



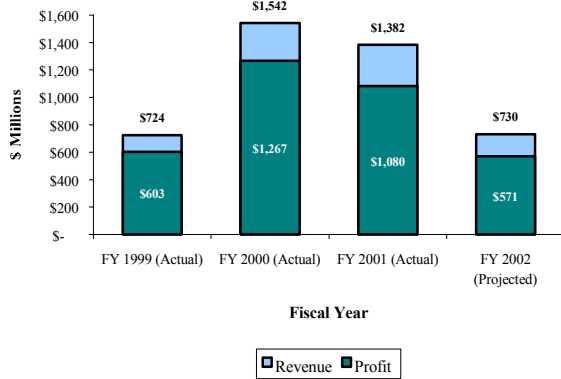
UNITED STATES MINT

Report to Congress on Operations

For the Period January 1 through March 31, 2002
2nd Quarter FY 2002

Summary

50 State Quarters® Revenue & Profit



In the conference report to Public Law 104-52, enacted November 19, 1995, which created the United States Mint Public Enterprise Fund (PEF), Congress directed the Mint to report quarterly on implementation of the PEF. Since that time the Mint has reported on implementation and how it is using PEF flexibilities. This is the twenty-fifth quarterly report and includes content that is prospective as well as retrospective.

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- Second quarter FY 2002 revenues: circulating coin \$291 million, bullion coin \$51 million and numismatic products \$33 million. FY 2002 to date revenues: \$580 million circulating, \$101 million bullion and \$86 million numismatic. Circulating and bullion coin revenues moved slightly upward, but numismatic revenues fell by nearly 38 percent compared to the first quarter.
- The downward trend in FRB coin orders appears to be reversing, as the FRB projects a nearly 31% increase in order levels for the second half of FY 2002 over the first half.
- The Mint's FY 2002 capital plan totals \$44 million, a \$63 million decrease from what was originally planned, while its FY 2003 plan is unchanged at \$47 million.
- Through process improvements in the way circulating coinage strip metal is obtained, the Mint expects to save approximately \$38.7 million over the next 5 years and reduce the value of Mint owned metal inventory by \$58 million.
- The Mint-wide FY 2002 year to date lost time accident rate is 1.8, compared to 2.5 for the same period last year and 4.2 in FY 2000. Philadelphia Mint operations were suspended during the quarter to perform a top-to-bottom review of all operations in response to OSHA safety citations.
- At quarter's end, the Mint was finalizing ten new high-level performance measures, covering people, processes, results, customer satisfaction, and protection of people and assets.
- Other Updates: Golden Dollar Report sent to Congress March 29 – the Mint signed a licensing agreement to produce licensed products targeted for the NASCAR audience to build increased awareness of the 50 State Quarters® and Golden Dollar – the Mint is preparing a display on coin redesign for Congress and meeting with collector constituencies in a series of business forums – the Mint continues to work with the FRB to improve demand forecasting, distribution and inventory monitoring.
- Other Highlights: Ohio state quarter launched in March with four coins actually going into space aboard Shuttle Columbia – the Mint began a first ever jewelry clearance sale – Treasury OIG issued five audit reports to the Mint during the quarter.
- Ahead: continuing to work with GAO on its review of coin redesign – new licensing office established and developing official policy – marketing plans for Golden Dollar and 50 State Quarters® readied for submission to Congress – ceremony scheduled to bestow Congressional Gold Medal to former President and Mrs. Reagan – July auction sale of 1933 Double Eagle.

State Of The Mint

Mint Operations and Economic Recovery

The United States Mint's three lines of business are producing circulating coins; manufacturing and marketing numismatic and bullion coins; and safeguarding Mint assets, and non-Mint assets in the custody of the Mint, including bullion reserves at Fort Knox and elsewhere. The revolving fund is financed by the sale of circulating coins to the Federal Reserve Bank (FRB) and the sale of numismatic and bullion coins and products to customers worldwide.

The demand for circulating coins is directly related to the U.S. economy. As conditions in the economy are always changing, the United States Mint and Federal Reserve continually assess the demand and their inventory position in order to formulate production and coin ordering plans necessary to meet the needs of commercial establishments and the general public.

As reported last quarter, the downward trend in the economy experienced in FY 2001 continued into the first quarter of FY 2002. As well, the Federal Reserve's high inventory levels at the beginning of FY 2002 further reduced their orders for new Mint coin. These two factors resulted in very low coin shipments and revenues compared to the previous quarter. During the second quarter of FY 2002, economic indicators improved and demand began to rebound. As a result of this increased demand and lower inventory levels, the Federal Reserve orders for new Mint coin have started to increase. From October 2001 through March 2002 the Federal Reserve ordered 5.2 billion coins of various denominations. The current order for April and projected orders for May through September total 6.8 billion, an almost 31% increase over order levels for the first half of FY 2002.

Based on econometric forecasting performed jointly by the United States Mint and the Federal Reserve in late March 2002, demand for coins is anticipated to be around 17.0 billion in FY 2002 and increase to 19.5 billion coins in FY 2003, which represents a 15% increase. Based on this data, shipments for FY 2002 are expected to exceed projected FRB orders of 12.0 billion to meet the increased demand and replenish depleted inventory. For FY 2003, shipments will further increase should the forecast remain robust.

United States Mint Revolving Fund Revenue			
2nd Quarter Comparisons			
(millions of dollars)			
Category	FY 2002	FY 2001	Change
Circulating Coin Sales	\$291	\$531	- 45%
Bullion Coin Sales*	\$ 51	\$ 54	- 6%
Numismatic Coin Sales	\$ 33	\$ 27	+22%
TOTAL	\$375	\$612	- 39%

*Investment versions; proof versions will be included in numismatic sales when offered

The picture is somewhat different for bullion coin sales. In the second quarter FY 2002, bullion coin sales saw a very slight increase from the first quarter (2 percent, based on a 1st quarter of \$50 million, adjusted from the \$49 million which was previously reported) and a slight decrease (6 percent) from the same quarter a year ago. However, second quarter FY 2002 silver and platinum coin sales were up strongly over the first quarter FY 2002, silver by 109 percent, while gold coin sales, in contrast, were down 38 percent. Comparing second quarter FY 2002 to second quarter FY 2001, gold sales were down (6 percent), silver unchanged and platinum up (17 percent). Sales and revenues are driven by fluctuating metals' prices. Revenues do not show the complete picture in the comparison, because a rise in revenues can be due to an increase in ounces sold, or precious metal increase or both.

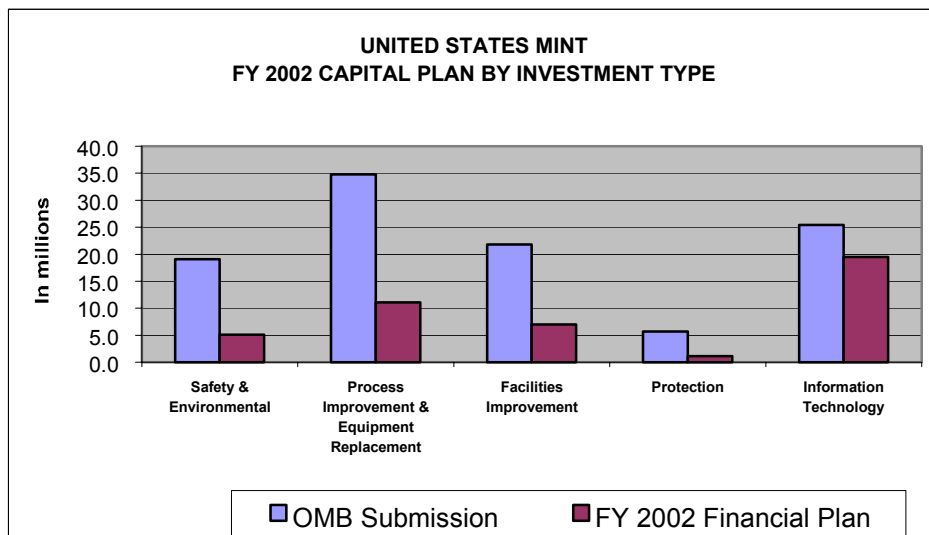
Numismatic sales were down nearly 38 percent from the first quarter FY 2002 (based on a 1st quarter of \$53 million, adjusted from \$52 million which was reported previously), as no new recurring programs were offered and holiday buying was past. However, there was an exceptionally strong showing in Commemorative Programs for the 2002 Olympic Winter Games and United States Military Academy Bicentennial coins, which partly offset the big decline in the recurring programs' area. Comparing the second quarter of FY 2002 with the second quarter of FY 2001, numismatic sales are up 22 percent because of the strong sales of the 2002 Olympic Winter Games and United States Military Academy Bicentennial coins. The United States Mint's major recurring programs are scheduled to drop in May and June of FY 2002.

Update on Capital Investments

As previously reported (fourth quarter FY 2001 PEF), the United States Mint reduced planned capital acquisitions for FY 2002 by \$63 million or 59 percent from the President's Budget. The reduction in investments was directly related to completion of an equipment life cycle study and facility reviews. Reduced investments for equipment and facility upgrades represented 60 percent of the reduction. The revised plan totals \$44 million.

The Mint's capital plan for FY 2003 totals \$47 million, the amount submitted in the President's Budget request. Of this amount, \$34.9 million is designated for circulating coinage and protective service capital investments as also submitted in the President's Budget.

The amount in the Mint's FY 2003 budget for circulating coinage and protective services will be recovered from offsetting collections and as such will not require additional budget authority (scoring) – which has been concurred between CBO, and OMB/Treasury/Mint.



Cost Reductions

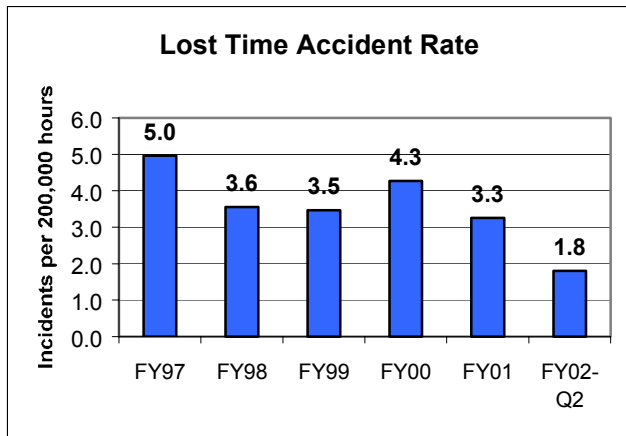
The United States Mint recently signed long-term contracts with its two suppliers of circulating coinage strip metal. The objectives of this acquisition were to optimize the Mint's supply base, develop more efficient business processes, establish a long-term partnership with our suppliers, and obtain the best overall value for the Mint. To achieve these objectives, the Mint formed an evaluation team to approach the acquisition from a contracting, technical, and cost perspective. As part of the process, the evaluation team exchanged process improvement ideas with suppliers as well as with Mint production facilities in Denver and Philadelphia. Based on the negotiated price and expected production volumes, the new contracts will save the United States Government approximately \$38.7 million over the next 5 years, and reduce the value of Mint owned metal inventory by \$58 million. The resultant contracts will extend through September 30, 2007.

Update On Mint Activities

Safety

During the second quarter, the United States Mint's Lost Time Accident (LTA) rate rose somewhat compared to the first quarter, but still remained below historical averages. Denver, San Francisco, and West Point continued with their programs while all eyes were trained on Philadelphia. The Mint-wide, FY 2002 year to date LTA rate (through March) is 1.8, compared to 2.5 for the same period last year and 4.2 in FY2000.

In early February, OSHA issued a notice based on its five-month inspection of the Philadelphia Mint. The Director suspended all operations of the Philadelphia facility and ordered a top-to-bottom review of all operations. This review encompassed safety, cleanliness, orderliness, and housekeeping as well as laying the foundation for a "World Class" facility. With support from safety experts, professional job hazard analysts, and all the other facilities including employees from headquarters, Philadelphia is extrapolating from the OSHA review (covering like-items facility wide), performing job hazard analyses of all functions, reviewing and updating all safety programs, internally re-auditing the entire facility, and



NOTE: Rate is number of employees who lost one or more days of work due to injury for every 200,000 hours worked. Each employee equals 2,000 working hours. FY 02 is first quarter data only.

training the employees in various aspects of safety including, when applicable, powered industrial trucks, hazard communication, control of hazardous energy, and fall protection, to name a few.

As of the end of March, the Philadelphia facility is partially operational and is expected to be in full operation by mid April. Currently, manufacturing of coining dies and engraving are both back on line, and a portion of the numismatic operation is back in production.

Performance Measures

At the end of the quarter the United States Mint finalized 10 new high-level performance measures, covering people, processes, results, customer satisfaction, and protection of people and assets. For seven of these measures, the work has shifted from development to automating data collection. The remaining three measures are being reviewed and modified. The Mint expects substantial progress on the data automation project during the third quarter FY 2002. These performance measures will be included in the Department's FY 2004 budget call (April/May 2002). These measures will also be used for benchmarking Mint progress against national mints worldwide and manufacturing corporations. The chart that follows describes the measures:

Key Performance Measures

	Measure	Description	Formula	Automation Status
P E O P L E	Lost Time Accident Rate	The United States Mint values its employees. Consistent with those values, the Mint strives to maintain a work environment that promotes the safety and well-being of employees on the job at all times. Lost Time Accidents are unsafe events that lead to an employee missing at least one day of work.	Lost Time Accidents per 200,000 hours	Currently tracked. Data collection fully automated.
	Workforce Climate	The Mint values its employees. Those values are meant to create a work environment where employees feel empowered, and where differences are resolved constructively.	Temporarily measured as the number of open EEO formal complaints until a more appropriate survey or other instrument can be developed.	Currently tracked. Revised measure pending.
P R O C E S S	Cycle-Time	The Mint wants to minimize the amount of time it takes to process raw materials into finished goods, eliminating non-value added steps from the processes. The measure assesses the time it takes material to flow through the Mint's processes, from raw material to order fulfillment.	High level look at the Mint's process cycles. Measured as the number of days for material to run through the Mint's cycle from procurement to delivery to customer.	Currently tracked. Data collection automation planned for Summer 2002
	Yield	The Mint seeks to use its resources effectively, transforming raw materials into finished goods. Yield assesses the amount of metal or other material that are resulting in a finished good (not counting web scrap). We want to minimize wasted material and transform as much of our raw materials into finished goods as is feasible.	Good coins produced in the period divided by Total Coins Expected (e.g. total blanks from strip/supplier)	Currently tracked. Data automation planned for 5-1-02
	Machine availability	This measures the amount of time the production equipment is available to produce finished goods (excluding scheduled downtime). We want our machines 'at-the-ready' at all times to manufacture coins as warranted by the prevalent demand.	[Time machine run during period/(Total Time in Period - Scheduled Downtime)]	Not currently tracked. Data collection automation planned for Summer 2002
	Inventory Turnover	Inventory is expensive. It costs money to store inventory while it waits to be sold or converted to a finished good. And there is the opportunity cost of inventory, which is having money tied up in an activity that does not generate revenue for the bottom line. The Mint seeks to minimize its inventories to reduce the associated costs.	Cost of Goods Sold divided by Average Inventory for the period	Currently tracked. Data collection automation planned for 5-1-02
R E S U L T S	SG&A as a percent of Revenue	Sales, General & Administrative (SG&A) are the costs not directly tied to the production of Mint products. While SG&A are necessary costs, it is important for a business to focus its resources on activities that contribute to increasing revenues.	SG&A Cost divided by Revenues	Currently tracked. Data collection automation planned for 5-1-02
	Cost per 1000 coin equivalents	The Mint's costs vary by product. The Mint's product mix has been variable over time. How effective was the Mint at turning the inputs into revenue generating products? The cost per 1,000 coin equivalents lets us know the answer by converting the Mint's production to terms of one unit (a quarter) and showing the costs that were incurred by the level of production. This allows comparison of performance over time by negating the effects of changes in the product mix.	Conversion Costs / (Number of coin equivalents / 1000)	Currently tracked. Data collection automation planned for Summer 2002
C U S T O M E R	Customer Satisfaction	This measure is an indicator of quality of our product and service to the customer. Production of quality products and excellent customer service is paramount. The retention of customers and generation of sales is at stake.	CSI = 1-[(Total "Satisfaction Gauge" Orders / Total Orders) + (Total "Satisfaction Gauge" Calls / Total Calls)]*100	Currently tracked. Data automation planned for Summer 2002
P R O T E C T I O N	Threat Index	A measure of the level of threat that the United States Mint faces, taking into account the Mint's level of preparedness and scaled by the size of Mint operations.	[Threat Level - (Readiness Factor + Physical Security Level)] / (Income - Cost)	TBD

Golden Dollar Report to Congress

The United States Mint distributed its Report to Congress on the Golden Dollar on March 29, 2002. The report outlines information about the Mint marketing efforts for the Golden Dollar, identifies achievements and challenges as a result of the coin's launch in 2000 and provides data regarding distribution and current use of the Golden Dollar in commerce. Additionally, the General Accounting Office (GAO) continues its review of the marketing and promotion of the Golden Dollar. The Mint continues to provide materials as requested.

New Licensing Effort to Increase Golden Dollar and 50 State Quarters® Awareness

In February 2002, the United States Mint signed a licensing agreement with The Source International (TSI) to produce licensed products targeted for the NASCAR audience. This agreement will build increased awareness of both the 50 State Quarters® and Golden Dollar programs, will encourage collecting of United States Mint coins and numismatic products, and will generate royalties for the Mint. The agreement is at no cost to the Mint.

Coin Redesign – Update on Congressional Display and Meetings with Constituencies

The United States Mint is currently preparing a temporary display to be set up for Members of the Senate Banking Committee as a reference for U.S. coin redesign discussions. The purpose of this display is to provide primary information about circulating coin manufacturing as well as offer a comparison of the types of current circulating coinage from around the world. The discussion elements include: beauty and design, edge variations, edge lettering/design, metal varieties, high relief, holograms and shape variations. Circulating coins produced by the United States Mint and approximately 22 other countries will be included as part of the display. The Smithsonian Institution will also set up a display on historic U.S. coinage. At this time, the display date has not been finalized.

During business forums hosted by the United States Mint in Jacksonville, Florida and Dayton, Ohio, collectors indicated extreme enthusiasm regarding the prospect of coin redesign. "This will keep the hobby fresh," was repeated throughout. They strongly proposed that the Mint consider modern, classical designs, higher relief and finer engraving, bimetallic coins and coins with edge lettering, coins with historic themes and coins featuring the West. Participants cited the success of the 50 State Quarters® program as an indicator of the change and variations that Americans want from their coinage. And as long as our coins reflect the history, culture and heritage of America, they will be desirable.

Inventory Management System

The United States Mint and Federal Reserve Bank, through the joint Coin Efficiencies Workgroup, continue to pursue initiatives focused on reducing the cost of and streamlining the processes associated with coin manufacturing, distribution and storage of coin inventories throughout America. During the second quarter, the team implemented a monthly ordering and production planning process to improve order accuracy and reduce lead-time. Development of an inventory management and forecasting tool was also completed, and preparations were made to pilot the tool in the 12th Federal Reserve District starting in April 2002. In addition, a shared pallet tracking application, accessed via the Mint Extranet, was rolled out for usage by the entire Federal Reserve System.

During the third quarter FY 2002, the team will evaluate the inventory management and forecasting tool through the pilot, and prepare for system-wide rollout early in the fourth quarter FY 2002. In addition, development of a Federal Reserve Bank coin shipments schedule Extranet application will be completed and piloted. The team will also pursue the potential for development of an Extranet application that will facilitate armored carriers being able to report aggregated coin inventories.

Other Highlights

Ohio Quarter Launch

The Ohio state quarter, the seventeenth coin released under the 50 State Quarters® Program, was issued this March. To promote the coin's launch, the United States Mint coordinated the release of four Ohio quarters to NASA, which were launched into space aboard Shuttle Columbia. These quarters returned to earth and were displayed at the U.S. Air Force Museum in Dayton, where the Ohio state quarter launch ceremony was held on March 18th. Stephen Wright (a descendent of the Wright family), Senator Glenn, Neil Armstrong, Director Fore, Treasurer Marin and Governor Taft all spoke. Approximately 3,000 people, including over 1,000 school children, attended the event which achieved significant media coverage. Mint products were sold at the quarter launch, with many items selling out.

Jewelry Clearance Sale

The United States Mint began a special clearance sale of select jewelry and collectibles on March 27, 2002 for the first time in its history. During the sale, currently in progress, the United States Mint is offering jewelry and collectibles from previous years at 10-40 percent below original retail prices. Quantities are limited and customers are able to order by visiting the United States Mint website or telephoning the Customer Care Center to request a listing of available products. Sales through March 31, 2002 have exceeded \$117,000. This sale was a result of Jewelry Task Force recommendations to move inventory, generate revenues, focus on a narrower product line, and consider an authentic United States Mint brand.

Second Quarter Audit Activity

The Treasury Office of Inspector General issued a total of five audit reports to the United States Mint during this quarter. The audits of the *U.S. Mint's Fiscal Year 2001 and 2000 Financial Statements* were completed during the second quarter of this FY. The financial audit resulted in the Mint receiving its eighth consecutive unqualified opinion on its financial statements. However, the audit disclosed two material weaknesses, related to the Mint's security environment for its financial related systems, which the Mint agrees with and is taking aggressive action to correct. A report on the *U.S. Mint's Schedule of Custodial Gold and Silver Reserves*, #OIG-02-051, was issued February 22, 2002, and noted no instances of noncompliance with laws and regulations. Audit Report #OIG-02-074, "*The Mint Leased Excessive Space for its Headquarters Operation*" was issued by the Office of the Inspector General on March 29, 2002. The report recommended a comprehensive analysis of the Mint's space needs for its Headquarters operations, in addition to the implementation of appropriate management controls for future space acquisitions. Two reports addressing the production of Golden Dollar Coins – "*The Mint Suspends its FY 2002 Planned Production of Golden Dollar Coins*" (#OIG-02-066), and "*Allegations Regarding the U.S. Mint's Golden Dollar Production Process Were not Substantiated*" (#OIG-02-067) – were issued March 19th and March 21st respectively. The United States Mint satisfied the results of the OIG report on planned Golden Dollar production (#OIG-02-066) by suspending circulating production while at the same time producing Golden Dollars for numismatic purposes. The Mint will monitor demand and inventories and adjust Golden Dollar circulating production plans as necessary in the coming year. The Mint reevaluated the acquisition and disposition of coin production equipment as recommended by the OIG (#OIG-02-067), and elected to retain a single barrel burnisher and use within its numismatic coin production operation at the Philadelphia Mint.

A Look Ahead

GAO Study on Coin Redesign

The General Accounting Office initiated a review of U.S. coin design in February 2002, as directed by House Conference Report 107-253 for the FY 2002 Appropriations Act for Treasury, Postal, and General Government. Review objectives are to determine public opinion and preference for the following: (1) Denominations of coins used; (2) Design of coins including who or what is depicted, color, size, and weight; (3) Frequency of change in coin design; (4) Ways to increase

the use of the dollar coin including design and distribution changes. The Mint is continuing to meet and work with GAO to gather the required data.

Licensing Office

Director Henrietta Holsman Fore chartered a Licensing Task Force in August of 2001 to review current policy and procedures, and conduct research on other licensors within the Federal Government, private industry and international mints. The goals were to benchmark information and strive towards new best practices policy and procedures in order to provide a more consistent, organized and profitable approach for the United States Mint as a licensor. The results of this effort led to the establishment of a licensing office to centralize licensing functions that are now distributed throughout the organization. The licensing office will develop and implement an official United States Mint licensing policy that will enhance internal efficiencies and will serve to eliminate confusion and misinformation in the commercial marketplace. Staffing of the office will begin shortly. By summer the Mint expects to be actively seeking firms interested in entering into licensing agreements.

Marketing Plans on Golden Dollar and 50 State Quarters® Programs

With development nearing completion, the United States Mint anticipates delivering the 2002 marketing plans for the Golden Dollar and 50 State Quarters® to Congress in the third quarter for review and approval. The requirement was established in Senate Report 107-57, to the FY 2002 Treasury, Postal Service and General Government Appropriations Act.

Reagan Medal

On May 16, 2002, a Congressional Gold Medal will be bestowed upon former President Ronald Reagan and his wife Nancy in the Rotunda of the Capitol in recognition of their service to the Nation.

Upcoming Sale of 1933 Double Eagle

On July 30, 2002, Sotheby's auction house will offer for sale, on behalf of the United States Government, a 1933 Double Eagle twenty dollar gold coin, regarded by some as the most valuable gold coin in the world. This is the first time the Government has authorized private ownership of a 1933 Double Eagle.

As part of an out-of-court settlement among the Department of Justice, the United States Mint, and a third-party claimant, the United States Mint has agreed to declare the coin the only 1933 Double Eagle ever to be legally issued by the Government. This will make the coin legal tender when the winning bidder pays not just the auction price, but also the face value of \$20, which is the denominated value of the coin. Some have estimated that the auction price will be four to six million dollars.

Mint Protection Equity with Other Law Enforcement

The United States Mint Police performs a range of duties and services to protect Federal assets, property, and people, as well as investigation of accidents, misdemeanors, and felonies. With the advent of events of September 11 has come a greater demand for and need for law enforcement personnel, creating a competitive environment among Federal law enforcement entities. Federal police, including Mint officers, make ideal candidates for air marshals and border patrol, which are included in the current Federal Officer Retirement Package. Mint Police officers are currently not included in this package. Law enforcement agencies with the stronger retirement benefits package are creating a draw on police officers, leading to higher attrition rates for the Mint Police force. To reduce the number of separations, which has grown 60 percent in the last year, the United States Mint is pursuing inclusion of the Mint Police in the Federal Law Enforcement Officer Retirement package. The officers meet all the same criteria to support and justify inclusion in the package (5 U.S.C. § 8412). The services and duties performed by Mint Police officers ensure the safety and security of assets crucial to the United States economic system.

Tours of Mint Facilities

Since September 11, Mint tours for the Denver and Philadelphia facilities have been closed to the public. Efforts are currently underway to make necessary interim changes to strengthen security and safety of the tour route for the public and employees. Limited, structured public tours are expected to resume in early to mid-June.