UNITED STATES MINT

Implementation of the United States Mint Public Enterprise Fund, P.L. 104-52 Through March 31, 2000

INTRODUCTION

Public Law 104-52 created the United States Mint Public Enterprise Fund and requires the Mint to report quarterly on its implementation. This seventeenth quarterly report covers the second quarter of FY 2000.

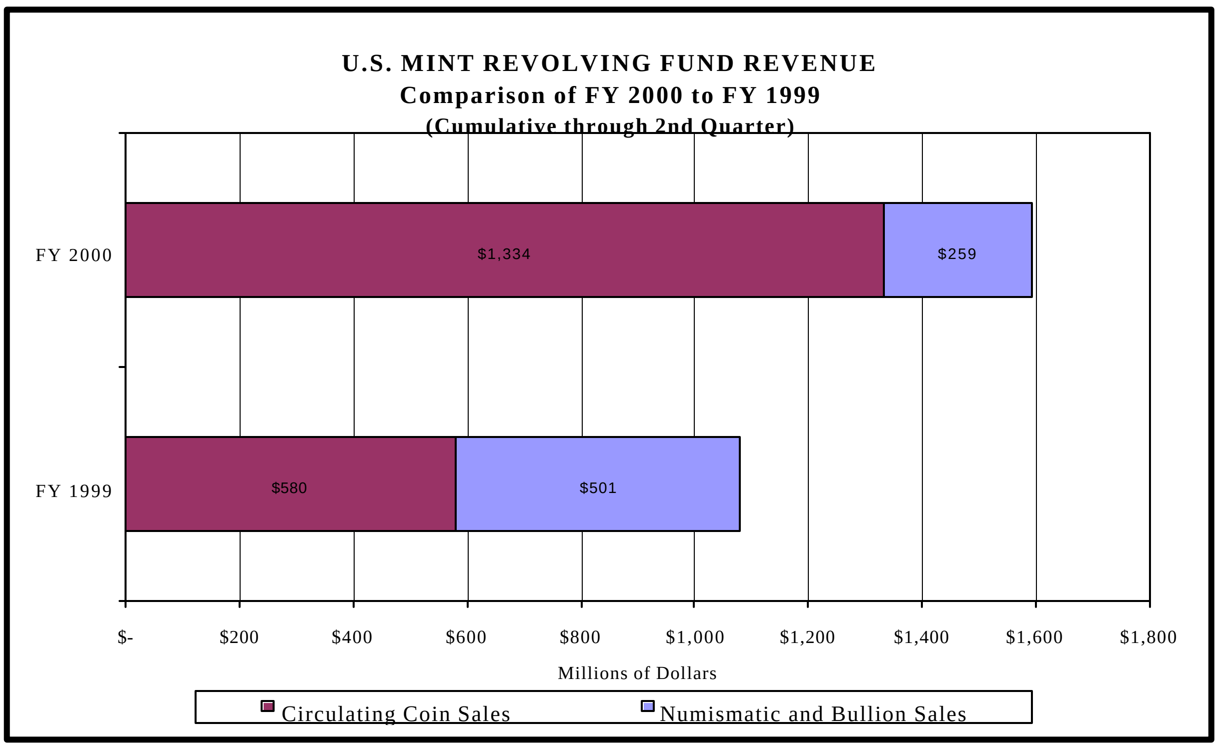
Second quarter revenues soared above the first quarter's lofty levels, propelled by the extraordinary public demand for 50 State Quarters™ (Q50) and the new Sacagawea Golden Dollar. We focused on creative ways to get the Golden Dollars quickly into the hands of the American public, and mounted an extensive promotional campaign to gain key industry support and raise public awareness about their use in everyday commerce. We aggressively invested in plant and equipment to accommodate unprecedented coinage demand, and developed innovative approaches to recruit high-caliber staff. We received our sixth consecutive unqualified audit opinion, initiated projects to advance accounting accuracy, and again earned national recognition for our employees and achievements.

FINANCIAL PERFORMANCE

The Mint's three lines of business are: producing circulating coinage; manufacturing and marketing numismatic and bullion coins; and safeguarding bullion reserves at Ft. Knox and elsewhere. The revolving fund is financed by the sale of circulating coins to the Federal Reserve Board (FRB) and the sale of numismatic and bullion coins and products worldwide.

Consolidated second quarter FY 2000 revenues of $925 million exceeded the second quarter of 1999 by nearly 67 percent and were almost 233 percent of FY 1998 second quarter revenues. Consolidated net income for the quarter was $715 million.

The strong economy continues to stimulate coin demand, but the public's heightened interest in the 50 State Quarters™ and new interest in the Golden Dollar are driving the remarkable increase in revenues and profits. When Q50 began in January 1999, we expected to produce 750,000 of each quarter. Public enthusiasm has been so overwhelming that we had to produce almost 1.2 billion Massachusetts quarters, released January 3, and project Maryland quarters, released March 13, at nearly 1.4 billion. Profit in FY 2000 from Q50 is expected to exceed $1.2 billion dollars. Combined with the over $.8 billion projected Golden Dollar profit, these two programs will produce profits in excess of $2 billion dollars.



Revenues from Circulating Coinage

Extraordinary demand for 50 State Quarters™ and the Golden Dollar plus ongoing economic strength propelled second quarter revenues from the sale of circulating coinage to $819 million, nearly 162 percent above second quarter 1999 and 457 percent above 1998's second quarter.

Between FY 1992 and FY 1998, annual circulating coinage revenues ranged from a low of $484 million to a high of $1,057 million, averaging $798 million a year. By comparison, circulating revenue grew over 50 percent from FY 1998 to FY 1999 ($924 to $1,455 million) and we expect FY 2000 revenue to reach $3,500 million, more than 140 percent above last year.

Unit sales of quarter dollars to FRB Banks were more than double the second quarter of last year. We're planning to produce 5.9 billion quarters this year, 59 percent above FY 1999, and have been operating 24 hours, 7 days a week to keep up with demand. We are projecting total FY 2000 production will be 28.6 billion coins, including 14.2 billion quarters, dimes and half dollars, almost 58 percent more than last year's all-time high. This year we expect to deposit nearly $2.6 billion in the Treasury General Fund -- 2-1/2 times last year and four times greater than the average yearly deposit from 1989 to 1998.

Revenues from Numismatic and Bullion Products

Second quarter revenues from the sale of bullion and numismatic coins slipped to $106 million, 56 percent below 1999's second quarter ($241 million). The driving force behind the drop was the continuing slide in sales of American Eagle bullion coins from last year's unprecedented levels, which had been fueled by Y2K concerns. Bullion revenues for the second quarter of FY 2000 were 69 percent lower than FY 1999's second quarter. However, second quarter bullion revenues were only 4 percent less than first quarter, as silver sales increased nearly 400 percent, almost compensating for gold's 38 percent revenue drop.

For numismatic products, sales of Q50 collector products and 2000 Golden Dollar numismatic offerings were extremely robust. No new commemoratives or 2000-dated recurring numismatic products were available during the period to add substantial additional revenue, although sales continued for previously introduced products.

THE GOLDEN DOLLAR

Public enthusiasm for Golden Dollars has exceeded all expectations and has prompted extraordinary demand for the coin. By March 31, we had distributed nearly 330 million Golden Dollars. We have met all Federal Reserve Bank orders for February and March and are on track to do so again in April. By April 30 -- 14 *weeks* after introduction -- 500 million will be in circulation. It took 14 *years* for demand for Susan B. Anthony dollars (SBAs) to reach 500 million.

We now mint more than 6 million Golden Dollars per day to meet the strong demand we now see in the marketplace. We also continue to work closely with the FRB in order to ensure that the coins are readily available to the public through banks and businesses alike. Accordingly, the Mint and the FRB responded to community banks' requests for expedited delivery and instituted a quick-response program to ship Golden Dollars directly to community banks, credit unions, and savings & loans, which could order up to 6,000 Golden Dollars via the Mint's secure Web site for delivery within ten business days. To promote this program, we sent 33,900 letters of invitation to the head offices of 111,870 financial institutions, and the major banking trade associations publicized the program in their trade journals. Unfortunately, the participation has been disappointing, with less than 4 percent of the institutions ordering. Of the 50 million Golden Dollars made available at the beginning of the program, we only received orders for 9.84 million coins as of March 31. The program ends April 15.

In contrast, our promotional partnerships like those with Wal-Mart and General Mills placed more than 94 million new dollars into circulation, supplementing the Federal Reserve's simultaneous distribution. These two companies recognized early on the business opportunity represented by the Golden Dollar, where others saw only costs and risks. Through the Wal-Mart agreement, which concluded March 2, the Golden Dollar was being actively used in routine retail transactions across the country in its first week in the marketplace. As a result, many small communities had access to the Golden Dollar in its first days in the market. Without this agreement, most of those communities would have waited weeks before traditional channels would have supplied the coins. The agreement also has awakened many other retailers and financial institutions to the convenience and public demand for the Golden Dollar, leading to a far stronger reception for the coin than would have occurred otherwise. Public awareness was also raised through the General Mills agreement that put 11 million boxes of Cheerios -- of which 1 out of 2,000 contained Golden Dollars -- on the shelves of grocers' across the country. We have been told that through the grocer's aisle and the breakfast table, the Cheerios campaign brought us the equivalent of 132 million advertising impressions.

During the January-March period, we reached another innovative partnership -- with Coinstar, Inc., which installs coin-return machinery in grocery stores. Shoppers who place coins into Coinstar machines receive vouchers redeemed for cash or groceries. Until April 29, shoppers placing at least $20 in Coinstar machines will receive mail-in coupons for two Golden Dollars in addition to the redeemable vouchers. Besides building awareness of Golden Dollars and business for participating grocers -- not to mention the Coinstar purchase of dollars -- this promotion spurs consumers to return coins to circulation faster, reducing the number of other coins we need to produce.

March 6 brought the coin's national television, radio, print, transit, and Internet advertising debut. This advertising campaign will reach 92 percent of urban/suburban adults ages 18-49 an average of 15 to 18 times over its duration. Ads show George Washington using Golden Dollars in daily transactions at a vending machine, subway station, coffee shop, and tollbooth. This advertising campaign is part of one of the most comprehensive consumer awareness and education campaigns ever undertaken by a Federal agency. Other high-profile promotional support includes numerous prime-time media interviews, appearances on the *Today Show*, and remarks at the National Press Club.

In addition, we've initiated retail partnerships, business-to-business marketing, and constituency building with key segments of the economy. We've made extensive, concerted and successful efforts to court the banking, coin-operated business, and the vending machine industries. We've distributed 1.5 million Golden Dollar promotional items to vendors and retailers and have provided thousands of financial institutions free materials to prepare branches, tellers, and customers for the dollar's release. During this reporting period, Mint officials participated in 15 trade conferences and conventions, with eight similar events scheduled through June and 44 for the remainder of 2000.

We enjoy the growing success from these efforts. In February, we received 1,100 web orders for materials from retailers who've seen Wal-Mart's leadership and consumers' enthusiasm and want to associate with the coin. Eighty percent of vending machine operators say they have or will convert to the use of Golden Dollars. Fifty-five percent of vendors who did not accept SBAs indicate they will use Golden Dollars. Eighteen of the largest 20 transit authorities, representing 40 percent of the Nation's riders, are ready for the coin. Enthusiastic public and commercial acceptance portends well for the coin's becoming mainstream currency.

ACCOUNTING IMPROVMENTS

Annual Audit

During the period, our FY 1999 financial statements earned our sixth consecutive unqualified audit opinion. Because we implemented our Mint-wide Consolidated Information System (COINS) early in FY 1999 and performed preliminary audit work prior to year-end, the audit was essentially completed and the opinion determined before Christmas -- the earliest in Mint history. For the first time since the FY 1992 audit, auditors reported no material weaknesses. As we reported previously, we cleared our last outstanding material weaknesses with the implementation of COINS.

Activity Based Costing (ABC) Project

Despite these successes, we continually seek ways to improve our operations. This quarter we initiated Activity Based Costing (ABC) to enhance accuracy of accounting for cost of operations in our Office of Finance. ABC identifies major organizational activities, traces their costs, and assigns appropriate costs to products. This differs from traditional cost accounting, which determines costs by categories of expenses, such as labor and material.

We've completed ABC models for procurement activities and our circulating coinage operations, and plan to model our numismatic business unit. A Mint-wide model will aid understanding of costs and their origins, allocation of general and administrative expenses, accuracy of project and product costs, ability to determine costs of services, and benchmark measuring.

FY 2000 CAPITAL IMPROVEMENT PLAN

During FY 1999, coin demand far exceeded our normal production capacity. In addition to the increase in coin demand, the denominational mix required also changed. As a result, production of non-penny coins increased dramatically as a percentage of total coins produced. Since non-pennies require significantly more resources to produce than pennies, the change in mix coupled with extraordinary demand exceeded our normal human and equipment capacities. We have had to operate 24 hours, 7 days a week and use overtime extensively, which aren't effective long-term strategies. We are responding with a two-year, $188 million enhancement to plant and equipment at all four production facilities. This will also lead to major health and safety improvements, provide greater security, and enable us to operate more effectively as well as maintain and expand our customer base and focus.

U.S. Mint Capital Investment Plan
FY 1998 through FY 2000
(Dollars in Millions)

Category	**FY 2000**	**FY 2001**
Health & Safety	8.9	3.1
Physical Plant Improvements	13.7	10.2
Productivity Improvements	44.4	6.6
Energy	3.6	1.5
Environmental	1.1	0.4
Protection (Facilities related)	0.7	0.3
Total Land & Structures	**72.4**	**22.1**
Health/Safety/Environmental	11.6	4.2
Replacements & Productivity Improvements	22.5	32.0
R&D Projects	0.8	0.4
Subtotal Equipment Capital	**34.9**	**36.6**
Protection (Equipment related)	2.3	2.4
Information Technology	8.6	6.9
Furniture/Fixtures	1.0	1.0
Total Equipment	**46.8**	**46.9**
TOTAL CAPITAL INVESTMENTS	**119.2**	**69.0**

At the Philadelphia and Denver Mints, enhancements include installing a bulk bag loading system, retiring and replacing 12 old presses yearly and possibly refurbishing others, and purchasing automated blank inspection equipment and high efficiency blanking dies. Philadelphia will relocate equipment and automate to improve material handling for circulating coins. Three blanking, annealing and upsetting lines are complete, a fourth is under construction and a fifth is planned. Fire safety improvements and replacing selected motor control centers also are planned for Philadelphia.

The Denver Mint is installing a new automated labeling system for numismatic shipments and a new coin washing machine to handle the increased volume of coins for numismatic sets. Structural improvements underway include a sprinkler system, HVAC modifications, roof replacement, and exterior improvements.

Designed as a bullion depository over 50 years ago, the West Point Mint is undergoing renovation to advance its role producing bullion coins. West Point will install the first of three new proof presses later in FY 2000 and the remaining two in FY 2001.

The San Francisco Mint has installed an automated labeling system, ordered an annealing furnace for installation next quarter, and planned a new upset mill for FY 2001. Requirements are being defined to replace the blank pre-wash system. Safety, environmental, HVAC, conservation, and seismic upgrading projects continue.

Elsewhere, we continue upgrading file servers, automated data processing equipment, software and telecommunications systems to maintain state-of-the-art technology and meet growing communications requirements and thriving Internet sales. We also continue to improve the security of our physical environment by upgrading surveillance and communications equipment and physical barriers to provide greater protection for visitors, employees and monetary assets at all facilities against new and emerging security threats.

RECRUITING

The Federal Government's pay and personnel structure make it hard to recruit against private sector firms for employees with information technology, marketing, and manufacturing skills. The Administration's August 13, 1999, draft legislation would have improved our personnel flexibility by designating us a performance-based organization (PBO), but no action has been taken on this bill.

Meanwhile, we are trying a number of imaginative and innovative approaches to recruitment. We joined with Hire.com -- an e-recruiting Web site -- to disseminate job vacancies and added a "Join Our Team" link to our Web site, attracting over 2,500 candidates since January. We signed an agreement with WMAL to publicize our vacancies on its *Your Career Moves*, including interviews with Mint managers describing our working environment. In April, we will hold our first and widely advertised job fair with WMAL at our headquarters. We hope to attract 200 to 300 candidates in information technology, accounting, program management, and other professions. Through partnership with Howard University we're cultivating candidates in finance, engineering, and marketing. And at the end of the quarter, we implemented an Employee Referral Award Program, offering employees monetary rewards for recommending candidates whom we hire.

AWARDS AND RECOGNITION

Hammer Award for San Francisco Mint Robotics Initiative

On February 28, the San Francisco Mint's Innovation 2000 Team received the Mint's tenth Hammer Award for installing state-of-the-art production and packaging robotics. Production has more than doubled since its installation, and likely will double again in 2000.

Management Recognition

Mint Acting Director John P. Mitchell earned the Nation's highest civil service award during the quarter, the Presidential Rank Award of Distinguished Executive. He is among the one percent of the Senior Executive Service Corps whom the President annually recognizes for outstanding service. Also, the Washington Chapter of the Association of Government Accountants presented Mr. Mitchell its Achievement of the Year Award for improving financial management in the Government.

The National Capital Area Chapter of the American Society for Public Administration and *Government Executive* named Mr. Mitchell and former Mint Director Philip N. Diehl co-winners of its annual Leadership Award. It honors "those who break down barriers in government, develop strong partnerships in the executive and legislative branches, and improve the public's view of government."

The Metropolitan Washington Federal Safety and Health Council named Tom Altvater, the Mint Safety and Occupational Health Manager, its Safety Professional of the Year. The recognition cited him for raising employee awareness of workplace safety and training all supervisors and union stewards to reinforce program goals, thereby reducing accidents from 11 per 100 employees in 1996 to 10.33 in 1997, 6.48 in 1998 and 6.77 per 100 employees in 1999. The 1999 rate showed only a slight increase despite a number of new employees and huge increases in production.

CONCLUSION

In the second quarter of FY 2000, we augmented product, marketing, and promotional successes and became an even more profitable national mint for the American people. We aggressively invested in capital equipment and facility improvements. We undertook creative and innovative approaches to recruiting to attract the high-caliber staff we need to address our challenges. We initiated projects to enhance our accounting accuracy. And we once again added to our long string of awards and recognition. We expect FY 2000 to be another record year.