



UNITED STATES MINT

Implementation of the United States Mint Public Enterprise Fund, P.L. 104-52 Through March 31, 2001

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INTRODUCTION

Public Law 104-52, enacted November 19, 1995, created the United States Mint Public Enterprise Fund (PEF), consolidating the circulating coin and numismatic operations of the United States Mint into one revolving fund. Additionally, the Act exempted Mint operations and programs from the provisions of law and regulation governing procurement and public contracts and granted the Mint gift and bequest authority. Effective FY 1996, the sole source of funding for the Mint has been revenue generating programs rather than an annual appropriation. In its conference report to the legislation, Congress directed the Mint to report quarterly on implementation of the PEF. Since that time we have reported on PEF implementation and how we have used these flexibilities to transform the Mint into a market-driven public enterprise. This twenty-first quarterly report covers the second quarter of FY 2001.

During the second quarter of FY 2001, we continued to focus our efforts on increasing use of the Golden Dollars in everyday commercial transactions, and building upon the existing widespread enthusiasm for the 50 State Quarters™ Program. We received our seventh consecutive unqualified audit opinion and pursued additional financial operating improvements. We piloted an improved means for shipping circulating coin that will reduce costs and injuries. We pursued new ways to expand coin collecting and use coins as educational tools. We examined our already ambitious strategic plan and identified loftier goals regarding products, customer services and employee development to include in it. And once again, we earned recognition for our employees and products.

RESULTS OF FY 2000 FINANCIAL AUDIT

The second quarter FY 2001 brought us good news on our FY 2000 financial audit: We received our *seventh* consecutive unqualified opinion on our audited financial statements. This means we have achieved the highest level of financial accountability, and demonstrates our commitment to be the best in business. In addition to our on-going series of unqualified audit opinions, we have no outstanding material weaknesses reported under either the Federal Financial Management Improvement Act of 1996 or the Federal Managers' Financial Integrity Act of 1982. Our clean audit opinion contributed to the Department of the Treasury's receiving its first unqualified opinion.

Our independent public accountants complimented us on the condition of our financial records, which expedited the audit process. Building on the acknowledged successes of the past, we are aggressively implementing additional financial management improvements so we can continue to be among the best in business. We are currently implementing activity-based cost management (ABCM), which will provide an even greater degree of financial analytics to the inventory of financial tools available to Mint management. ABCM is a methodology used by many of the best in business enterprises to provide a much greater degree of costing information not normally available through traditional cost accounting. In addition, we are making changes to our inventory verification methods. Instead of one annual count of all coinage and precious metals, we are moving to a cycle count methodology that involves periodic counts of segments of the metal inventory so that over a 12-month period, all metals will be counted at least once. Until we perfect our cycle counting, we will continue to perform annual physical inventories of coinage metal (copper, nickel, zinc, gold, silver, and platinum) and the Annual Settlement of the Treasury Reserves of gold and silver. Further, for FY 2001, we will perform the annual physical inventory and Settlement the week of June 30th, with the objective of having our FY 2001 annual audit completed as soon after the year-end as possible. These and other financial management initiatives demonstrate that while we are proud of our tradition of strong financial management, we are committed to continuous improvement.

FINANCIAL PERFORMANCE, SECOND QUARTER FY 2001

The Mint's three lines of business are producing circulating coinage; manufacturing and marketing numismatic and bullion coins; and safeguarding 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 worldwide.

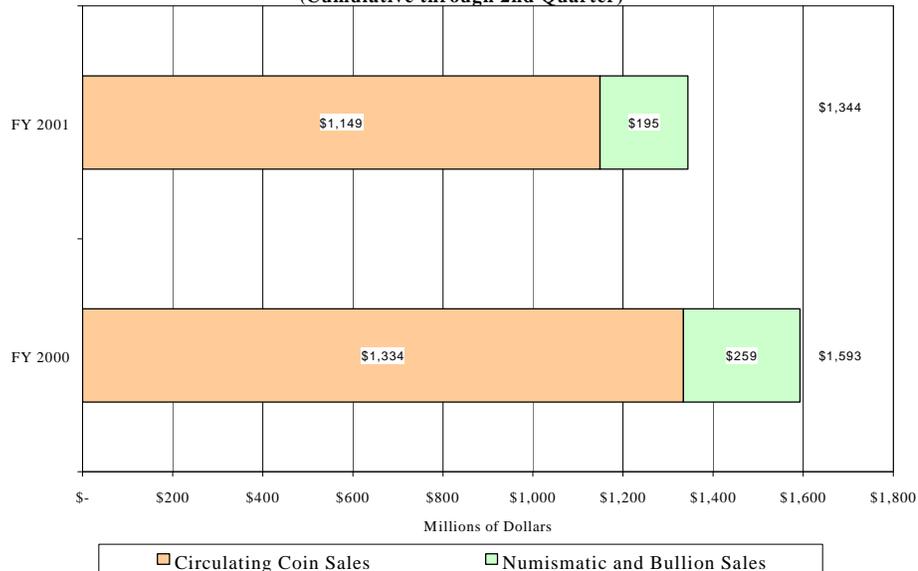
Record-setting revenues and profits were earned in FY 2000 because of exceptional coinage demand, the strong economy, and the introduction of the Golden Dollar. FY 2001 will be another huge year for the Mint, second only to FY 2000, producing approximately 3 billion more coins than our 1999 levels, with revenues and profits again second only to FY 2000. We are currently forecasting revenues of \$2.8 billion which, while lower than FY 2000 results (\$3.7 billion), would still make FY 2001 the second most profitable fiscal year ever.

Consolidated second quarter FY 2001 revenues of \$612 million were below the second quarter of FY 2000 by nearly 34 percent, and cumulative FY 2001 revenues were almost 16 percent below FY 2000's extraordinary levels (see chart). Nevertheless, cumulative FY 2001 is 24 percent above FY 1999 for the same period and 121 percent of FY 1998's level.

U.S. MINT REVOLVING FUND REVENUE

Comparison of FY 2001 to FY 2000

(Cumulative through 2nd Quarter)



Revenues from Circulating Coinage

Circulating coinage revenues in the second quarter FY 2001 were \$531 million, 35 percent lower than revenues in the second quarter FY 2000, which were at all-time record levels, but 70 percent above the strong second quarter FY 1999 when the 50 State Quarters™ program began. Shipments for second quarter FY 2001 were approximately 6 billion compared to 6.8 billion coins shipped during second quarter FY 2000, a decrease of about 12 percent, but nearly 40 percent above second quarter FY 1999 shipments.

Coin demand from the Federal Reserve System for the second quarter FY 2001 was mixed with a reduction in all denominations other than the cent (penny). Demand for the 50 State Quarters™ Program coins continues to be solid as we enter the third year of the ten-year program, with the New York and North Carolina quarter-dollars debuting during this period. A slowing in the

overall economy is causing demand for coinage to consistently decrease both in the second quarter FY 2001 and as projected for the second half of FY 2001. In addition, as we had expected, orders for Golden Dollars have lessened from the exceptional FY 2000 levels of nearly 980 million experienced during the coin's inception year. We have been successful in making the American people aware of the Golden Dollar (83 percent as of December 2000), and are now continuing to execute strategies to increase Golden Dollar usage in circulation through targeted marketing in eight business sectors. (See the "Golden Dollar Update" section for more detail.)

Revenues from Numismatic and Bullion Products

Revenue sales of bullion and numismatic coins for the second quarter FY 2001 were \$81 million, down from \$106 million in second quarter FY 2000. Bullion sales for the second quarter FY 2001 were \$54 million, down 24 percent from the \$71.2 million generated during the second quarter FY 2000, which included carry over of the residual Y2K demand. Both silver and gold declined on the year-to-year comparison, but platinum showed an increase of 31 percent due primarily to higher bullion prices. We project that bullion sales – primarily gold and silver – will exceed our original FY 2001 estimates and have increased our sales forecast by \$55 million.

Numismatic sales for the second quarter FY 2001 were \$27.4 million, a 22 percent decline from the extraordinary \$35.1 million posted in the second quarter FY 2000. FY 2000 posted the highest numismatic product sales since the 1980's. Collectors and non-collectors alike were interested in our FY 2000 products due to the "2000" year date and the introduction of the Golden Dollar. Although there was a \$13 million decrease in the recurring program -- which was partially offset by increased sales in commemoratives of \$4.8 million and proof programs of \$0.5 million -- FY 2001 is still expected to be one of the most profitable years ever for numismatics. Historically, the second half of the fiscal year is more heavily weighted with new products/programs and FY 2001 is no exception.

GOLDEN DOLLAR UPDATE

During the second quarter FY 2001, we issued a ***Report to Congress*** as required by Public Law 105-124. This report addresses the nature and extent the Golden Dollar is currently used in commerce and our future plans to increase its usage. It highlights our strategies, marketing and promotional efforts, and the success of the Golden Dollar Launch. We identified three primary objectives for our marketing campaign -- raise public awareness, facilitate public acceptance, and change public behavior – that we intended to accomplish in a multi-stage/multi-year approach. The launch of the program and the public's awareness – our first objective – has wildly exceeded expectations and we are encouraged by our progress in facilitating public acceptance and usage of the Golden Dollar in everyday commerce.

Our first year goal of raising public awareness in the coin's launch year has been nothing short of remarkable. Our December 2000 survey reported 83 percent of Americans are aware of the Golden Dollar, and nearly 78 percent support its issuance. We also learned that 42 percent of American adults have received a Golden Dollar, and 66 percent of consumers say they are saving the new coins. On average, most adults expect to collect and save about six Golden Dollars before spending one.

Having successfully raised public awareness in the coin's launch year, we began a targeted marketing approach in FY 2001 that gained momentum in the second quarter with a significant effort to increase usage of the Golden Dollar in commerce. Eight business sectors were identified as target markets: financial institutions, retailers, grocery stores, fast food (chain) restaurants, the vending industry, transit authorities, government agencies, and the entertainment industry. During FY 2001, we are focusing our efforts on increasing the distribution of the Golden Dollar.

During second quarter FY 2001, our business-to-business efforts led to our finalizing an agreement with Safeway, a major grocery chain, and on February 8, 2001, 1,500 Safeway stores across the country began distributing Golden Dollars in transactions. Safeway stores are also promoting the Golden Dollar by featuring signs at each cash register to encourage the use of the coin. Mint Director Jay Johnson and other Mint officials participated in media events in San Francisco, Seattle, Phoenix, Denver, Tucson, and Houston to announce the Safeway Golden Dollar partnership. In addition to assisting with circulation of Golden Dollars, these events gave the public an opportunity to meet the Mint Director and exchange other currency for Golden Dollars. Moreover, this partnership generated 38 print articles, 42 radio reports, and 80 television stories increasing awareness. In the months ahead, we will continue to identify partners that will ensure that the Golden Dollar is increasingly used in commerce.

BULK BAG PROGRAM UPDATE

Previously (4th quarter FY 2000 PEF) we reported on our development of the bulk bag as a more effective way than multiple small bags to deliver circulating coin from the Philadelphia and Denver Mints to the FRBs. We decided to transition to larger coin bags principally because we are committed to improve workplace safety and resolve and to ensure compliance with related Occupational Safety and Health Administration (OSHA) citations. We continue to work closely with OSHA to meet these mutual goals. Our bulk bag reduces the potential for repetitive trauma injuries attributable to handling and stacking numerous small bags and also reduces costs incurred. Each full bulk bag weighs between 2200 and 2600 pounds, depending upon denomination, compared to 28 to 50 pounds for the small, canvas bags; therefore, bulk bags are moved with material handling equipment. Each bulk bag is shipped with tamper resistant features, making it as secure as the traditional bags.

Shipment of pennies in the bulk bags to selected FRB destinations has already begun, and all new pennies will be shipped in bulk bags by the end of July 2001. The shift to bulk bags will continue, denomination by denomination, until all circulation coinage is shipped in bulk bags by the end of March 2002. In the meantime, we continue to work closely with the suppliers of the small bags during the transition.

50 STATE QUARTERS™ PROGRAM EDUCATION INITIATIVE

As we reported in the 4th quarter FY 2000 PEF report, the 50 State Quarters™ Program Education Initiative was launched in the fall of 2000 with three sets of lesson plans for grades K-1, 2-3, and 4-6. We created the Education Initiative to use the popularity of the 50 State Quarters™ Program to help teach children about mathematics, geography, social studies, history and much more. The lesson plans were created by teachers for teachers and were reviewed by an education specialist. The plans use the education standards set forth by the National Center for History in the Schools, the National Council for Geographic Education, the Center for Civic Education, and the National Council of Teachers of Mathematics.

Educators from across the nation requested over 120,000 lesson plans from September 2000 to March 2001. According to the preliminary results from our survey to be completed at the beginning of next quarter, over 80 percent of the educators who ordered the plans used them with their students. 70 percent of the educators were highly satisfied with the plans; and none of the tested sample group of 300 educators was dissatisfied with the plans. Over 79 percent indicated they would use the new lesson plans coming out this year.

We have also received countless letters of appreciation for our lesson plans and the quality education they help to provide to our nation's youth. We have received letters from Senators, Congressmen, heads of state education programs, and numerous teachers requesting more plans and commending the program's success in providing a much needed quality educational tool.

OFFICIAL LICENSEE PARTNERSHIPS

Through our agreement with The Jim Henson Company, we have established licensing agreements with Scholastic, Reader's Digest and most recently, H.E. Harris and Company. The licensed products are educational and encourage coin collecting for the 50 State Quarters™ and other coins we produce. They include storybooks, coin albums and folders, and coin collecting kits, among other products. These licensing partnerships allow us to enter the mass retail markets and increase our customer base outside the traditional Mint channels. Branding of the U.S. Mint is enhanced and the royalties earned from these licensing agreements help to reduce the National Debt. We earned nearly \$1 million in calendar year 2000 through licensing arrangements and are forecasting \$2 million in calendar year 2001.

STRATEGIC PLAN UPDATE

Each year a meeting of representatives from all Mint divisions is held to plan strategically, share information and develop new ideas, based upon a chosen topic. This year's conference was held March 19 – 21, 2001, and the topic was Strategic Planning. While our Strategic Plan is already considered mature and robust, we always look for future opportunities and challenges. The conference participants took the opportunity to review and suggest course corrections as needed. Revisions of the plan are being made and coordinated through the Administration and will subsequently be provided to Congressional Committees having oversight of the Mint.

Our Strategic Plan was and remains ambitious in nature. We seek to become a world-class manufacturing operation (Circulating Coinage), set the world standard in customer service and satisfaction (Numismatic and Bullion Products), and be the best worldwide high-security police force (Protection). The Strategic Business Units (SBUs) are further supported by the vision and goals of the Offices of the Chief Financial Officer and the Chief Information Officer, who will partner with them in providing the necessary training, tools, technology and streamlined processes that enable a highly motivated, customer-focused workforce. These broad visions and goals are supported by specific objectives, strategies, and performance measures that will drive the Mint in all areas of planning, management and operations. "Mint quality," as conveyed in the Strategic Plan, permeates throughout the organization and in our products manufactured, in our customer services provided, and in the development of our employees.

Paramount to all Mint activities while seeking world-class performance levels, is the ability to operate more efficiently, more cost-effectively and in a safe environment. As evident in the Strategic Plan, we are committed to customer satisfaction surveys, technological enhancements (Automatic Data Collection System, COINS, expanded Web site), management innovations (Activity-Based Costing / Management, Balanced Scorecard, Change Management), and increased training (worker safety, security, information technology). By increasing our knowledge and understanding of our customers and our processes, and by managing our costs, we are able to offer to the American public an enterprise that well deserves to remain self-directed.

AWARDS AND RECOGNITION

Distinguished Service Award

This quarter we were notified the Mint has been selected to receive the "2001 Distinguished Service Award" from the National Law Enforcement Officers Memorial Fund (NLEOMF), that organization's most prestigious award. The award is given annually to an individual or an organization that has "made an exceptional and lasting contribution to the law enforcement profession. These contributions shall include, but not be limited to, helping to generate increased public support for the law enforcement profession, helping to promote law enforcement safety, and/or helping to combat crime in America." We were selected to receive this award for our support of the National Law Enforcement Officers Memorial Commemorative Coin and for our continuing assistance to the NLEOMF at law enforcement conferences, and during National Police Week.

Previous award winners have included former Senator Claiborne Pell, the NLEOMF honorary chairman and co-founder; former Representative Mario Biaggi, the police legend from New York City and NLEOMF founder; Mr. John Walsh, host of the television show, "America's Most Wanted;" and then-U.S. Attorney General Janet Reno.

The award will be presented to the Mint at the NLEOMF's Thirteenth Annual Memorial Candlelight Vigil, scheduled for Sunday, May 13, 2001.

Coin of the Year Awards

In February 2001, we were notified by *World Coin News* that we won the 2001 Coin of the Year competition in two different categories. The awards were for two 1999-dated coins: the Dolley Madison commemorative silver dollar topped the “Best Crown” category and the copper-nickel New Jersey State quarter-dollar coin won the “Best Trade Coin” category. The awards will be formally presented in August in conjunction with the 110th American Numismatic Association convention in Atlanta, Georgia, August 8-12, 2001.

The Coin of the Year Award was created by *World Coin News* to recognize mints throughout the world that further the artistry, usefulness and general appeal of coins. A panel of mint directors, coin artists, numismatists and museum personnel vote to select the winners in each of 10 categories. From that field of category winners, the judges choose one coin as the overall best issue. The first Coin of the Year Award was given 17 years ago in 1984 and honored the 1982-dated Washington commemorative half-dollar produced by the Mint.

CONCLUSION

In the second quarter of FY 2001, we received our seventh unqualified audit opinion for our FY 2000 financial audit. We persisted in our search for innovative approaches to expand the use of Golden Dollars in everyday commerce, and partnered with the nationwide grocery chain Safeway as one means. We reinforced the public’s enthusiasm for the 50 State Quarters™ Program by unveiling two additional state quarter-dollars during the period through novel promotional approaches. We searched for new ways to excite the public about coin collecting and to aid educators with teaching history, geography and mathematics. We piloted shipping circulating coin in bulk bags to reduce costs and injuries. We began updating our already mature and robust strategic plan to pursue even more ambitious goals. And we continued to receive recognition for our employees and products. We are firmly and enthusiastically committed to continuous improvement and excellence.