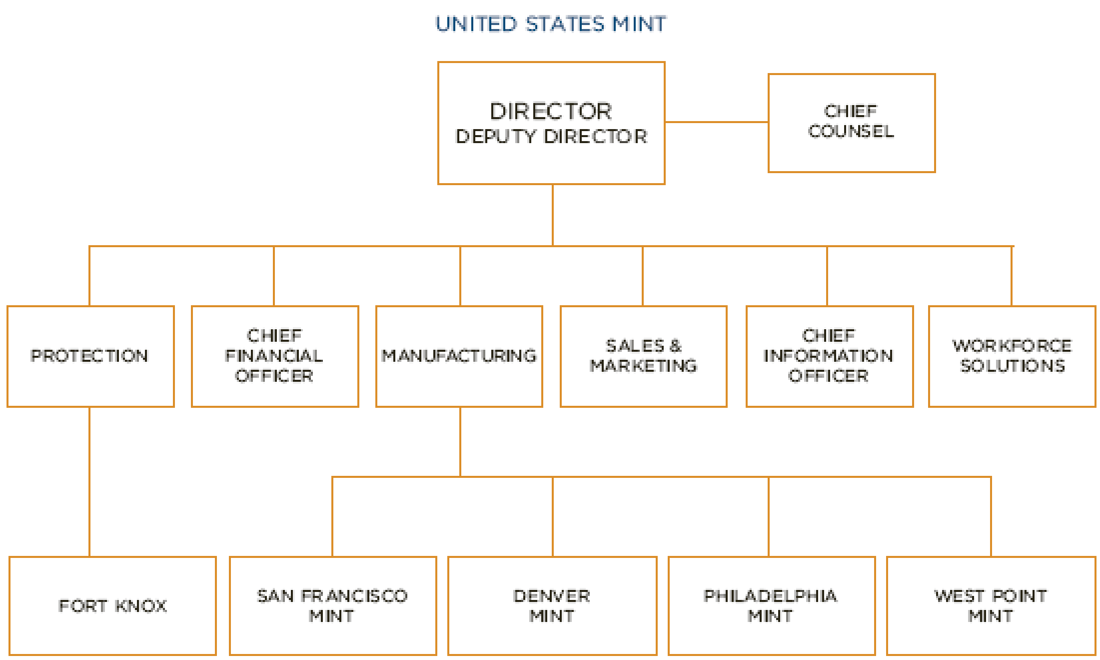
OVERVIEW

The United States Mint's financial statements are prepared in accordance with the Chief Financial Officer's (CFO) Act of 1990. The financial statements represent the operations of the entire United States Mint, comprising the circulating, numismatic, bullion, and protection programs. The Management's Discussion and Analysis section provides an operational overview and serves to explain the 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 the United States Mint's success in achieving these performance goals is included in this section.

MISSION OF THE UNITED STATES MINT

The United States Mint applies world-class business practices in manufacturing, selling and protecting the nation's coinage and protecting the nation's assets.

ORGANIZATIONAL STRUCTURE



OPERATIONAL OVERVIEW

Since FY 1996, the United States Mint has been operating under the United States Mint's Public Enterprise Fund (PEF). As authorized by Public Law 104-52 (31 U.S.C. § 5136), the PEF eliminates the need for appropriations to the United States Mint. Proceeds from the sale of circulating coins to the Federal Reserve Banks and to the public, and the sale of numismatic products and bullion coins to customers worldwide are the only sources of funding for United States Mint operations. Revenues in excess of costs are transferred to the United States Treasury General Fund.

MANAGEMENT STRATEGIC PRIORITIES

The United States Mint continually seeks to be a model government agency that applies modern business practices resulting in higher yields, lower costs, proper use of technology, efficient production, timely delivery of products and exceptional customer service. Management's strategic priorities in the FY 2006 to FY 2011 time period include:

- Be a model government agency that matches world-class business practices
- Value and communicate with the American people
- Design, sell, and deliver quality products
- Foster a model workplace

Be a model government agency that matches world-class business practices

The United States Mint is committed to continually improving the efficiency of its operations. During FY 2006, the United States Mint focused on six key areas: 1) keeping sales, general and administrative (SG&A) expenses as low as possible while maintaining the quality that the public and customers expect from our products; 2) reducing our facilities costs by completing office consolidation efforts; 3) transferring some of our human resources, procurement, and e-travel functions to a shared services provider; 4) beginning the process of transferring many transactional functions in accounting and procurement to a shared service provider; 5) completing the implementation of business process improvements in the manufacturing facilities and in Sales and Marketing to increase the efficiency of the production process; and 6) reducing the costs of maintaining a strong and efficient program to protect the assets of the United States Mint and the nation.

Sales, General and Administrative (SG&A) Expenses: These are the overhead costs associated with operating the United States Mint. In a production-oriented agency like the United States Mint, emphasis is placed on minimizing SG&A costs while ensuring compliance with statutory requirements. Minimizing SG&A costs allows us to keep our circulating and numismatic production costs as low as possible, which, in turn, also allows us to keep our numismatic product prices low. Ultimately, the result is greater transfers to the Treasury General Fund. FY 2006 proved to be a challenging year as SG&A expenses rose as a result of costs associated with implementation efforts to transfer many of the United States Mint's human resource, procurement, finance and accounting functions to the Administrative Resource Center, the Bureau of Public Debt's Center of Excellence along with the operation of its Enterprise Resource Planning system. In FY 2006, SG&A costs increased to $177.5 million from $165.5 million in FY 2005, a 7.3 percent increase. The FY 2006 amount includes $17.2 million associated with the implementation of shared service agreements.

Facilities Management: The United States Mint essentially completed its Washington, DC headquarters office consolidation effort in FY 2006. As of the end of FY 2006, the United States Mint had subleased approximately 185,138 square feet of headquarters office space in Washington, DC. This resulted in leasing cost savings of approximately $7.9 million in FY 2006 and more than $6.5 million in FY 2005.

Shared Services: Under the Office of Management and Budget's Line of Business Initiative, federal agencies are expected to either provide certain shared services as a Center of Excellence, or consider migrating to a designated Center of Excellence such as the Bureau of Public Debt's Administrative Resource Center (ARC). In FY 2006, the United States Mint transferred some of its human resource, procurement, and e-travel functions to the Bureau of the Public Debt's Administrative Resource Center (ARC). This concept is designed to take advantage of economies of scale and other business improvements resulting from increased standardization and transparencies of a shared services environment. In FY 2007, the United States Mint will transfer many of its finance and accounting functions to ARC along with the operation of its Enterprise Resource Planning system.

Improved Business Processes: In FY 2006, the United States Mint completed training for many managers in Manufacturing on "Lean Manufacturing" processes and in Sales and Marketing on effective project management skills. This continual process improvement in the Manufacturing and Sales and Marketing will serve to eliminate unnecessary or redundant practices and should lead to substantial improvements in plant productivity and reductions in controllable operating costs.

Protection of Assets: In FY 2006, the United States Mint developed a strategic approach and plan to reduce our Protection costs. We have identified the use of automation to replace certain functions currently performed by our police officers. We have developed and are installing electronic systems to verify identity, and scan for weapons and explosives upon entry to each facility. We have also developed an automated exit scanning procedure to prevent the unauthorized removal of valuables from our facilities. Presently, this process is conducted by police officers. By automating the entry and exit searches, the United States Mint will reduce positions, and improve the effectiveness of the scanning process. Protection costs rose by $5.4 million from FY 2005 levels attributable to expenses associated with technological upgrades.

Value and communicate with the American people

During FY 2006, the United States Mint continued to improve its communications with its stakeholders, its customers, and with the American public. This included continuing the innovative and critically acclaimed United States Mint H.I.P. Pocket Change educational website and conducting a number of open collector forums around the nation.

United States Mint H.I.P Pocket Change (HPC) Website: During FY 2006, the final set of Westward Journey Nickel Series™ lesson plans ("Return to Monticello") were produced and made available for free download to teachers, parents and students of all ages. We achieved a record number of downloads during FY 2006 for the Westward Journey Nickel Series and the 50 State Quarters® Program. In addition, visits to the website reached record numbers, and outreach efforts continued as members of the HPC team staffed a booth at key education conferences.

Collector Forums: In FY 2006, the United States Mint hosted five collector forums at which collectors and the members of the general public could see our newest products and pose questions and ideas to United States Mint officials related to coin programs. The forums were held the evening before each quarter launch, including West Virginia (10/13/05), Nevada (1/30/06), Nebraska (4/6/06), Colorado (6/13/06) and North Dakota (8/29/06).

American Customer Satisfaction Index: The United States Mint ranked as the #2 federal agency on the University of Michigan's American Customer Satisfaction Index (ACSI) for calendar year 2005. The United States Mint's score of 88 was the second highest score earned by a federal agency in FY 2006.

Also, based on information we gathered and analyzed, using the ACSI methodology, the United States Mint's scores of 80 in the e-commerce/transactions category and 76 in the portals/main sites category during the third quarter of FY 2006 outpaced the average government score of 73.7 and the overall private sector e-commerce score of 79.6.

Coin Users Group Forum: In accordance with Public Law 109-145, the United States is honoring our nation's presidents by issuing $1 circulating coins featuring their images, in order of their service, beginning in 2007. The United States Mint will issue four Presidential $1 Coins per year, and each shall have a reverse design featuring a striking rendition of the Statue of Liberty. In addition to authorizing these new coins, the law requires the Board of Governors of the Federal Reserve System and the Secretary of the Treasury to take steps to ensure that an adequate supply of $1 coins is available for commerce and collectors at such places and in such quantities as are appropriate by consulting with a coin users group to secure stakeholder ideas for the efficient distribution and circulation of $1 coins as well as all other circulating coins. To this end, the first coin users group forum, hosted jointly by the United States Mint and the Federal Reserve Board, was held on June 8, 2006, at the United States Mint's headquarters in Washington, D.C., location.

Design, sell, and deliver quality products

The United States Mint continually seeks to provide quality products and services that are responsive to our customer's needs and desires and, at the same time, provide excellent customer service that meets best in business standards. FY 2006 was no exception.

FY 2006 New Products and Programs

American Buffalo 24-karat Gold Bullion and Proof Coins:
The United States Mint introduced its new line of 24-karat gold coins. Production of these highly anticipated coins is authorized by Title II of Public Law 109-145, also known as the Presidential $1 Coin Act of 2005.

The new American Buffalo Gold coin's obverse and reverse feature images originally executed by noted sculptor James Earle Fraser. The Buffalo, or Indian Head, nickel debuted in 1913 and, during its production through 1938, became one of our nation's best-loved circulating coins. The specific image used for this new 24-karat gold bullion coin is known to collectors as Fraser's 1913 Type I design.

American Buffalo Gold Bullion Coins are the first .9999 fine 24-karat gold coins ever struck by the United States Mint and are offered for sale through a network of Authorized Purchasers. These $50 denomination gold coins are available to members of the public seeking a simple and tangible means to own and invest in 24-karat gold in the form of legal tender coins whose content and purity are guaranteed by the United States Government. American Buffalo Gold Bullion Coins are available at many coin and precious metals dealers as well as many brokerage houses and participating banks. Pricing for precious metal investment grade or "bullion" coins typically depends on the market price of the metal.

The United States Mint also produces proof versions of these coins for collectors. These coins are sold directly to the public through United States Mint sales channels. At the end of FY 2006, the United States Mint had sold 266,600 ounces of bullion coins to Authorized Purchasers and 208,700 units of proof coins directly to the public.

American Eagle Uncirculated Coins

In FY 2006, the United States Mint launched a new collector product category consisting of American Eagle gold and silver uncirculated coins featuring the "W" (United States Mint at West Point) mintmark. This year the coins were released only in one-ounce versions and were sold as part of the American Eagle 20th Anniversary Sets.

American Eagle 20th Anniversary Coin Sets: To commemorate the 20th anniversary of the launch of the American Eagle gold and silver programs, the United States Mint offered three American Eagle coin sets.

<u>American Eagle 20th Anniversary Silver Coin Set:</u> This coin set features uncirculated, proof, and reverse proof versions of the one ounce American Eagle Silver $1 denomination coins.

American Eagle 20th Anniversary Gold & Silver Set: This coin set features uncirculated versions of the one ounce American Eagle Silver $1 denomination coin and the one ounce American Eagle Gold $50 Coin.

American Eagle 20th Anniversary Gold Coin Set: This coin set features uncirculated, proof, and reverse proof versions of the one ounce American Eagle Gold $50 denomination coins.

The 50 State Quarters® Program:
(a 10-year celebration of our national heritage)

A significant portion of United States Mint operations is dedicated to the 50 State Quarters Program, which was launched in 1999 to commemorate each of the 50 states over a ten-year period. Five new commemorative quarter-dollar coins are produced each year. Each quarter-dollar coin reverse celebrates one of the 50 states with a design honoring that state's unique history, traditions and symbols. The quarter-dollars are released in the order in which the states ratified the United States Constitution or were admitted into the Union. In FY 2006, the United States Mint issued quarter-dollars commemorating West Virginia, Nevada, Nebraska, Colorado, and North Dakota.

FY 2006 50 State Quarters Releases

West Virginia:
The first quarter-dollar coin released in 2006 (October 2005) commemorated the state of West Virginia. On June 20, 1863, the "Mountain State" became the 35th state to be admitted into the Union, making this the 35th coin to be issued in the United States Mint's 50 State Quarters Program. This coin captures the scenic beauty of the State with its depiction of the New River and the New River Gorge Bridge. The coin bears the inscription "New River Gorge."

Nevada:
The second quarter-dollar coin released in 2006 commemorated Nevada, and is the 36th coin in the United States Mint's 50 State Quarters Program. Nevada, nicknamed "The Silver State," was admitted into the Union on October 31, 1864, becoming our nation's 36th state. Nevada's quarter depicts a trio of wild mustangs, the sun rising behind snow-capped mountains, bordered by sagebrush and a banner that reads "The Silver State." The coin also bears the inscriptions "Nevada" and "1864."

Nebraska:
The third quarter-dollar coin released in 2006 commemorated Nebraska, and is the 37th coin in the United States Mint's 50 State Quarters Program. Nebraska, nicknamed the "Cornhusker State," was admitted into the Union on March 1, 1867, becoming our nation's 37th state. Nebraska's quarter depicts an ox-drawn covered wagon carrying pioneers in the foreground and Chimney Rock, the natural wonder that rises from the valley of North Platte River, measuring 445 feet from base to tip. The sun is in full view behind the wagon. The coin also bears the inscriptions "Nebraska," "Chimney Rock" and "1867."

Colorado:
The fourth quarter-dollar coin released in 2006 commemorated Colorado, and is the 38th coin in the United States Mint's 50 State Quarters Program. The Colorado quarter depicts a sweeping view of the state's rugged Rocky Mountains with evergreen trees and a banner carrying the inscription "Colorful Colorado." The coin also bears the inscriptions "Colorado" and "1876."

North Dakota:
The fifth and final quarter-dollar coin released in 2006 commemorated North Dakota, and is the 39th coin in the United States Mint's 50 State Quarters Program. On November 2, 1889, North Dakota was admitted into the Union, becoming our nation's 39th state. The North Dakota quarter depicts a pair of grazing American bison in the foreground with a sunset view of the rugged buttes and canyons that help define the State's Badlands region in the background. The coin's design also bears the inscriptions "North Dakota" and "1889."

2006 "Return To Monticello" 5-Cent Coin:
In 2006, the United States Mint released the final issue in the extremely popular Westward Journey Nickel Series™: "Return to Monticello." The reverse of the 2006 5-cent coin features the classic, familiar rendition of Monticello, President Thomas Jefferson's Virginia home, originally executed by artist Felix Schlag and first chosen to adorn the coin's reverse in 1938. The obverse of the 2006 5-cent coin depicts a portrait of Thomas Jefferson completed during 1800.

FY 2006 Commemorative Coins

2006 Benjamin Franklin Commemorative Coin Program:
The United States honored the tercentenary of the birth of Benjamin Franklin, one of this nation's original scientists, thinkers and founding fathers, with two commemorative silver dollars designed and produced by the United States Mint and minted at the United States Mint at Philadelphia facility. The Benjamin Franklin Commemorative Coin Program included two silver dollars – "Scientist" and "Founding Father" – in both proof and uncirculated conditions.

"The Scientist" recreates Benjamin Franklin's legendary kite experiment. This coin's reverse features a recreation of Franklin's "Join, or Die" political cartoon, which was published in the *Pennsylvania Gazette* on May 9, 1754. "The Founding Father" features a familiar image of Franklin in his later years that is based on a bust by Jean-Antoine Houdon. This coin's reverse honors Franklin's contributions to the development of the United States coinage and currency; it shows a replica of the 1776 Continental Currency dollar -- a design that is attributed to Franklin.

Authorized by Public Law 108-464, each coin was limited to a maximum mintage of 250,000. All associated products for this program sold out during FY 2006. Surcharges from the program are authorized to be paid to the Franklin Institute for purposes of the Benjamin Franklin Tercentenary Commission, a non-profit alliance established by Congress to commemorate the tercentenary and to educate the public about Franklin's legacy.

2006 San Francisco Old Mint Commemorative Coin Program:
The second United States commemorative coin program of 2006 pays tribute to the San Francisco Old Mint, celebrating the instrumental role it played in the recovery and rebuilding of a great American city, in the 100th anniversary of the San Francisco earthquake.

Public Law 109-230 calls for the production and release of two commemorative coins (a $5 denomination gold coin and a $1 denomination silver coin) to honor the history and legacy of the building that became known as the "Granite Lady." Both coins will be available in proof and uncirculated qualities, all minted at the United States Mint at San Francisco facility. The $5 coin will be limited to a mintage of 100,000, and the $1 coin will be limited to a mintage of 500,000.

The obverse design of the $5 gold coin is a rendition of the Old Mint modeled on the original 1869 construction drawing by A.B. Mullett. The reverse design is a replica of the 1906 Half-Eagle Coronet Liberty eagle reverse, designed by Christian Gobrecht. The obverse design of the silver dollar is a rendition of the San Francisco Old Mint, originally prepared for the San Francisco Mint Medal by Sherl J. Winter. The reverse design is a replica of the 1904 Morgan Silver Dollar eagle reverse, designed by George T. Morgan.

Surcharges collected through the sale of these commemorative coins are authorized to be paid to the San Francisco Museum and Historical Society for the purposes of rehabilitating the Historic Old Mint in San Francisco as a city museum and an American coin and gold rush museum. Although production of these coins began in FY 2006, shipping is expected to commence in December 2006. Revenue for this program will not accrue until FY 2007.

Fostering a Model Workplace

EEO/Diversity: We have continued to focus on communications and employee engagement, building trust, and promoting an environment in which people are treated fairly and respectfully. These efforts have resulted in a significant decrease in the number of formal Equal Employment Opportunity complaints. In FY 2006, there were 20 formal complaints, down from 22 in FY 2005 and 34 in FY 2004.

Workforce Planning Initiative: In 2006, the United States Mint began its workforce planning to better position itself to meet future challenges. As part of this effort, the United States Mint developed "roadmaps" to successfully position the organization for the future. These roadmaps will lead the way to an organization that can meet the circulating coinage needs more efficiently while offering new products to grow numismatic operations.

Safety:
The safety and well-being of our employees is of the utmost importance at the United States Mint. Over the past few years, the United States Mint has devoted a great amount of attention and work to upgrading working conditions in its manufacturing facilities and maintaining an extremely safe working environment at its headquarters location. Last year, our Philadelphia facility was designated by OSHA as a model for safety improvement. This attention to safety continued during FY 2006 as we reduced lost time accident rates (LTAs) to 0.79, down from 0.94 in FY 2005.

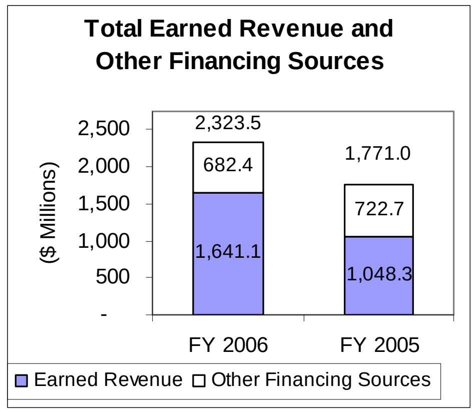
FINANCIAL AND PROGRAM ANALYSIS

OPERATING RESULTS

Beginning with the FY 2005 financial statements, the United States Mint no longer includes the cost of protecting the nation's gold and silver reserves as an offset against "Other Financing Sources" (seigniorage). Therefore, the Protection Program, which represents the cost of protecting the nation's gold and silver reserves, reflects a loss on the Statement of Net Cost, and the Circulating Program reflects a zero net cost because revenue equals total costs. The cost of securing United States Mint facilities, staff, and assets is included in the cost of production and is a proper charge to the Circulating Program. This change was made as part of the conversion to a government United States Generally Accepted Accounting Principles (USGAAP) presentation of the FY 2005 financial statements.

Total Earned Revenue and Other Financing Sources (Seigniorage)

In FY 2006, the United States Mint's earned revenue increased to $1641.1 million plus other financing sources (seigniorage) of $682.4 million totaling $2,323.5 million. This compares with FY 2005 amounts of $1,048.3 million for earned revenue plus $722.7 million for other financing sources, totaling $1,771.0 million.

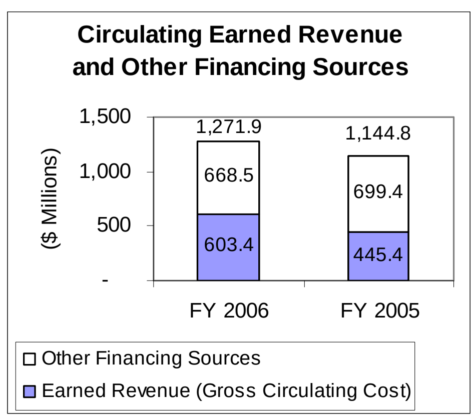


Circulating Coinage Shipped To the Federal Reserve Banks

The United States Mint produces the circulating coins used to conduct commercial transactions across the nation. Coins are shipped to the Federal Reserve Bank as they are needed to replenish inventory and fulfill commercial demand. The FRB pays the United States Mint face value for the coins when they are shipped.

Circulating Earned Revenue and Other Financing Sources

Earned revenue from circulating coinage equals the costs (metal, manufacturing and transportation) incurred to make and distribute the coin, while "other financing sources" (also known as seigniorage) represents the difference between the cost to make the coin and the face value received from the Federal Reserve Bank. Circulating earned revenue from coins shipped to the Federal Reserve Bank of $603.4 million plus the circulating other financing sources of $668.5 million increased to $1,271.9 million in FY 2006. This compares with $445.4 million in earned revenue plus $699.4 million from other financing sources totaling $1,144.8 million in FY 2005.



CIRCULATING EARNED REVENUE & OTHER FINANCING SOURCES (OFS) (in Millions)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	One-cent	5-cent	Dime	Quarter	Half	Dollar	Mutilated & Other	Total
Revenue & OFS	$85.0	$72.6	$301.9	$751.1	$1.0	$60.3	$0.0	$1,271.9
Cost of Goods Sold	103.3	87.1	87.6	203.5	0.4	2.4	0.0	484.3
Selling, General & Administrative	0.0	0.1	24.5	63.3	0.0	6.7	0.0	94.6
Other Costs and Expenses	0.0	0.0	2.3	5.9	0.0	0.6	15.7	24.5
Other Financing Sources	-$18.3	-$14.6	$187.5	$478.4	$0.6	$50.6	-$15.7	$668.5

CIRCULATING EARNED REVENUE & OTHER FINANCING SOURCES (in Millions)
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	One-cent	5-cent	Dime	Quarter	Half	Dollar	Mutilated & Other	Total
Revenue & OFS	$72.2	$70.9	$266.9	$663.9	$0.8	$70.1	$0.0	$1,144.8
Cost of Goods Sold	69.9	68.3	59.3	133.9	0.2	4.6	0.0	336.2
Selling, General & Administrative	0.3	0.2	22.0	56.4	0.1	6.9	0.0	85.9
Other Costs and Expenses	0.0	0.0	2.5	6.4	0.0	0.8	13.6	23.3
Other Financing Sources	$2.0	$2.4	$183.1	$467.2	$0.5	$57.8	-$13.6	$699.4

Circulating Coin Costs

FY 2006 was a particularly challenging year given significant increases in the prices of nickel, zinc and copper—the three primary components of our circulating coinage. The conversion cost per 1000 coin equivalents increased slightly to $7.55, a two percent increase over the FY 2005 conversion cost of $7.42. During the fourth quarter of FY 2006, increases in the prices of zinc and nickel raised the costs of production for the one-cent and 5-cent coins above their face values.

UNIT COST OF PRODUCING AND DISTRIBUTING COINS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	One-cent	5-cent	Dime	Quarter	Half	Dollar
Cost of Goods Sold	$0.0119	$0.0592	$0.0294	$0.0681	$0.1729	$0.0495
General & Administrative	0.0000	0.0001	0.0081	0.0211	0.0000	0.1092
Distribution to FRB	0.0002	0.0004	0.0003	0.0015	0.0020	0.0008
Total Expenses	$0.0121	$0.0597	$0.0378	$0.0907	$0.1749	$0.1595

UNIT COST OF PRODUCING AND DISTRIBUTING COINS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

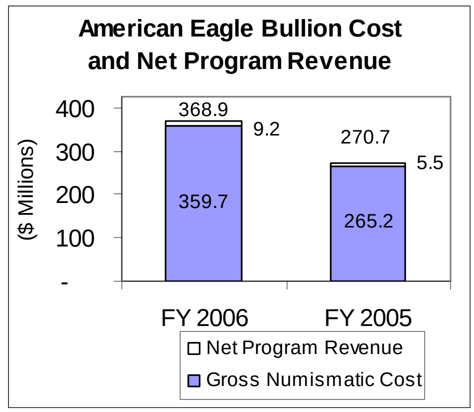
	One-cent	5-cent	Dime	Quarter	Half	Dollar
Cost of Goods Sold	$0.0095	$0.0478	$0.0219	$0.0491	$0.1091	$0.0655
General & Administrative	0.0000	0.0002	0.0083	0.0212	0.0429	0.0992
Distribution to FRB	0.0002	0.0004	0.0003	0.0014	0.0019	0.0007
Total Expenses	$0.0097	$0.0484	$0.0305	$0.0717	$0.1539	$0.1654

Numismatic Products Sold To the Public

The United States Mint also produces and sells a variety of numismatic products directly to the public, and precious metal (gold, silver and platinum) investment grade bullion coins to pre-qualified Authorized Purchasers for resale to the public. Total numismatic revenue plus other financing sources, and numismatic revenue plus other financing sources as a proportion of total United States Mint revenue, have been growing over the past three fiscal years. In FY 2006, numismatic revenue plus other financing sources represented 45 percent of total United States Mint revenue, up from 35 percent in FY 2005. This trend is expected to continue into the foreseeable future as demand for circulating coinage stabilizes or diminishes.

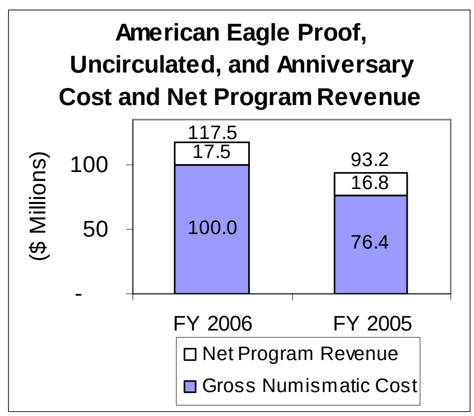
American Eagle Bullion Coins:

American Eagle bullion coins are typically purchased by investors seeking a simple, tangible means to own and invest in precious metals. These coins are made in gold (22K), silver and platinum. American Eagle silver bullion sales increased to 11.2 million fine troy ounces (FTOs) and revenue increased to $130.5 million in FY 2006 compared with 8.5 million FTOs sold and $70.7 million in revenue in FY 2005. While American Eagle gold bullion sales decreased to 395.0 thousand FTOs in FY 2006, revenue increased to $222.9 million because of the higher prices of precious metals**.** This compares with 411.5 thousand FTOs sold and $185.0 million in revenue in FY 2005. American Eagle platinum bullion sales decreased to 14.5 thousand ounces, while revenue increased to $15.5 million in FY 2006. This compares with 16.5 thousand ounces sold and $15.0 million in revenue in FY 2005. Total American Eagle bullion revenues increased to $368.9 million compared with $270.7 million in FY 2005.

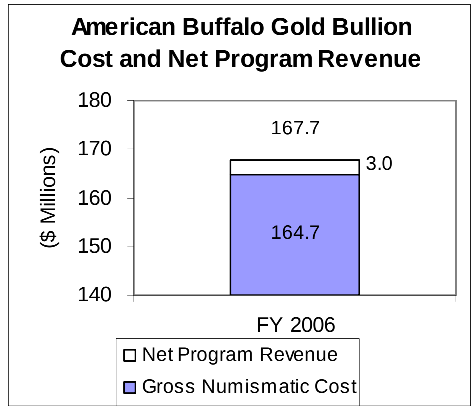


American Eagle Proof Programs with Uncirculated Coins and 20th Anniversary Sets:

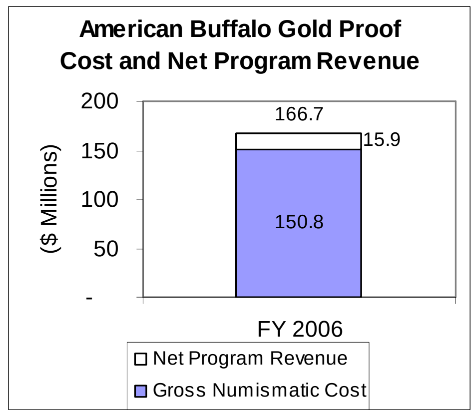
American Eagle Proof coins are made in gold (22K), silver and platinum. FY 2006 proved to be a very good year for sales of American Eagle Gold Proof products. American Eagle Gold Proof coin sales increased to 166.6 thousand units and revenue increased to $55.2 million in FY 2006. This compares with 140.7 thousand units sold and $43.9 million in revenue in FY 2005. American Eagle Silver Proof sales decreased to 818.7 thousand units sold and $22.6 million in revenue in FY 2006. This compares with 855.8 thousand units sold and $25.2 million in revenue in FY 2005. American Eagle Platinum Proof sales fell to 32.8 thousand units and $22.2 million in revenue in FY 2006. This compares with 36.6 thousand units sold and $24.1 million in revenue in FY 2005. American Eagle Proof net program revenues decreased to $16.4 million in FY 2006 from $16.8 million in FY 2005. The American Eagle 20th Anniversary Set coin sales were 20.4 thousand gold coins and 8.9 thousand silver coins. The 20th Anniversary Sets net program revenues were $1.1 million for a program total of $17.5 million. Although the American Eagle Uncirculated coins were made available for sale in late FY 2006, shipping will not commence, and revenue will not be realized, until FY 2007.



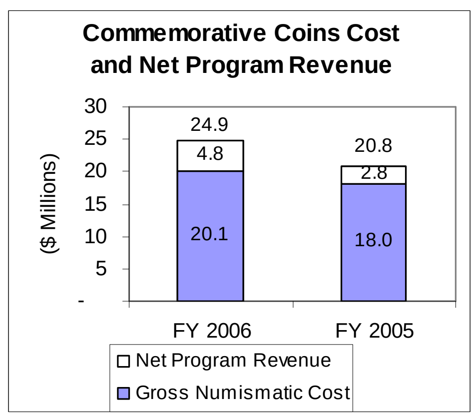
American Buffalo Gold Bullion Coins:
FY 2006 marked the debut of the American Buffalo Gold Bullion Coin. This is the first pure gold (24-karat) coin produced by the United States Mint. In accordance with Title II of Public Law 109-145 (Presidential $1 Coin Act of 2005), as codified at 31 U.S.C. § 5112(a)(11) & (q), the coin is produced only in a one-ounce weight with a $50 denomination. In FY 2007, the United States Mint plans to introduce one-half ounce, one-quarter ounce and one-tenth ounce 24-karat gold coins under the Secretary's authority at 31 U.S.C. § 5112(i)(4). The launch of the American Buffalo Gold Bullion Coin resulted in sales of 266.5 thousand ounces in FY 2006, generating $167.7 million in net program revenue. Net program revenues for FY 2006 were $3.0 million, and the net program revenue ratio was 1.8 percent.



American Buffalo Gold Proof Coins:
FY 2006 also marked the debut of the American Buffalo 24-karat Gold Proof Coin. This extremely popular collectible product was sold in one-ounce units and generated sales of 208.7 thousand units and $166.7 million in earned revenue in FY 2006. Notably, almost 53,000 units representing approximately $42 million in earned revenue were sold in the first 24 hours after launch. Net program revenues for FY 2006 were $15.9 million.

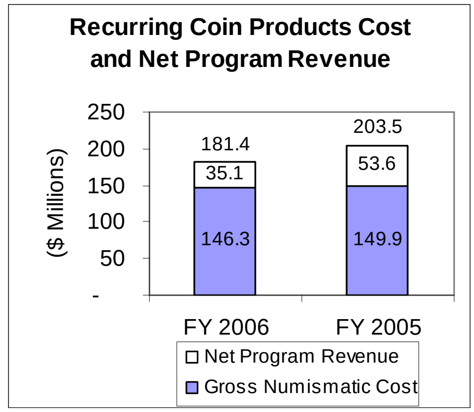


Commemorative Coins:
Commemorative revenue (less surcharges paid to recipient organizations) increased to $24.9 million in FY 2006 from $20.8 million in FY 2005. Congress authorized the issuance of the Chief Justice John Marshall Silver Dollar and the 2005 Marine Corps 230th Anniversary Silver Dollar commemorative coins, which were released in March 2005 and July 2005, respectively. Sales continued into FY 2006, through December 31, 2005. The Chief Justice John Marshall Commemorative Coin Program generated $2.3 million in revenue and $.6 million in surcharges for the designated beneficiary organization in FY 2006. The Marine Corps 230th Anniversary Commemorative Coin Program generated $10.1 million in revenue and $3.8 million in surcharges for the designated recipient organization in FY 2006.



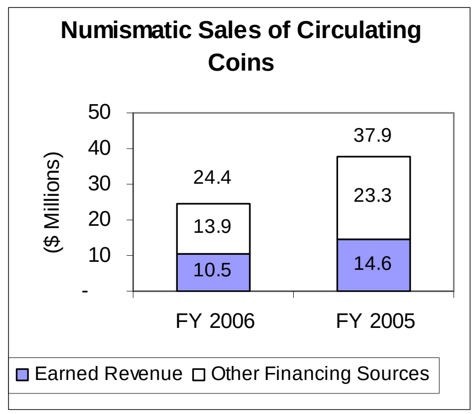
For 2006, Congress authorized the Benjamin Franklin Commemorative Coin Program. All product options sold out for this program in FY 2006. The Benjamin Franklin Commemorative Coin Program generated $12.5 million in revenue and $4.5 million in surcharges for the designated recipient organization. Congress also authorized the issuance of the 2006 San Francisco Old Mint Commemorative Coin Program. Because this program was signed into law late in the fiscal year, coins will not be shipped and revenue will not accrue until FY 2007. Net program revenue for FY 2006 was $4.8 million, and surcharges collected for the designated recipients totaled $8.9 million. Surcharges paid to recipient organizations totaled $11.2 million in FY 2006.

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 decreased to $181.4 million in FY 2006 from $203.5 million in FY 2005. Net program revenues decreased to $35.1million in FY 2006 compared with $53.6 million in 2005. The recurring net revenue ratio decreased to 19.3 percent in FY 2006 from 26.3 percent in FY 2005.



Numismatic Sales of Circulating Coinage

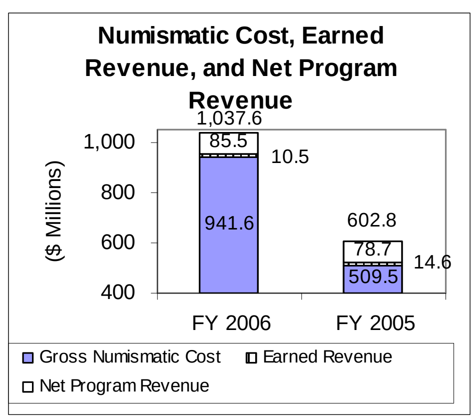
With the introduction of the 50 State Quarters Program, the Golden Dollar and the 5-cent coin redesigns, there has been an increase in collector demand for circulating quality coins that have not yet been circulated. These coins are typically sold by the United States Mint in bags and rolls. Sales in this category represent the face value of the coins sold. All additional revenue above the face value, or above the production cost, whichever is higher, and any additional expenses incurred in selling these products, are included in the Numismatic Recurring Programs in the previous section.



Total numismatic earned revenue from the sale of circulating coinage plus other financing sources decreased to $24.4 million in FY 2006 as compared with $37.9 million in FY 2005. Higher FY 2005 sales reflected the two different 5-cent coin designs of the popular Westward Journey Nickel Series issued that year. As in the case of circulating coins sold to the FRB, the portion of the other financing sources from the sale of numismatic circulating coinage transferred to the Treasury General Fund represents off-budget receipts.

Numismatic Cost, Earned Revenue, and Net Program Revenue

Earned revenue for numismatic sales to the public (net of surcharges paid to recipient organizations) of $1,027.1 million, plus earned revenue for numismatic sales of circulating coinage of $10.5 million, increased to a total of $1,037.6 million in FY 2006. Increases in numismatic earned revenue were largely a result of the release of new numismatic products—particularly the American Buffalo 24-karat Gold Proof coin. This compares with earned revenue of $588.2 million for numismatic sales to the public, plus earned revenue of $14.6 million from numismatic sales of circulating coinage that totaled $602.8 million in FY 2005. The total net program revenue on the sale of numismatic products increased to $85.5 million in FY 2006 compared with $78.7 million in FY 2005.



The following charts show total numismatic revenue and net program revenue for FY 2006 compared with FY 2005 results, and show costs and net program revenue by major product lines.

NUMISMATIC NET PROGRAM REVENUE (in Millions)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	American Eagle Bullion	American Eagle Proof, Uncirculated & 20th Anniversary	American Buffalo Gold Bullion	American Buffalo Gold Proof	Commemoratives	Recurring	Total
Revenue (less surcharges & commissions)	$368.9	$117.5	$167.7	$166.7	$24.9	$181.4	$1,027.1
Cost of Goods Sold	358.7	83.8	164.2	136.9	14.6	100.4	$858.6
Selling, General & Administrative	0.9	15.7	0.5	13.5	5.4	44.8	$80.8
Other Cost	0.1	0.5	0.0	0.4	0.1	1.1	$2.2
Net Program Revenue	$9.2	$17.5	$3.0	$15.9	$4.8	$35.1	$85.5
Net Program Revenue Ratio	2.5%	14.9%	1.8%	9.5%	19.3%	19.3%	8.3%

NUMISMATIC NET PROGRAM REVENUE (in Millions)
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	American Eagle Bullion	American Eagle Proof	American Buffalo Gold Bullion	American Buffalo Gold Proof	Commemoratives	Recurring	Total
Revenue (less surcharges & commissions)	$270.7	$93.2	$0.0	$0.0	$20.8	$203.5	$588.2
Cost of Goods Sold	264.3	62.4	0.0	0.0	13.1	92.8	432.6
Selling, General & Administrative	0.8	13.8	0.0	0.0	4.9	56.3	75.8
Other Cost	0.1	0.2	0.0	0.0	0.0	0.8	1.1
Net Program Revenue	$5.5	$16.8	$0.0	$0.0	$2.8	$53.6	$78.7
Net Program Revenue Ratio	2.0%	18.0%	N/A	N/A	13.5%	26.3%	13.4%

PROTECTION OPERATIONS

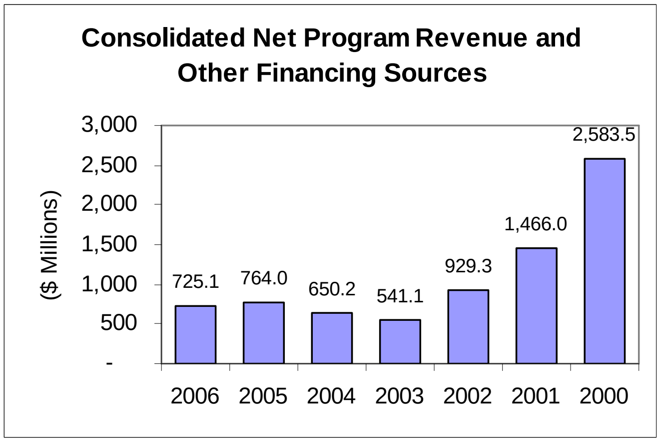
The United States Mint Office of Protection maintains a professional police force with the tools and resources needed to respond to the changing threats of today's environment. The Office of Protection is committed to recruiting and retaining the highest caliber of law enforcement personnel and to maintaining a competitive compensation structure.

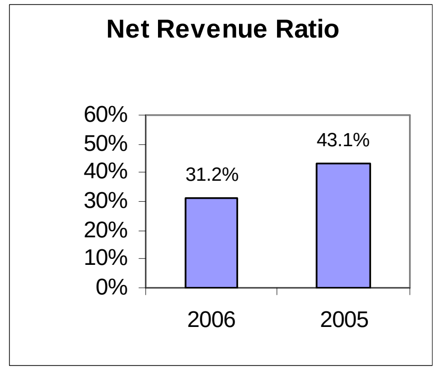
The Office of Protection secures approximately $148.8 billion in market value of the nation's gold and silver reserves and protects the United States Mint's assets while safeguarding our employees against potential threats at our facilities across the country. In FY 2006, the Protection Program had a net cost of $42.8 million, an increase from a net cost of $37.4 million in FY 2005. This increase in net cost resulted from expenses related to the completion of security upgrades.

CAPITAL INVESTMENTS

Each year, the United States Mint commits funds for capital projects to maintain, upgrade or acquire equipment, physical structures, physical security systems, and information technology systems. Funds obligated for capital projects totaled approximately $20.2 million in FY 2006. This included approximately $14.4 million for manufacturing projects, $3.6 million for security improvement projects, and $2.2 million for information technology projects. The United States Mint's capital projects are focused on improving processes, developing new coin design and production 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.

TOTAL UNITED STATES MINT NET PROGRAM REVENUES AND OTHER FINANCING SOURCES



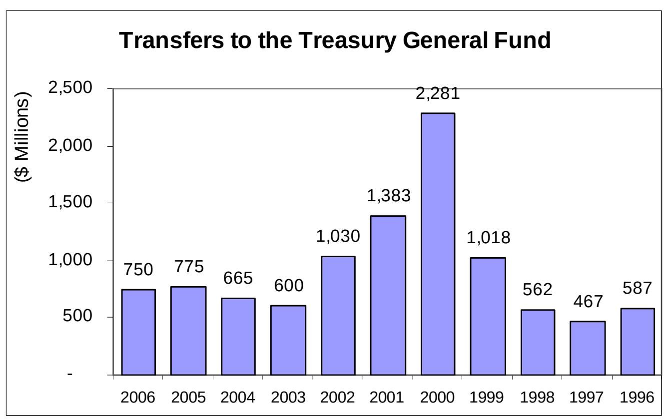


The net program revenues plus other financing sources decreased to $725.1 million in FY 2006 from $764.0 million in FY 2005. The total net revenue ratio[1] decreased to 31.2% compared to 43.1% in the prior year because of a significant rise in the prices of the metals that are used in the fabrication of coins.

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. As required by Public Law 104-52, the United States Mint transfers all profits to the Treasury General Fund, retaining only the amount required by the PEF to support United States Mint operations and programs.

In FY 2006, the United States Mint transferred $750 million to the Treasury General Fund. This total included $666 million in net operating results from the sale of circulating coins either to the Federal Reserve Bank (FRB) or through numismatic channels (off-budget), and $84 million from profits on numismatic collectible and bullion sales (on-budget). In comparison, $775 million ($730 million off-budget and $45 million on-budget) was transferred to the Treasury General Fund in FY 2005.



The amounts transferred to Treasury are directly related to the sales of United States Mint products. The total face value of circulating coins shipped to the Federal Reserve or sold through numismatic channels increased from the previous year. In a stable cost environment, an increase in circulating shipments would normally result in a larger source of funds available for transfer. However, rising metal prices during FY 2006 increased the overall costs of circulating coins, resulting in reduced funds available for transfer off-

[1] Net Revenue Ratio compares net program revenue to total program revenue. It indicates how much net revenue a company makes for every $1 it generates in total revenue. The United States Mint's net revenue ratio refers to net program revenue plus other financing sources as a percentage of total program revenue plus other financing sources.

budget in comparison to FY 2005. The $84 million on-budget transfer occurred in the first quarter of FY 2006 and reflects the numismatic net income for FY 2005. This lag in the transfer of on-budget funds is necessary, pending completion of the financial statements audit. Accordingly, the on-budget transfer in the first quarter in FY 2007 will reflect the audited profits from the sale of numismatic products in FY 2006.

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 silver in the Strategic and Critical Materials Stockpile was depleted. The law requires an annual reporting of the amount of silver purchased on the open market by fiscal year. The following are purchases for FY 2006 and FY 2005:

	Quantity (FTO)	Market Value
FY 2006	17,036,321.0010	$ 178,226,186.41
FY 2005	15,462,284.6495	$ 110,164,958.01

PERFORMANCE GOALS, OBJECTIVES AND RESULTS

One of the most effective means of determining how well an organization is performing is through the use of performance measures. As mandated by the Government Performance & Results Act (GPRA) of 1993, 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 improving efficiency, ensuring integrity, valuing our employees, and operating at the utmost performance level expected of a federal agency. To assess our efforts, the United States Mint identified key performance measures that cut across the entire organization. Tied to these performance measures are high-level targets coupled with initiatives enabling us to reach our goals. These measures are presented as bureau-wide strategic performance measures, which establish a single, critical set of measures we use to monitor and to manage our operations effectively. The following table identifies our performance measures, targets and year-end achievements.

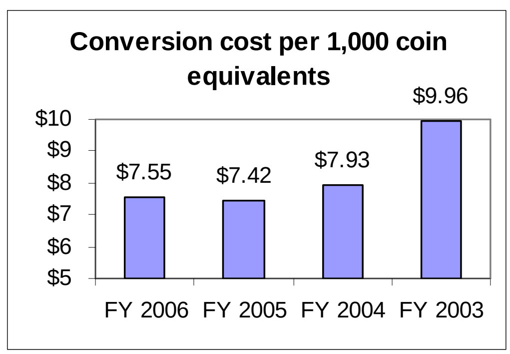
BUDGET PERFORMANCE MEASURES

The following table shows the targets and results for performance measures presented as part of the FY 2007 Performance Budget.

	FY 2006 Result	FY 2006 Target	FY 2005 Result
Conversion cost per 1,000 coin equivalents	$7.55	$6.62	$7.42
Cycle-time	72 days	67 days	69 days
Order fulfillment	95%	95%	94%
Protection cost per square foot	$32.49	$32.00	$32.43
Total losses	$0	$15,000	$1,135

Analysis of Budget Performance Measures

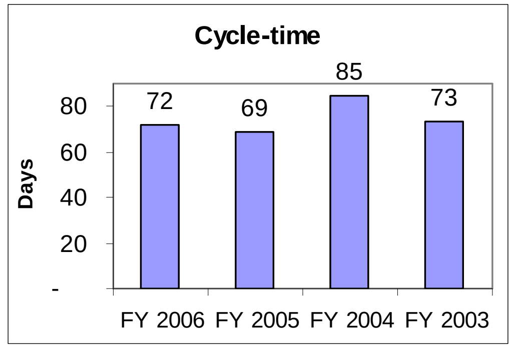
Conversion cost per 1,000 coin equivalents



The United States Mint's costs vary by product, and the product mix has been variable over time. This makes it difficult to compare operating results from year to year. The coin equivalent calculation converts the production output to a common denominator based on the circulating quarter. Production costs, excluding metal and fabrication, are then divided by this standardized production level, thus resulting in "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 1,000 coin equivalents during FY 2006 is $7.55, an increase of two percent from the FY 2005 result of $7.42. The performance measure did not meet the FY 2006 target of $6.62. This target (stretch goal) was an 11 percent decrease from the FY 2005 actual results and was set based on forecasted volume and cost estimates.

Coin equivalent production increased to 21.1 billion in FY 2006, compared with 19.9 billion in FY 2005, an increase of six percent. The associated conversion cost increased to $159 million from $147 million in FY 2005, an increase of eight percent. The increase in conversion cost between FY 2006 and FY 2005 is the result of rising energy costs, replenishment of shipping and packaging supplies, overtime to support new numismatic products, and a 21 percent increase in depreciation expense. In FY 2006, the United States Mint completed training for many manufacturing managers on lean manufacturing processes and for sales and marketing staff on project management techniques. This training will serve to eliminate unnecessary or redundant practices and should lead to improvements in plant productivity and reductions in controllable operating costs.

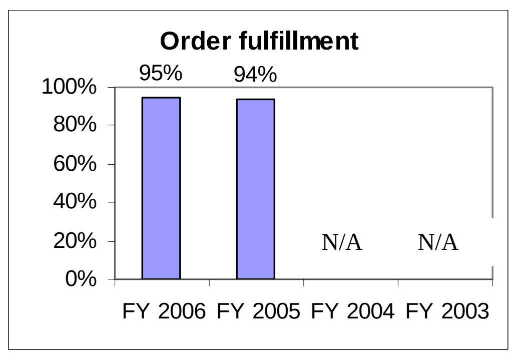
Cycle-time



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. The United States Mint’s objective is to minimize the amount of time required to process raw materials into finished goods by eliminating non-value added steps from the processes and reducing the amount of raw material in inventory. As of September 2006, the United States Mint’s cycle-time was 72 days, an increase of three days from 69 days as of September 2005. The targeted cycle-time was 67 days. This performance goal was set at an approximate target level, and the deviation from that level is slight. There was no effect on the overall program or activity performance.

The United States Mint plans to continue improving the cycle-time of the circulating coinage through further implementation of lean manufacturing techniques. In FY 2006, the United States Mint completed training for many manufacturing managers on lean manufacturing processes. This training will serve to eliminate unnecessary or redundant practices and should lead to improvements in plant productivity. The Presidential $1 Coin program will begin in FY 2007. This program will present challenges to reducing the cycle-time from current levels, as four new presidential designs (one per quarter) will be introduced into circulation. To address this challenge, United States Mint and Federal Reserve officials are working together to ensure that sufficient quantities of the new Presidential $1 coins will be ready to be distributed into circulation on each launch date. The Federal Reserve has assigned one of its staff members with expertise in coin distribution and inventory control from its Washington headquarters to help coordinate the circulation plans.

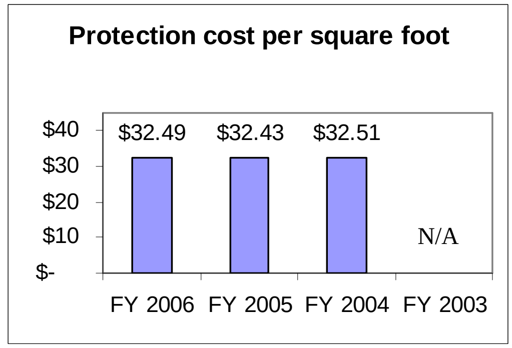
Order fulfillment



Order fulfillment is a measure that tracks the overall order fulfillment for the circulating coins shipped to the Federal Reserve and the numismatic coins sold to the public. Both components are then weighted by their respective share of the total revenues and other financing sources. Order fulfillment in FY 2006 was 95 percent, a slight increase from the result of 94 percent in FY 2005. Essentially, this result means that 95 percent of the United States Mint’s revenue and other financing sources during FY 2006 was earned from products that were shipped to the customer in a timely fashion. This result meets the target of 95 percent.

Protection cost per square foot

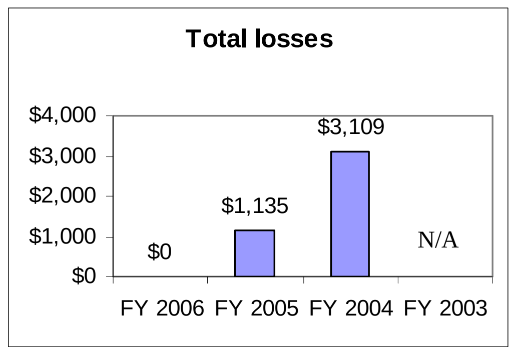
Protection cost per square foot comprises the Office of Protection's total operating cost divided by the area of usable space. Usable space is defined as 90 percent of the total square footage. The Office of Protection uses the cost per square foot to provide a measurement of efficiency over time. The square footage of usable space 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. Protection cost per square foot for FY 2006 was $32.49, a slight increase from $32.43 in FY 2005. This performance did not meet the target of $32.00.



The United States Mint is identifying the use of automation to replace the functions currently performed by police officers. While these strategies may help reduce certain personnel and overtime costs, the ability to apply downward pressure on costs is taken with a long-term view and must be tempered by the level of readiness necessary to fulfill the Protection mission.

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 because of 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.

Total losses as of the end of FY 2006 were $0 (zero) compared with $1,135 in FY 2005. This performance exceeds the target of $15,000. Results are from cases that have been investigated and closed during the fiscal year. While the FY 2006 result represents the ideal performance, there are open cases that are still under investigation that may be reported as losses at a future date. The protection of United States Mint assets remains a high priority. Efforts to prevent losses include automating exit scanning procedures to scan employees for valuable assets and error coins, and installing electronic systems to verify identity and scan for weapons and explosives upon entry to each facility.

CURRENT AND FUTURE CHALLENGES

The United States Mint is being challenged by a wide range of changes in the world around us--changes in how people purchase goods and services, rapidly rising metal costs, and whether people collect coins as hobby or investment. While we are not in a position to control these changes in the outside world, we are in a position to control how we prepare for them and how we respond to them. We have chosen to take a proactive approach in addressing them—working closely with our stakeholders, customers and vendors to safeguard, to the greatest extent practicable, our ability to continue to effectively fulfill our mission for the American public.

KEY CHALLENGES

Rising Prices of Metal Leading to Higher Production Costs

Perhaps the greatest challenge facing the United States Mint is the increased cost of producing circulating coinage resulting from the dramatic increases in the prices of zinc, copper, and nickel. In fact, as of the end of FY 2006, the costs of producing one-cent and 5-cent coins were exceeding the face value of these coins. These increases in metal prices also detract from the seigniorage levels for other coin denominations.

Potential Downward Trend in Demand for Circulating Coins

Over the past five years, the public's use of credit and debit cards, ePurses, stored value cards (like phone cards), contactless transaction cards (like EZPass and SpeedPass), and other forms of electronic transactions has increased substantially. This transformation of the economy toward more cash-free transactions might have significant implications for the nation's demand for circulating coins in the future. To prepare for and respond to this potential change, we need to reduce our costs and develop new initiatives. The numismatics area offers us the flexibility to develop a wide range of new initiatives.

Most Popular Numismatic Coin Program Is Coming to an End

In recent years, there has been an increased demand for numismatic products — much of it because of the popularity of our 50 State Quarters® Program. However, our recurring numismatic product line will shrink dramatically when the 50 State Quarters Program ends in December 2008. The introduction of a 24-karat program in FY 2006 and the launch of the Presidential $1 Coin Program in 2007 will boost our numismatics revenue in the short term. However, history shows that initial surges of collector demand for new coin products slow significantly after two to three years, and this slowdown would coincide with the conclusion of the 50 State Quarters Program.

Volatility in Short-Term Coin Production Requirements

Introduction of the 24-karat Gold American Buffalo Coin Program in FY 2006 and the Presidential $1 Coin Program in FY 2007, requires significant escalation in production and packaging in all of our coin production facilities. However, these production increases in 2006-2008 will likely be followed by significant declines in both circulating and numismatic production levels in 2009 — when the 50 State Quarters Program ends. To prepare for and respond to these changes, we need to develop new numismatic initiatives, products, and sales channels; restructure our production capacity;, and reorient our workforce.

Skill Gaps in the United States Mint Workforce

The United States Mint of 2011 will be very different from the United States Mint of 2006. To prepare for and respond to this change, we need to implement lean manufacturing processes; develop more efficient, effective, and innovative business practices; provide specialized training programs to enhance the skills of our existing workforce; and attract employees with the skills to meet the needs of the future. The result will be a smaller but more technically proficient workforce in the areas of marketing, finance, information technology, and production — a workforce that is focused on achieving mission-critical strategic objectives.

Threats to United States Mint People, Operations, and Assets

We also need to continue building our ability to provide the utmost in security and safety for our people, operations, and assets. Although we have made a great deal of progress — both in providing physical security and in creating a safer workplace — these challenges will continue. To meet these challenges, we will invest in proven new technologies designed to effectively identify and thwart potential threats.

ANALYSIS OF SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

INTERNAL CONTROLS PROGRAM

The United States Mint management is responsible for establishing and maintaining effective internal controls, which includes safeguarding of assets and compliance with applicable laws and regulations. Therefore, the United States Mint has made a conscientious effort during FY 2006 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), Office of Management and Budget (OMB) Circular A-123, and the Government Performance and Results Act (GPRA) of 1993.

The systems of management controls for the United States Mint are designed to ensure that:

a) Programs achieve their intended results;
b) Resources are used consistent with overall mission;
c) Programs and resources are free from waste, fraud, and mismanagement;
d) Laws and regulations are followed;
e) Controls are sufficient to minimize any improper or erroneous payments;
f) Performance information is reliable;
g) Systems security is in substantial compliance with all relevant requirements;
h) Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and
i) Financial management systems are in compliance with Federal financial systems standards.

The United States Mint has assessed its internal controls and, for all its responsibilities, we hereby provide reasonable assurance that the above listed management control objectives, taken as a whole, were achieved by the United States Mint during FY 2006. Specifically, this assurance is provided relative to Sections 2 and 4 of FMFIA. We further assure that our financial management systems are in substantial compliance with the requirements imposed by FFMIA. These assurances are as of September 30, 2006.

The United States Mint has assessed the effectiveness of the internal controls over financial reporting on the Treasury designated financial line items in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. The United States Mint evaluated controls over the Treasury designated consolidated financial statement line items, for which the United States Mint contributes 10% or greater, including accounts payable, accounts receivable, inventory and fixed assets. Based on the results of this evaluation, the United States Mint can provide reasonable assurance that internal controls over financial reporting on the Treasury designated consolidated financial statement line items and internal financial reports produced for the United States Mint was, as of June 30, 2006, operating effectively and no material weakness was found in the design or operation of the internal control over such financial reporting.

The FY 2006 assessment performed in accordance with OMB Circular A-123 was conducted by obtaining and documenting an understanding of the policies, processes and procedures in effect, determining the significant control mechanisms and performing detail tests of transactions to ascertain the effectiveness of the identified controls. Each control tested was considered in light of the associated and/or mitigating controls that were in effect. The overall result was considered and conclusions obtained as to the overall effectiveness of the controls in place.

FMFIA SECTION 2 MATERIAL WEAKNESS

There are no Material Weaknesses to report on.

FMFIA SECTION 4 – MATERIAL NONCONFORMANCE

There is no Material Nonconformance to report on.

LEGAL COMPLIANCE

The United States Mint was found not to be in full compliance with FFMIA in that at the transactional level, the United States Governmental Standards General Ledger is not fully adopted. This will be remedied with the migration of the United States Mint's general ledger to an enterprise-wide automated accounting system serviced by the Bureau of Public Debt's Administrative Resource Center in October 2006.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the United States Mint, pursuant to the requirements of 31 U.S.C. § 3515(b). While the statements have been prepared from the books and records of the United States Mint in accordance with U.S. generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General
United States Department of the Treasury:

Director
United States Mint:

We have audited the accompanying balance sheets of the United States Mint (Mint) as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, financing, custodial activity, and the combined statements of budgetary resources (hereinafter referred to as "financial statements") for the 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Mint's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Mint as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in fiscal year 2006, the Mint adopted the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds*.

KPMG LLP. KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss cooperative.

The information in the Management's Discussion and Analysis and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 8, 2006, on our consideration of the Mint's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

December 8, 2006

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
BALANCE SHEETS
(In Thousands)

	As of September 30, 2006	2005
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$225,917	$279,387
Accounts Receivable, Net (Note 4)	0	58
Advances and Prepayments (Note 5)	3,948	4,114
Total Intragovernmental Assets	229,865	283,559
Custodial Gold and Silver Reserves (Note 6)	10,493,740	10,493,740
Accounts Receivable, Net (Note 4)	28,120	14,900
Inventory and Related Property (Notes 7 & 22)	253,329	185,630
Supplies	15,318	13,193
Property, Plant and Equipment, Net (Note 8)	233,394	271,581
Advances and Prepayments (Note 5)	1,859	1,612
Total Non-Intragovernmental Assets	11,025,760	10,980,656
Total Assets (Notes 2 and 14)	$11,255,625	$11,264,215
Heritage Assets (Note 9)		
LIABILITIES		
Intragovernmental:		
Accounts Payable	$1,183	$313
Accrued Workers' Compensation and Benefits	6,541	6,805
Total Intra-governmental Liabilities	7,724	7,118
Custodial Liability to Treasury (Note 6)	10,493,740	10,493,740
Accounts Payable	52,436	40,513
Surcharges payable (Note 3)	8,361	10,678
Accrued Payroll and Benefits	14,923	14,996
Other Actuarial Liabilities	31,482	33,855
Unearned Revenues	3,362	5,791
Total Non-Intragovernmental Liabilities	10,604,304	10,599,573
Total Liabilities (Notes 10 and 14)	10,612,028	10,606,691
Commitments and Contingencies (Notes 12 & 13)		
NET POSITION		
Cumulative Results of Operations - Earmarked Funds (Note 14)	643,597	657,524
Total Liabilities and Net Position	$11,255,625	$11,264,215

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF NET COST
(In Thousands)

	For The Years Ended September 30,	
	2006	**2005**
NUMISMATIC PRODUCTION AND SALES		
Gross Cost	$952,150	$524,072
Less Earned Revenue	(1,037,620)	(602,796)
Net Program Revenue	(85,470)	(78,724)
CIRCULATING PRODUCTION AND SALES		
Gross Cost	603,352	445,446
Less Earned Revenue (Note 16)	(603,352)	(445,446)
Net Program Revenue	-	-
Net Revenue Before Protection of Assets	(85,470)	(78,724)
PROTECTION OF ASSETS		
Protection Costs	42,886	37,543
Less Earned Revenue	(59)	(107)
Net Cost of Protection of Assets	42,827	37,436
Net Revenue from Operations (Notes 14 and 15)	($42,643)	($41,288)

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF CHANGES IN NET POSITION
(In Thousands)

	For The Years Ended September 30,	
	2006	**2005**
CUMULATIVE RESULTS OF OPERATIONS		
NET POSITION, Beginning of Year - Earmarked Funds (Note 14)	$657,524	$657,797
FINANCING SOURCES:		
Transfers to the Treasury General Fund On-Budget	(84,000)	(45,000)
Transfers to the Treasury General Fund Off-Budget	(666,000)	(730,000)
Other Financing Sources (Seigniorage) (Note 16)	682,480	722,686
Imputed Financing Sources (Note 11)	10,950	10,753
Total Financing Sources	(56,570)	(41,561)
Net Revenue from Operations	42,643	41,288
Net Position, End of Year - Earmarked Funds (Note 14)	$643,597	$657,524

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF THE TREASURY

UNITED STATES MINT

STATEMENTS OF BUDGETARY RESOURCES

(In Thousands)

	For The Years Ended September 30, 2006	2005
Budgetary Resources		
Unobligated Balance,		
brought forward, October 1,	$112,870	$130,290
Spending Authority from Offsetting Collections		
Earned		
Collected	1,650,475	1,041,625
Change in Receivable from Federal Sources	(58)	(4,363)
Subtotal	1,650,417	1,037,262
Permanently Not Available	(84,000)	(45,000)
TOTAL BUDGETARY RESOURCES	$1,679,287	$1,122,552
Status of Budgetary Resources		
Obligations Incurred		
Reimbursable (Note 18)	$1,638,738	$1,009,682
Unobligated Balances		
Apportioned	40,549	112,870
TOTAL STATUS OF BUDGETARY RESOURCES	$1,679,287	$1,122,552
Change in Obligated Balances		
Obligated balance, net		
Unpaid Obligations, brought forward, October 1	$160,848	$203,313
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	(58)	(4,422)
Total unpaid obligated balance, net	160,790	198,891
Obligated Incurred, net (Note 18)	1,638,738	1,009,682
Gross Outlays	1,619,945	1,039,786
Change in uncollected customer payments from Federal sources	(58)	(4,363)
Obligated balance, net, end of the period		
Unpaid obligations	179,561	160,848
Uncollected customer payments from Federal sources	0	(58)
Total, unpaid obligated balance, net end of period	179,561	160,790
Net Outlays		
Net outlays		
Gross outlays	1,619,945	1,039,786
Collections	(1,650,475)	(1,041,625)
TOTAL OUTLAYS	($30,530)	($1,839)

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF FINANCING
(In Thousands)

	For The Years Ended September 30,	
	2006	**2005**
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$1,638,738	$1,009,682
Less: Spending Authority from Offsetting Collections and Recoveries	1,650,417	1,037,262
Net Obligations	(11,679)	(27,580)
Other Resources		
Transfers to the Treasury General Fund On-Budget	(84,000)	(45,000)
Transfers to the Treasury General Fund Off-Budget	(666,000)	(730,000)
Imputed Financing from Costs Absorbed by Others (Note 11)	10,950	10,753
Other Financing Sources (Seigniorage) (Note 16)	682,480	722,686
Net Other Resources Used to Finance Activities	(56,570)	(41,561)
Total Resources Used to Finance Activities	(68,249)	(69,141)
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	13,456	(10,520)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	99,315	73,419
Other	(84,000)	(45,000)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	28,771	17,899
Total Resources Used to Finance the Net Cost of Operations	(97,020)	(87,040)
Components Requiring or Generating Resources in Future Periods		
Increase in Exchange Revenue Receivable from the Public	(13,219)	591
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	(13,219)	591
Components not Requiring or Generating Resources in the Current Period		
Depreciation and Amortization	56,666	44,396
Revaluation of Assets	11,068	2,853
Other	(138)	(2,088)
Total Components of Net Revenue from Operations that will not require or Generate Resources	67,596	45,161
Total Components of Net Revenue from Operations that will not require or Generate Resources in the Current Period	54,377	45,752
Net Revenue from Operations	($42,643)	($41,288)

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF CUSTODIAL ACTIVITY
(In Thousands)

	For The Years Ended September 30,	
	2006	**2005**
Revenue Activity		
Sources of Cash Collections:		
Sale of Treasury Silver (Note 21)	$0	$52,745
Total Revenue Received	0	52,745
Disposition of Custodial Revenue & Collections		
Transferred to the General Fund	0	52,745
Total Disposition of Custodial Revenue	0	52,745
Net Custodial Activity	$0	$0

The accompanying notes are an integral part of these financial statements.

(Dollars are in thousands except Fine Troy Ounce information)

Note 1 Summary of Significant Accounting Policies

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 recipient organizations, and to protect certain federal assets in its custody. Numismatic products include medals; proof coins; uncirculated coins; platinum, gold, and silver bullion coins; and commemorative coins. Custodial assets consist of the United States' gold and silver metal reserves. These custodial reserves are often referred to as "deep storage" and "working stock" and are reported on the Balance Sheet.

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, Treasury Postal Service and General Government Appropriation Bill for FY 1996,* as codified at 31 U.S.C § 5136, 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 (FRB). Other costs/expenses accounted for in this fund include costs related to research and development and purchases of equipment, as well as capital improvements and protection costs. *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 the "deep storage" portion of the Treasury gold and silver reserves for which the United States Mint acts as custodian.

Basis of Accounting and Presentation

The accompanying Financial Statements were prepared in conformity with the reporting format promulgated by the Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements" and in accordance with accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB). The United States Mint's financial statements have been prepared to report the financial position, net cost of operations, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity, as required by the *Chief Financial Officers Act of 1990*.

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. Accounts subject to estimates include depreciation, imputed costs, payroll and benefits, accrued worker's compensation, and unemployment benefits.

The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual method, revenues and other financing sources 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.

(Continued)

Earned Revenues and Other Financing Sources (Seigniorage)

Circulating Sales: *P.L. 104-52*, establishing the PEF, provides for the sale of circulating coinage at face value to the Federal Reserve System. Revenue from the sale of circulating coins is recognized when the product is shipped to the FRB.

Revenue from the sale of circulating coins to the FRB and numismatic sales of circulating coins is limited to the recovery of the cost of manufacturing those coins. Coins are sold at face value. The difference between the face value of circulating coins sold and the total cost of producing those coins is considered a financing source in accordance with FASAB guidelines.

Other Financing Sources (Seigniorage) is the face value of newly minted coins less the cost of production (which includes the cost of the metal, manufacturing, and transportation). Seigniorage is the profit from coining money. Seigniorage adds to the government's cash balance, but unlike the payment of taxes or other receipts, it does not involve a transfer of financial assets from the public. Instead, it arises from the exercise of the Government's power to create money and the public's desire to hold financial assets in the form of coins. Therefore, the President's Budget excludes Seigniorage from receipts and treats it as a means of financing. The President's Budget also treats profits resulting from the sale of gold as a means of financing, because the value of gold is determined by its value as a monetary asset rather than as a commodity. Other financing sources (Seigniorage) is recognized when coins are shipped to the FRB in return for deposits.

Numismatic Sales: Revenue from numismatic sales to the public is recognized when products are shipped to customers. Prices for numismatic products are based on the product cost plus a reasonable net program revenue. Bullion products are priced based on the market price of the precious metals plus a premium to cover manufacturing costs.

Rental Revenue: The United States Mint receives rental revenue from floor space that is subleased in two United States Mint facilities located in Washington, D.C. The space is subleased to other federal government entities. For the purpose of presentation, rental revenue is combined with numismatic sales on the statement of net cost.

Protection Revenue: This is derived from revenue received from the FRB for protection services provided after hurricane Katrina.

Fund Balance with Treasury

All cash is maintained at the Treasury. Fund Balance with Treasury is the aggregate amount of the United States Mint's cash accounts with the U.S. Government's central accounts from which the United States Mint is authorized to make expenditures and pay liabilities. It is an asset because it represents the United States Mint's claim to the U.S. Government resources.

Accounts Receivable

Accounts receivable are amounts due to the United States Mint from the public and other federal agencies. An allowance for uncollectible customer accounts receivable from the public is established for all accounts that are more than 180 days past due. However, the United States Mint will continue collection action on those accounts that are more than 180 days past due as specified by the Debt Collection Improvement Act of 1996.

Inventories and Related Property

Inventories of circulating and numismatic coinage that do not contain either gold or silver are valued at the lower of cost or market. Cost of the metal and fabrication components of the inventories are determined using a weighted average inventory methodology. Conversion costs, i.e., the cost to convert the fabricated blank into a finished coin, are valued using a standard cost methodology.

Numismatic coinage containing Treasury gold or silver does not include the value of the Treasury gold or silver because this is a non-entity asset. Those costs appear as "Custodial Gold and Silver Reserves" and are valued at the statutory rate of $42.2222 per fine troy ounce (FTO) gold and $1.292929292 per FTO silver.

United States Mint owned platinum and silver are valued at the lower of cost or market using a weighted average inventory methodology.

(Continued)

Custodial Gold and Silver Reserves
Custodial gold and silver reserves consist of both “deep storage” and “working stock” gold and silver.

Deep Storage is defined as that portion of the U.S. Government-owned gold and silver Bullion Reserve which the United States Mint secures in sealed vaults. Deep Storage gold comprises the vast majority of the Reserve and consists primarily of gold bars.

Working Stock is defined as that portion of the U.S. Government-owned gold and silver Bullion Reserve which the United States Mint uses as the raw material for minting congressionally authorized coins. Working stock gold comprises only about one percent of the Gold Bullion Reserve and consists of bars, blanks, unsold coins, and condemned coins.

Treasury allows the United States Mint to use some of its gold and silver as working stock. 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 or silver is not replaced, the United States Mint reimburses Treasury the market value of the depleted gold or silver.

Supplies
Supplies are items that are not considered inventory and are not a part of the finished product. These items include plant engineering and maintenance supplies. Supplies are accounted for using the consumption method, whereby supplies are recognized as assets upon acquisition and expensed as they are consumed.

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:

Computer Equipment	3 to 5 years
ADP Software	2 to 10 years
Machinery and Equipment	7 to 20 years
Structures, Facilities and Leasehold Improvements	10 to 30 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 using the straight-line method, while maintenance and repair costs are charged to expense as incurred. There are no restrictions on the use or convertibility of general property, plant and equipment.

Heritage Assets
Heritage assets are items that are unique because of their historical, cultural, educational, or artistic importance. These items are collection type assets that are maintained for exhibition and are preserved indefinitely.

Liabilities
Liabilities represent actual and estimated amounts likely to be paid as a result of transactions or events that have already occurred. All liabilities covered by budgetary resources can be paid from revenues received from the United States Mint PEF.

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

(Continued)

Pursuant to the *P.L. 104-208, Omnibus Consolidated Appropriations for Fiscal Year 1997* (the Act), recipient 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 recipient 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, American 5-Cent Coin Design Continuity Act of 2003,* contains a provision that recipient 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 recipient 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.

Earmarked Funds

The United States Mint implemented the Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds* in FY 2006, which required separate identification of the earmarked funds on the Balance Sheet, Statement of Net Position, and selected footnotes.

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities or purposes, and must be accounted for separately for the government's general revenues.

Pursuant to *P. L. 104-52*, the PEF was established to account for all revenue and expenses related to the production and sale of numismatic products and circulating coinage and protection activities. Thus, the United States Mint's PEF is considered to be entirely earmarked (see Note 14).

Unearned Revenues

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

Return Policy

If for any reason a customer is dissatisfied, the entire product must be returned within 30 days of receiving the order to receive a refund or replacement. Shipping charges are not refunded. Further, the United States Mint will not accept partial returns nor issue partial refunds. Historically, the United States Mint receives very few returns, which are immaterial. Therefore, no reserve for returns is considered necessary.

Shipping and Handling

The United States Mint reports shipping and handling cost as Cost of Goods Sold and not as part of Selling or General and Administrative expenses. General postage costs for handling administrative functions are 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 and Other Actuarial Liabilities

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and to pay beneficiaries of employees whose deaths are attributable to job-related injuries or occupational disease. The FECA program is administered by the United States Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the United States Mint for these paid claims.

The FECA liability is based on two components. The first component is based on actual claims paid by DOL but not yet reimbursed by the United States Mint. There is generally a two-to three-year time period between payment by DOL and reimbursement to DOL by the United States Mint. The second component is the actuarial liability, which estimates the liability for future payments as a result of past events. The actuarial liability includes the expected liability for death, disability, medical, and miscellaneous cost for approved compensation cases.

Protection Costs

Virtually all of the Treasury's gold and majority of the silver reserves are in the custody of the United States Mint, which is responsible for safeguarding the reserves. 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.

Other Cost and Expenses (Mutilated and Uncurrent)

These consist primarily of returns of mutilated or uncurrent coins to the United States Mint. Coins that are chipped, fused, and not machine-countable are considered mutilated. The United States Mint reimburses the entity that sent in the mutilated coins at 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. Uncurrent coins are worn, but machine-countable, and their genuineness and denomination are still recognizable. Uncurrent coins are replaced with new coins of the same denomination by the FRB. All mutilated or uncurrent coins received by the Mint are melted, and the metal is shipped to a fabricator to be recycled in the manufacture of coinage strip.

Tax Exempt Status

As an agency of the Federal Government the United States Mint is exempt from all income taxes imposed by any governing body, whether it is a federal, state, commonwealth, local, or foreign government.

Concentrations

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

Reclassifications

Certain fiscal year 2005 amounts have been reclassified to conform to current year presentation.

Transfers to the Treasury General Fund

The United States Mint transfers to the Treasury General Fund amounts in the PEF determined to be in excess of the amounts required for United States Mint operations and programs. These amounts are generated from the other financing sources (Seigniorage) derived from the sale of circulating coins and from net revenues generated from the sale of numismatic products.

Protection costs, except those costs allocated to circulating coin production, are deducted from amounts generated from the sale of numismatic coins.

Excess amounts generated from other financing sources (Seigniorage) are off budget and deposited in the Treasury General Fund. Off budget means that these funds cannot be used to reduce the annual budget deficit. Instead they are used as a financing source; i.e., they reduce the amount of cash that Treasury has to borrow to pay interest on the national debt.

Excess amounts from revenues generated from the sale of numismatic products less protection costs are on budget and deposited in the Treasury General Fund. Unlike Seigniorage, the numismatic transfer is available as current operating revenue or can be used to reduce the annual budget deficit.

Budgetary Resources

The United States Mint receives all of its financing from the public and receives an apportionment from the OMB. This apportionment is considered a budgetary authority. The United States Mint's Budgetary Resources consist of unobligated balances, transfers, and spending authority from offsetting collections, which is net of amounts that are permanently not available. "Permanently not available," funds are numismatic transfers to the General Fund.

Note 2 Non-Entity Assets

Components of Non-entity Assets at September 30 are as follows:

	2006	2005
Custodial Gold Reserves (Deep Storage)	$10,355,539	$10,355,539
Custodial Silver Reserves (Deep Storage)	9,148	9,148
Custodial Gold Reserves (Working Stock)	117,514	117,514
Custodial Silver Reserves (Working Stock)	11,539	11,539
Total Non-entity Assets	10,493,740	10,493,740
Total Entity Assets	761,885	770,475
Total Assets	$11,255,625	$11,264,215

Entity assets are assets that the reporting entity has authority to use in its operations. The United States Mint management has legal authority to use entity assets to meet entity obligations. However, all assets in the possession of the United States Mint are not entity assets. Treasury allows the United States Mint to use some of its gold and silver as working stock in the production of coins. The United States Mint must replace the working stock or pay the Treasury General Fund for the used portion. Thus, Treasury deep storage and working stock gold and silver are all considered non-entity assets.

Note 3 Fund Balance with Treasury

Fund Balance with Treasury at September 30 consist of:

	2006	2005
Revolving Fund	$225,917	$279,387
Total Fund Balance with Treasury	$225,917	$279,387

Status of Fund Balance with Treasury

Unobligated Balance	$40,549	$112,870
Obligated Balance, Not Yet Disbursed	185,368	166,517
Total	$225,917	$279,387

The United States Mint does not receive appropriated budget authority. The fund balance with Treasury is entirely available for use to support the United States Mint operations. At September 30, 2006 and 2005, the revolving fund balance included $8.4 million and $10.7 million, respectively, in restricted amounts for possible payment of surcharges to recipients organizations.

(Continued)

Note 4 Accounts Receivable, Net

Components of accounts receivable are as follows:

	September 30, 2006		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$0	$0	$0
With the Public	28,317	(197)	28,120
Total Accounts Receivable	$28,317	($197)	$28,120

	September 30, 2005		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$58	$0	$58
With the Public	15,030	(130)	14,900
Total Accounts Receivable	$15,088	($130)	$14,958

At September 30, 2006, there were no intragovernmental accounts receivable compared to $58 thousand at September 30, 2005. Such balances would normally represent amounts due from other federal agencies for products or services provided by the United States Mint. Receivables with the public at September 30, 2006, primarily consist of $21 million receivable from metal scrap and webbing sold to fabricators. At September 30, 2005, receivables with the public primarily consist of $10 million from metal scrap and webbing.

Note 5 Advances and Prepayments

The components of advances and prepayments at September 30 are as follows:

	2006	2005
Intragovernmental	$3,948	$4,114
With the Public	1,859	1,612
Total Other Assets	$5,807	$5,726

Intragovernmental advances and prepayments at September 30, 2006 and 2005, include $1.9 million and $1.6 million, respectively, that the United States Mint paid the Treasury Working Capital Fund, for a variety of centralized services. Also included in intragovernmental advances are the progress payments (advances) for equipment and building improvements under construction. The United States Mint initiated an entity-wide security upgrade, which requires progress payments be made to other federal agencies for construction and other related services. As of September 30, 2006 and 2005, the balances for such payments were $1.1 million and $2.2 million, respectively. The remaining balance of approximately $900 thousand represents payments made to the United States Postal Service for product delivery services at September 30, 2006 compared to $346 thousand paid at September 30, 2005.

Advances and Prepayments with the public consist primarily of advances for freight forwarding.

Note 6 Custodial Gold and Silver Reserves

As custodian, the United States Mint is responsible for safeguarding much of the nation's gold and silver reserves, which include Deep Storage and Working Stock. The asset and the custodial liability to Treasury are reported on the Balance Sheet at statutory rates. In accordance with 31 U.S.C. § 5117 (b) and 31 U.S.C. § 5116 (b) (2) statutory rates of $42.2222 FTO of gold and $1.292929292 per FTO of silver are used to value the entire custodial reserves held by the United States Mint.

The market value for gold and silver at September 30 is determined by the London Gold Fixing (PM) rate.

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

	2006	2005
Gold - Deep Storage:		
Inventories (FTO)	245,262,897	245,262,897
Market Value ($ per FTO)	$599.25	$473.25
Market Value ($ in thousands)	$146,973,791	$116,070,666
Statutory Value ($ in thousands)	$10,355,539	$10,355,539
Gold - Working Stock:		
Inventories (FTO)	2,783,219	2,783,219
Market Value ($ per FTO)	$599.25	$473.25
Market Value ($ in thousands)	$1,667,844	$1,317,158
Statutory Value ($ in thousands)	$117,514	$117,514
Silver - Deep Storage:		
Inventories (FTO)	7,075,171	7,075,171
Market Value ($ per FTO)	$11.55	$7.53
Market Value ($ in thousands)	$81,718	$53,276
Statutory Value ($ in thousands)	$9,148	$9,148
Silver - Working Stock:		
Inventories (FTO)	8,924,829	8,924,829
Market Value ($ per FTO)	$11.55	$7.53
Market Value ($ in thousands)	$103,082	$67,204
Statutory Value ($ in thousands)	$11,539	$11,539
Total *Market* Value of Custodial Gold and Silver Reserves ($ in thousands)	$148,826,435	$117,508,304
Total *Statutory* Value of Custodial Gold and Silver Reserves ($ in thousands)	$10,493,740	$10,493,740

Note 7 Inventory and Related Property

The components of inventories and related property at September 30 are summarized below:

	2006	2005
Raw Materials	$113,827	$50,434
Work-In-Process	61,324	46,384
Inventory held for current sale	56,671	66,857
Inventory held in reserve for future sale	21,507	21,955
Total Inventory and Related Property	$253,329	$185,630

(Continued)

Raw materials consist of unprocessed materials and byproducts of the manufacturing process and the metal value of unusable inventory such as scrap or condemned coins that will be recycled into a usable raw material. In addition, the inventory includes $39 million in fair value silver hedge activity of which additional information can be found in note 22. Work-in-process consist of semi-finished materials. Inventory held for current sale is finished goods inventories and inventory held in reserve for future sale consist of golden dollar coil.

Note 8 Property, Plant and Equipment, Net

Components of property, plant and equipment are as follows:

	September 30, 2006		
	Asset Cost	Accumulated Depreciation and Amortization	Total Property, Plant and Equipment, Net
Land	$2,529	$0	$2,529
Structures, Facilities and Leasehold Improvements	198,181	(116,363)	81,818
Computer Equipment	30,593	(24,287)	6,306
ADP Software	92,188	(81,648)	10,540
Construction-In-Progress	8,496	0	8,496
Machinery and Equipment	220,401	(96,696)	123,705
Total Property, Plant and Equipment, Net	$552,388	($318,994)	$233,394

	September 30, 2005		
	Asset Cost	Accumulated Depreciation and Amortization	Total Property, Plant and Equipment, Net
Land	$2,529	$0	$2,529
Structures, Facilities and Leasehold Improvements	184,892	(99,778)	85,114
Computer Equipment	38,956	(23,938)	15,018
ADP Software	96,493	(73,108)	23,385
Construction-In-Progress	27,982	0	27,982
Machinery and Equipment	210,532	(92,979)	117,553
Total Property, Plant and Equipment, Net	$561,384	($289,803)	$271,581

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 during the years ended September 30, 2006 and 2005, were $56.7 million and $44.4 million, respectively.

Note 9 Heritage Assets

One mission of the United States Mint is to manufacture coins for circulation and numismatic sales. Assets classified as heritage assets are predominately coins manufactured in prior years that are held for historical archival purposes. These coins are examples of the various coins produced by the United States Mint over the years. Also included in heritage assets are selected artifacts (e.g., balances/scales, obsolete manufacturing equipment, examples of daily activity, etc.) that were used in years past. Some of the coins and artifacts are priceless while most are relatively common, but the United States Mint generally does not place a value on the heritage assets. However, the assets are accounted for and controlled for protection and conservation purposes.

Note 10 Liabilities Not Covered by Budgetary Resources

Components of Liabilities Not Covered by Budgetary Resources at September 30 are as follows:

	2006	2005
Custodial Gold Reserves (Deep Storage)	$10,355,539	$10,355,539
Custodial Silver Reserves (Deep Storage)	9,148	9,148
Working Stock Inventory-Gold	117,514	117,514
Working Stock Inventory-Silver	11,539	11,539
Total Liabilities Not Covered by Budgetary Resources	$10,493,740	$10,493,740
Total Liabilities Covered by Budgetary Resources	118,288	112,951
Total Liabilities	$10,612,028	$10,606,691

Liabilities not covered by budgetary resources represent amounts owed in excess of available funds, other amounts or custodial liabilities to Treasury that are entirely offset by custodial gold and silver reserves held by the United States Mint on behalf of the Federal Government.

Note 11 Retirement Plans and Other Post-employment Costs (Imputed Financing)

At the end of FY 2006, three hundred and one (301) United States Mint employees participated in the Civil Service Retirement System (CSRS), to which the United States Mint contributes seven percent of basic 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 basic pay and matches any employee contributions up to an additional four percent of basic pay. In FY 2005, FERS employees were allowed a maximum annual contribution of 15 percent of salary to a maximum of $14,000. In January of FY 2006, limits on percentage contributions were eliminated. Employees can now contribute any dollar amount or percentage of their basic pay as long as the annual dollar total does not exceed the Internal Revenue Code limit of $15,000 for FY 2006. 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 2006. These cost factors remain unchanged from FY 2005.

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

	2006	2005
Social Security System	$8,249	$8,456
Civil Service Retirement System	1,515	1,524
Federal Employees Retirement System		
(Retirement & Thrift Savings Plan)	14,883	14,987
Total Retirement Plans and Other Post-employment Cost	$24,647	$24,967

(Continued)

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 factors relating to health benefits are $5,229 and $4,903 per employee enrolled in the Federal Employees Health Benefits Program in FY 2006 and FY 2005, 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 2006 and FY 2005.

The amount of imputed cost incurred by the United States Mint for the year ended September 30 is as follows (before the offset for imputed financing):

	2006	**2005**
Health Benefits	$8,266	$8,050
Life Insurance	22	22
Pension Expense	2,662	2,681
Total Imputed Cost	$10,950	$10,753

Note 12 Lease Commitments

The United States Mint as Lessee:

The United States Mint leases office and warehouse space from commercial vendors and the General Services Administration (GSA). In addition, the agency leases copier and other office equipment from commercial vendors and vehicles from GSA. With the exception of the commercial leases on two office buildings in Washington, DC, all leases are one-year, or one-year with renewable option years. The two building leases have terms of 20- and 10-years, respectively. Because all of the United States Mint's leases are considered cancelable, there are no minimum lease payments due.

The United States Mint as Lessor:

The United States Mint sub-leases office space to several other federal entities in the two leased buildings in Washington, DC. The leases vary from one-year with option years to multiple year terms. As of September 30, 2006, the United States Mint sub-leased in excess of 185,000 square feet in two leased buildings. As of September 30, 2006, tenants include: the Internal Revenue Service, the Treasury Executive Institute, the Bureau of the Public Debt, the U.S. Customs Service and Border Protection, the Federal Consulting Group and the U.S. Marshals Service. All of the subleases are operating leases.

Future Projected Receipts:
(In Thousands)

Fiscal Year	Land and Buildings
2007	$4,045
2008	176
2009	180
2010	183
2011	187
After 2011	47
Total Future Operating Lease Receivables	$4,818

Note 13 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 Public Enterprise Fund. Likewise, under the Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002 (No FEAR Act, *Public Law 107-174*), settlements and judgments related to acts of discrimination and retaliation for whistleblowing are the responsibility of the United States Mint and will be paid from the PEF. 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.

Asserted and pending legal claims for which loss is reasonably possible were estimated to range from $0 million to $1.7 million at September 30, 2006. The United States Mint is subject to various other legal proceedings and claims. In management's opinion, the ultimate resolution of other actions will not materially affect the United States Mint's financial position or net cost.

Note 14 Earmarked Funds

The United States Mint receives revenues and other financing sources from the sale of numismatic and bullion coins, the sale of circulating coins to the FRB, and the sale of a variety of related products to customers worldwide. The sales of circulating products less the cost of production (which includes the cost of the metal, manufacturing, and transportation) are considered other financing sources, which result from the sovereign power of the government to directly create money. These resources increase the government's net position in the same manner as an inflow of resources.

Public Law 104-52 provides that "all receipts from United States Mint operations and programs, including the production and sale of numismatic items, the production and sale of circulating coinage at face value to the FRB, the protection of government assets, and gifts and bequests of property, real or personal shall be deposited into the PEF and shall be available to fund its operations without fiscal year limitations." The PEF eliminates the need for appropriations from the U.S. Government to the United States Mint.

There has been no change to the PEF legislation during or subsequent to the reporting period or before the issuance of the United States Mint's financial statements.

Because the entire PEF is the United States Mint and the entire entity is earmarked, thus the disclosure requirements related to earmarked funds are the financial statements themselves.

Note 15 Intragovernmental Costs and Earned Revenue

Intragovernmental costs and earned revenue reflect transactions where both the buyer and seller are federal entities. Revenue with the public reflects transactions for goods or services with a non-federal entity. However, if a federal entity purchases goods or services from another federal entity and sells those goods to the public, the revenue would be classified as "with the public," but the related expense would be classified as "intragovernmental." The purpose for this classification is to enable the Federal Government to prepare consolidated financial statements. The following table provides earned revenues, gross cost, and net program revenue.

NUMISMATIC PRODUCTION AND SALES	2006	2005
Cost:		
Intragovernmental:		
Selling, General and Administrative	$31,662	$22,405
Imputed Costs	2,190	1,075
Total Intragovernmental Costs	33,852	23,480
Public:		
Cost of Goods Sold	866,961	443,409
Selling, General and Administrative	51,337	57,183
Total Public Cost	918,298	500,592
Gross Cost	**952,150**	**524,072**
Revenue:		
Intragovernmental:		
Rent Revenues	7,852	6,533
Other Intragovernmental Revenues	139	93
Total Intragovernmental Revenue	7,991	6,626
Public	1,029,629	596,170
Total Earned Revenue	**1,037,620**	**602,796**
Net Program Revenue	(85,470)	(78,724)
CIRCULATING PRODUCTION AND SALES		
Cost:		
Intragovernmental:		
Selling, General and Administrative	42,227	32,529
Imputed Costs	8,760	9,678
Total Intragovernmental Costs	50,987	42,207
Public:		
Cost of Goods Sold	484,324	336,209
Selling, General and Administrative	52,319	53,412
Other Costs and Expenses (Mutilated and Uncurrent)	15,722	13,618
Total Public Cost	552,365	403,239
Gross Cost	**603,352**	**445,446**
Revenue:		
Public	603,352	445,446
Total Earned Revenues	**603,352**	**445,446**
Net Program Revenue	-	-
Net Revenue Before Protection of Assets	(85,470)	(78,724)
PROTECTION OF ASSETS		
Public:		
Protection Cost	42,886	37,543
Total Earned Revenues	(59)	(107)
Net Cost of Protection of Assets	42,827	37,436
Net Revenue from Operations	(42,643)	($41,288)

(Continued)

Note 16 Earned Revenues and Other Financing Sources (Seigniorage)

Earned revenues and other financing sources (Seigniorage) whether from the FRB or from the public are recognized upon the shipment of circulating coins and numismatic sales of circulating coins. A portion of the earned revenue from circulating production and sales displayed on the United States Mint's Statement of Net Cost is generated by goods and services provided to the public or to other federal entities. 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), and payment by the United States Mint for mutilated and uncurrent coins. The difference between the face value of coins and cost is other financing sources (Seigniorage). A portion of other financing sources (Seigniorage) is returned to the Treasury General Fund as an off-budget receipt. The United States Mint transfers to the Treasury General Fund amounts in the PEF determined to be in excess of amounts required to finance operations and programs. All costs are recovered from numismatic sales from which a slight profit is made and returned to the Treasury General Fund as an on-budget receipt.

The components of circulating coins and numismatic sales of circulating coins for the year ended September 30 are as follows:

	2006	2005
Revenue-FRB	$603,352	$445,446
Other Financing Sources (Seigniorage)-FRB	668,506	699,398
Total Circulating Coins	$1,271,858	$1,144,844
Revenue-with the public	$10,459	$14,575
Other Financing Sources (Seigniorage)-with the public	13,974	23,288
Total Numismatic Sales of Circulating Coins	$24,433	$37,863

Note 17 Related Parties

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

The United States Mint shipped approximately $1.3 billion and $1.1 billion in coins to the Federal Reserve Banking System in FY 2006 and 2005, respectively.

Note 18 Apportionment Categories of Obligations Incurred

The United States Mint receives apportionments of its resources from OMB. An apportionment is a plan, approved by the OMB, to spend resources provided by law. All United States Mint obligations are classified as reimbursable as they are financed by offsetting collections received in return for goods and services provided. OMB usually uses one of two categories to distribute budgetary resources. Category A apportionments distribute budgetary resources by fiscal quarters. Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories. The United States Mint has only category B apportionments.

Details of Obligations Incurred as of September 30 are as follows:
(in thousands)

	2006	2005
Reimbursable:		
Category B		
Total Operating Expenses	$1,618,526	$990,132
Numismatic Capital	11,162	5,744
Circulating and Protection Capital	9,050	13,806
Total Apportionment Categories of Obligations Incurred	$1,638,738	$1,009,682

Note 19 Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, requires an explanation of material differences between budgetary resources available, the status of those resources, and outlays as presented in the Statement of Budgetary Resources to the related actual balances published in the Budget of the United States Government (President's Budget). The President's Budget with actual numbers for fiscal year 2006 is expected to be published in February 2007 and made available through OMB.

Prior to FY2005, the United States Mint used the proprietary method of accounting to replicate the Statement of Budgetary Resources. This methodology ignored obligations and undelivered orders. When an item became a liability under FASB, the "obligation" was reported. The primary difference between the Statement of Budgetary Resources and what has been reported in the Budget of the United States Government is the undelivered order balance both at the beginning of FY2005 and the end of FY2005.

	September 30, 2005	
United States Mint Public Enterprise Fund	**Statement of Budgetary Resources**	**President's Budget**
Total Budgetary Resources	$1,122,552	$1,051,255
Status of Budgetary Resources:		
Obligations Incurred	1,009,682	989,369
Unobligated Balances-available	112,870	61,886
Total Status of Budgetary Resources	$1,122,552	$1,051,255
Net Outlays	($1,839)	($1,839)

Note 20 Legal Arrangements Affecting Use of Unobligated Balances

United States Mint PEF establishes that all receipts from United States Mint operations and programs, including the production and sale of numismatic items, the production and sale of circulating coinage, the protection of Government assets, and gifts and bequests of property, real or personal shall be deposited into the United States Mint PEF and shall be available without fiscal year limitations. Any amount that is in excess of the amount required by the United States Mint to cover obligations shall be transferred to the Treasury for deposit as miscellaneous receipts. At September 30, 2006 and 2005, the United States Mint transferred excess receipts to the Treasury General Fund of $750 million and $775 million, respectively.

Note 21 Custodial Activity

In FY 2006, the United States Mint had no custodial activity to report. However, in FY 2005, the United States Mint paid $52.7 million to the Department of the Treasury for 8,790,913.21 FTO of Treasury's silver that was purchased by the United States Mint to be used in the production of coins. The United States Mint paid Treasury six dollars an ounce for the silver.

At the end of FY05, the United States Mint owed Treasury 4,457,229.59 FTO's for silver that was sold and not replaced. Part of the purchase was to reimburse Treasury for that silver used as opposed to the United States Mint purchasing the silver on the open market. In addition, Treasury decided that an additional 4,333,683.62 FTO's was not needed to be held by Treasury. Therefore, this silver was purchased and became United States Mint owned silver as opposed to Treasury silver. At the end of FY05, the amount of Treasury owned silver held by the United States Mint as Custodian was exactly 16 million FTO's.

Note 22 Hedging Program

The United States Mint has adopted a hedging program in FY 2006 to avoid fluctuation in silver costs as a result of the volatile changes in market prices. The United States Mint purchases silver in large quantities and sells an interest in that silver to a trading partner, while maintaining physical custody and title of the silver. Sales of silver to the trading partner are made at the same spot price that the United States Mint paid to obtain the silver on the open market. The partner's interest in Mint silver is

(Continued)

reduced as finished silver coins are sold to approved purchasers (AP’s). Repurchases of the trading partner’s interest in the silver occurs upon sale of coins by the Mint. Repurchases are made on the same day as sales, in the same quantity sold, and using the same spot price as was used for the sale to the AP. Each sale to and from the purchaser carries a small transaction fee, the selling and buying fees net to a cost of one half cent per ounce. To date, the United States Mint has incurred $41 thousand in hedging fees causing minimal impact on the statement of net cost.

The $39 million in hedging activity included in inventory represents the value of the silver sold to the trading partner and not yet sold by the United States Mint, and therefore not repurchased from the trading partner. During the early phases of the program, silver from existing United States Mint inventory was sold to the trading partner resulting in a $1.2 million gain to the United States Mint.

Required Supplementary Information (Unaudited)

Introduction

This section provides the Required Supplemental Information as prescribed by the Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements."

Heritage Assets

The United States Mint is steward of a large, unique, and diversified body of heritage assets that are both collection and non-collection in nature. These items include a variety of rare and semi precious coin collections and historical artifacts, and are held at various United State Mint locations. Some of these items are placed in locked vaults within the United States Mint where access is limited to only special authorized personnel. Other items are on full display to the public requiring little if any authorization to view. Items on display are accounted for and controlled for protection and conservation purposes.

The United States Mint has created two categories to account for the large and varied stock of heritage assets. These categories include coin collections and historical artifacts. The table below summarizes the Unites States Mint's collection and non-collection type heritage assets balance as of September 30, 2006. Overall, the United States Mint heritage assets, both collection and non-collection type, are in good condition.

Coin Collections	Quantity of Items Held September 30, 2006
Non Precious Metal Coin Collection	1
Silver Coin Collection	1
Gold And Extremely Rare Coin Collection	1
Total	3

Historical Artifacts	Quantity of Items Held September 30, 2006
Furniture Collections (includes antiques)	2
Equipment Collection	1
Total	3

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control

Inspector General
United States Department of the Treasury:

Director
United States Mint:

We have audited the balance sheets of the United States Mint (Mint) as of September 30, 2006 and 2005 and the related statements of net cost, changes in net position, financing, custodial activity, and the combined statements of budgetary resources (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated December 8, 2006. That report refers to the Mint's implementation of a new accounting standard in fiscal year 2006.

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 Standard*s, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Mint is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2006 audit, we considered the Mint's internal control over financial reporting by obtaining an understanding of the Mint's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing 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 *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide an opinion on the Mint's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

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 over financial reporting 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

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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 control, misstatements due to error or fraud may nevertheless occur and not be detected.

In our fiscal year 2006 audit, we noted certain matters, discussed in Exhibit I, involving the internal control over financial reporting and its operation that we consider to be a reportable condition. However, the reportable condition is not believed to be a material weakness. Management responses are included in Exhibit II.

INTERNAL CONTROLS OVER PERFORMANCE MEASURES

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. 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 to a performance measure or aggregation of related performance measures, 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 control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the design and operation of internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters that might be reportable conditions.

As required by OMB Bulletin No. 06-03 in our fiscal year 2006 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon. In our fiscal year 2006 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

* * * * *

We noted certain additional matters that we have reported to management of the Mint in a separate letter dated December 8, 2006.

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

KPMG LLP

December 8, 2006

Improvement is needed in Financial Accounting and Reporting (Repeat Condition)

Appropriate management controls should be integrated into each policy and procedure established by the United States Mint (Mint) to direct and guide its operations. Management controls are the organization, policies, and procedures used by the Mint to reasonably ensure that: (i) programs achieve their intended results; (ii) resources used are consistent with the Mint's mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making. Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the Mint's ability to meet its objectives, would be prevented or detected in a timely manner.

The *Federal Managers Financial Integrity Act of 1982* (FMFIA) establishes overall requirements with regard to internal control. "The agency head must establish controls that reasonably ensure that: (i) obligations and costs are in compliance with applicable law; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

The following paragraphs discuss weaknesses noted in the Mint's internal control over financial reporting.

Assignment of Personnel Resources

Effective financial management requires sufficient human resources with appropriate skills and abilities. As reported during fiscal year 2005, we noted that sufficient financial management personnel resources have not been assigned to perform the many tasks needed to produce the financial statements and support the audit process.

The Mint appointed an experienced management team to oversee the financial management function during the third quarter in fiscal year 2006. This improved the Mint's financial reporting process and ensured that the annual audit was completed on schedule. Despite these improvements, we still noted that a small core group assumed responsibility for preparing the interim and final financial statements, developing year-end estimates and accruals, processing year-end adjustments, and providing most of the documentation, including explanations and justifications, needed to complete the audit in a timely manner. As a result, we experienced delays in receiving certain subsidiary information that reconciled to the general ledger and certain supporting documentation requested during the audit.

While this small core group of personnel is to be commended for their high-quality work and dedication, the Mint's continuous reliance on the efforts of these individuals raises serious concerns about its ability to ensure that future quarterly and annual financial statements will be submitted timely and the annual audit will be completed on schedule.

Responsibility and accountability for compiling information and providing justification and explanations related to the preparation of the Mint's financial statements requires the involvement and input of many individuals and activities, both within and outside the Office of Corporate Accounting, including the other Mint production facilities. Moreover, assigning the varied responsibilities to a broader group of individuals would better provide for the continuity of trained and knowledgeable personnel needed to prepare the financial statements and support the audit process. It is also imperative that the Mint production facilities and department managers respond timely and accurately to data requests from the Office of Corporate Accounting.

Financial Management Oversight

Monitoring the effectiveness of internal control should occur in the normal course of business throughout the year. In addition, periodic review, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the Mint's operations.

As reported in fiscal year 2005, we noted that management does not exercise appropriate oversight over the Mint production facilities to ensure that transactions are appropriately recorded. We noted that financial management is decentralized at the Mint production facilities and the current organizational structure provides the production facilities with the authority to develop their own procedures. The policies and procedures performed varied between production facilities, and in some instances, were not performed in accordance with Mint-wide policies and procedures. In addition, some Mint personnel were still not aware of the related Mint-wide policies and procedures, or the Mint did not perform reviews to assess the sufficiency of financial policies and procedures.

The Mint developed policies and procedure that require reconciliations to be signed-off by the preparer and reviewer in the third quarter of fiscal year 2006. However, as noted in fiscal year 2005, there are no formal policies and procedures that require journal entries to be signed-off by the preparer or reviewer.

Property, Plant and Equipment Management

Internal control should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use or disposition of assets. As reported in fiscal year 2005, the Mint conducted an annual physical inventory of property, plant and equipment, and was unable to physically locate 301 items, primarily information technology equipment. Following our recommendation in fiscal year 2005, the Mint performed an extensive physical inventory of its property, plant and equipment at all facilities to identify assets without proper identification numbers during fiscal year 2006. However, based on the results, we noted that improvement is still required to ensure that all property is adequately safeguarded and properly accounted for. Specifically, we noted the following:

- 130 property items physically inspected were not included in the Asset Management Module of PeopleSoft until after the physical inventory was completed.

- The Mint was unable to physically locate 161 property items.

We noted that there was improvement in construction-in-progress (CIP), and items reviewed were appropriately classified in fiscal year 2006. However, the Mint did not implement policies and procedures that require program managers to communicate information regarding CIP projects to the Office of Corporate Accounting.

Further, we noted that the Mint did not establish an internal review process that requires a supervisor to systematically review the transactions recorded in the Asset Management Module of PeopleSoft. All transactions are matched and approved in PeopleSoft by the same individuals, and thus adequate segregation of duties for property transactions is compromised.

Budgetary Resources Accounting

As noted in fiscal year 2005, the Mint's management elected to adopt and prepare its financial statements in accordance with accounting standards issued by the Federal Accounting Standards Advisory Board, and this required the Mint to account for and present transactions and balances on both a proprietary and budgetary basis. The Mint's general ledger system was implemented for presenting the financial statements in accordance with the Financial Accounting Standards Board, and accordingly does not include the budgetary accounts in the United States Government Standard General Ledger that support accounting for the budgetary effects of transactions in compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA).

We were informed that the Mint implemented Oracle on October 1, 2006, and that certain financial reporting functions were outsourced to the Bureau of the Public Debt's Administrative Resource Center (ARC) during fiscal year 2007. However, for fiscal year 2006, we noted that the Mint still used a manual process to determine the budgetary balances, as they do not have an integrated system to track and govern the status of obligations.

Funds control is a vital component of any Federal government operation. It requires that an obligation be recorded prior to disbursement of funds. When a disbursement is processed, the financial management systems' funds control function should compare the amount to be disbursed to the remaining amount of the obligation to ensure funds remain available. The use of a manual process subjects the Mint's overall funds control objective to significant control risk.

Recommendations:

We continue to recommend that the Mint:

1 Evaluate the existing financial management organizational structure and make appropriate changes to ensure that the Office of Corporate Accounting is provided with sufficient staff resources with the requisite skills and abilities to maintain the Mint's accounting records and prepare timely financial reports.

2 Establish procedures for performing periodic reviews to assess the sufficiency of financial policies and procedures and consistencies between production facilities.

3 Develop procedures for providing oversight and guidance to the Mint production facilities and all departments within the Mint that provide key financial information.

4 Implement formal policies and procedures that require all accounting records to be signed-off by both the preparer and a management level reviewer.

5 Implement adequate security and physical control procedures to ensure that all assets are adequately safeguarded and properly accounted for.

6 Strengthen the policies and procedures over purchasing assets to ensure that all assets are recorded in the Asset Management Module of PeopleSoft timely, when received at the relevant locations.

7 Implement policies and procedures requiring the program managers to communicate information regarding the status of the CIP projects to the Office of Corporate Accounting at or near each period end, and perform timely follow-up procedures to ensure that the Mint's financial statements reflect the most current project status.

8 Establish an internal review process that requires a supervisor to systematically review the transactions recorded in the Asset Management module of PeopleSoft timely.

9 Develop Mint-wide policies and procedures for management to perform adequate review of all obligations. The policies and procedures should provide for central management control and review, to ensure adequate support for recorded amounts exists and that sufficient consideration is given to the legitimacy of unliquidated obligation amounts.

We recommend that the Mint work closely with ARC to ensure that:

10 The Oracle general ledger system fully uses the United States Government Standard General Ledger and will support accounting for the budgetary effects of transactions to ensure compliance with FFMIA.

11 The Oracle system records obligations as incurred and manages funds control at the transaction level.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D.C. 20220

December 8, 2006

KPMG LLP
2001 M Street N.W.
Washington, DC 20036

Ladies and Gentlemen:

We have reviewed the fiscal year 2006 draft auditors' report and are in substantial agreement with the reported observations. The United States Mint recognizes the need for strong internal controls and is taking corrective actions to address the noted deficiencies. We have made significant progress toward resolving the reported issues and will continue to work with KPMG and the Office of Inspector General in identifying the specific actions that will ensure we have adequately identified and have taken appropriate corrective action.

Sincerely,

Patricia M. Greiner

Patricia M. Greiner
Chief Financial Officer

KPMG LLP
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Independent Auditors' Report on Compliance and Other Matters

Inspector General
United States Department of the Treasury:

Director
United States Mint:

We have audited the balance sheets of the United States Mint (Mint) as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, financing, custodial activity, and the combined statements of budgetary resources (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated December 8, 2006. That report refers to the Mint's implementation of a new accounting standard in fiscal year 2006.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Mint is responsible for complying with laws, regulations, and contracts applicable to the Mint. As part of obtaining reasonable assurance about whether the Mint's financial statements are free of material misstatement, we performed tests of the Mint's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the Mint. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance with certain provisions of other laws and regulations discussed in the third paragraph of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether the Mint's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed test of compliance with FFMIA Section 803(a) requirements.

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The results of our tests of FFMIA disclosed an instance, described below, where the Mint's financial management systems did not substantially comply with the SGL at the transaction level.

In fiscal year 2005, the Mint's management elected to adopt and prepare its financial statements in accordance with accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB), and this required the Mint to account for and present transactions and balances on both a proprietary and budgetary basis. The Mint's general ledger system was implemented for presenting financial statements in accordance with the Financial Accounting Standards Board and not FASAB accounting standards, and accordingly it does not include budgetary accounts. We continue to recommend that the Mint develop and implement a general ledger system that fully complies with the SGL at the transaction level and will support accounting for the budgetary effects of transactions to ensure compliance with FFMIA.

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

KPMG LLP

December 8, 2006