UNITED STATES MINT

2005 ANNUAL REPORT

TREASURY

UNITED STATES MINT

DEPARTMENT OF THE TREASURY
UNITED STATES MINT

Annual Report

September 30, 2005

Table of Contents

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

DIRECTOR
OF THE
MINT

November 3, 2006

Dear Collectors, Customers and Colleagues:

The United States Mint's accomplishments in Fiscal Year (FY) 2005 reflect our top three priorities of growing revenue, improving efficiency and fostering a model workplace. Despite a challenging operational environment marked by rising metal prices, our workforce was able to increase the availability and accessibility of our products to the public and reduce costs. We are proud to highlight the following achievements of FY 2005:

- Transferred $775 million to the Treasury General Fund, an increase of $110 million over the previous year;
- Produced 14.2 billion coins for circulation during FY 2005;
- Reduced conversion costs per unit by 6.4 percent compared to FY 2004;
- Achieved our sixth consecutive year of top rankings in the American Customer Satisfaction Survey;
- Improved safety by reducing lost-time accidents by 31 percent from 1.36 in FY 2004 to less than one per 200,000 work hours;
- Received Occupational Safety and Health Administration's top safety award for improvements at the United States Mint at Philadelphia.

We are especially proud of the new products that were issued in FY 2005. These beautifully designed products were expertly minted by the dedicated employees of the United States Mint. The new products included:

- the "American Bison" 5-cent coin (nickel) in March 2005;
- the 2005 "Ocean in View" nickel, the fourth design in the Westward Journey Nickel Series™;
- the commemorative quarter-dollar coins for Wisconsin, California, Minnesota, Oregon and Kansas;
- the 2005 Chief Justice John Marshall Silver Dollar; and
- the 2005 Marine Corps 230th Anniversary Silver Dollar.

The United States Mint continued planning for a future environment that looks to bring new challenges and opportunities, different than those we have experienced in recent years. The increased use of electronic transactions, expanded use of coin recycling machines, and improvements to coin distribution channels will likely affect demand for newly minted circulating coins. However, this new environment provides an opportunity for growth in our numismatic products. The new products legislated by the Presidential $1 Coin Act of 2005, coupled with our continued efforts with our core recurring numismatic products, will expand existing and open new markets. This growth will enable us to increase our ability to meet our mission and serve the needs of the nation by reaching more members of the public who value and have an appreciation for our products.

Our success could not have been possible without the contributions of our dedicated workforce. Future success will depend on further developing our coin production expertise, increasing organizational flexibility, and implementing new production technology. To position our operations for continued success in the future, the United States Mint is looking into innovative new technologies and new materials to provide more capability and agility in the design and manufacture of new products. To reinforce our tradition of providing value to the American public, we will continue to lower costs, improve efficiency, and streamline administrative and related support services.

We have closed a very successful FY 2005 by delivering exceptional products and results for the American people and our collectors. We look forward to an even stronger FY 2006 serving our Nation.

Sincerely,

Edmund C. Moy

Edmund C. Moy
Director
United States Mint

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

November 3, 2006

I am pleased to present the United States Mint's financial statements as an integral part of the Fiscal Year (FY) 2005 Performance and Accountability Report. Our independent auditors rendered an unqualified opinion with no material weaknesses for FY 2005. 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, and the agency received an unqualified opinion on its financial statements for the 12th consecutive year. This 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 2005. However, we did take aggressive action to address issues that were identified in prior years that warranted further attention. While not considered material weaknesses, we have taken positive steps to develop and implement numerous management control improvements addressing proper segregation of duties, sufficient supporting documentation, and improved property accountability.

Further, we initiated a separate review to ensure a segregation of duties within the United States Mint's enterprise resource planning system to identify incompatibilities between "classes" within the system and create a matrix to be used to approve access for our employees. We also implemented a plan to conduct periodic reviews to identify and address potential system vulnerabilities.

In all of its program activities, the United States Mint is actively engaged in developing and implementing management controls designed to support designated program results; 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 2005, 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 (BPD) Administrative Resource Center (ARC). The United States Mint embraces this initiative intended to reduce duplicate systems and capital expenditures and promote standardization within the federal government. The United States Mint continues to work with BPD to transfer to ARC many transactional functions associated with travel, human resources and procurement in FY 2006.

The United States Mint has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (USGAAP), based on accounting standards issued by the Financial Accounting Standards Board, the private-sector standards-setting body. However, during FY 2005, the United States Mint converted to preparing 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 USGAAP.

We closed a very good fiscal year by delivering exceptional products and results to the American people and our collectors.

Sincerely,

Patricia M. Greiner

Patricia M. Greiner
Chief Financial Officer

MANAGEMENT'S DISCUSSION & 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, comprised of the circulating, numismatic, and protection programs. This Management's Discussion and Analysis 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 these indicators follows the discussion of the financial results.

MISSION

The United States Mint was established in 1792 and became a bureau of the Department of the Treasury (Treasury) in 1873. The United States Mint is the world's largest coin manufacturer with operations in California, Colorado, Kentucky, New York, Pennsylvania and Washington, D.C. The United States Mint's mission is to apply world-class business practices in manufacturing, selling and protecting the nation's coinage and assets.

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 system and the sale of numismatic and bullion coins and other products to customers worldwide are the sole sources of funding for United States Mint operations. This includes funding for costs associated with the production of circulating and numismatic coins and coin-related products and protective services. Revenues in excess of costs are returned to the United States Treasury General Fund.

OPERATIONAL OVERVIEW

MANAGEMENT PRIORITIES:

The United States Mint continually seeks to be a model government agency that matches world-class business practices through higher yields, lower costs, proper use of technology, efficient production, timely delivery of products and exceptional customer service throughout its operations. Management's priorities in FY 2005 included growing revenue, improving efficiency and fostering a model workplace.

GROWING REVENUE

The United States Mint's goal is to design, sell and deliver quality products to the American people. Our objectives are to provide quality products and services that are responsive to our customer's needs and desires; provide excellent customer service, meeting best in business standards for customer service; and redesign America's coinage and medals by researching and adopting innovative state of the art manufacturing technology, techniques and processes.

NEW PRODUCTS AND PROGRAMS:

- **2005-DATED NICKELS:** On March 1, 2005, the United States Mint released the 2005-dated "American Bison" nickel -- the third nickel design in the United States Mint's Westward Journey Nickel Series™ and first design of 2005. This nickel bears a new image of President Thomas Jefferson on its obverse (heads) side and a side view of a grazing American Bison, on the reverse (tails) side.

Kudos from the President of the United States: In a letter to former Director Henrietta Holsman Fore dated March 31, 2005, President George W. Bush commended Director Fore and United States Mint employees for their success in bringing the design of the new 2005 "American Bison" nickel to fruition. (The "American Bison" nickel was ceremonially launched in March 2005.)

The "American Bison" Nickel

On June 20, 2005, the United States Mint began producing the 2005-dated "Ocean in View" nickel -- the fourth nickel design in the United States Mint's Westward Journey Nickel Series™. The 2004-dated nickels in the series are the "Peace Medal" and the "Keelboat" nickels. The new design features a scene of the Pacific Ocean and an inscription reflecting an excited entry in the journal of Captain William Clark on November 7, 1805, believing he had finally reached the Pacific Ocean after so many months of arduous travel. The "Ocean in View" reverse design replaces the reverse design on the American Bison nickel. The United States Mint held the launch ceremonies for the "Ocean in View" nickel in early August in Washington and Oregon. The Federal Reserve Bank released the "Ocean in View" nickel in August 2005.

The "Ocean in View" Nickel

- **CHIEF JUSTICE JOHN MARSHALL SILVER DOLLAR:** *Public Law 108-290* authorized a maximum mintage of 400,000 Chief Justice John Marshall Silver Dollars to commemorate the 250th anniversary of the birth of John Marshall on September 24, 1755, and to pay tribute to his service to the Supreme Court of the United States and to our Nation. A portion of the proceeds from the sale of each coin is authorized to be paid to the Supreme Court Historical Society. Both the proof and uncirculated versions of the coin are minted at the United States Mint at Philadelphia and carry the "P" mint mark.

  Designed by United States Mint sculptor-engraver John Mercanti, the obverse of the Silver Dollar features a rendition of a portrait of John Marshall originally painted by Charles-Balthazar-Julien Fevret de Saint-Memin in March 1808. The reverse, by United States Mint sculptor-engraver Donna Weaver, features a view of the Old Supreme Court Chamber, located inside the Capitol, on the side which now houses the United States Senate.

The 2005 Chief Justice John Marshall Silver Dollar

- **THE 2005 MARINE CORPS 230TH ANNIVERSARY SILVER DOLLAR:** From the battlefields of the American Revolution, to the perilous streets of Baghdad, U.S. Marines have stood in tireless defense of America, her people and her freedom. As authorized by *Public Law 108-291*, this year, the United States proudly acknowledges them for serving with honor, courage and commitment. The United States Mint worked with the Marine Corps Heritage Foundation and launched the Marine Corps 230th Anniversary Silver Dollar in Quantico, Virginia on July 20, 2005. The coins went on sale the same day in four different product options: 1) a proof silver dollar; 2) an uncirculated silver dollar; 3) The Marine Corps Coin & Stamp Set, which includes a Marine Corps 230th Anniversary Uncirculated Silver Dollar and an uncancelled 1945 Iwo Jima stamp, and is limited to 50,000 units; and 4) the 2005 United States Mint American Legacy Collection™, which includes proof versions of both the Marine Corps 230th Anniversary Silver Dollar and the Chief Justice John Marshall Silver Dollar as well as proof versions of all eleven 2005-dated circulating coins. This set is limited to 100,000 units.

  The Marine Corps 230th Anniversary Silver Dollar bears the likeness of what is believed to be the most reproduced image in the history of photography. The image of six Marines raising the American flag on volcanic Mt. Suribachi on the island of Iwo Jima has become one of the most recognizable symbols in the history of warfare. It is emblematic of Marine tenacity, determination, courage and commitment. Iwo Jima means "sulfur island" in Japanese, and the name fits the horrific battle that was fought and won only two months before the end of World War II.

A surcharge from the sale of each coin is authorized to go to the Marine Heritage Center in Quantico, Virginia, which is currently being developed through a partnership between the Marine Corps Heritage Foundation and the United States Marine Corps.

The Marine Corps 230th Anniversary Silver Dollar

SPEEDING THE DEVELOPMENT OF NEW PRODUCTS: The United States Mint is working to speed the introduction of new products to the market. Speeding the process to bring coins from legislation or authorization to the market leads to increased revenues and profits. Less time and money are spent on activities that occur before the United States Mint receives revenues from sales to customers. Customers are presented with increased product offerings, available more times throughout the year. At the beginning of FY 2005, it took an average of 395 days to bring a new product to market. It now takes 195 days but our goal is to accomplish this in less than 100 days. To achieve this goal, a digital design process for coins and medals was developed in order to improve the product planning and development process. As a result of our focus on production planning and reducing time to market, all of our 2005 annual products were released one and a half to five and a half months earlier than the 2004 versions.

IMPROVING EFFICIENCY

SALES, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES: These are the overhead, marketing and advertising costs of running the United States Mint. In a production-oriented agency like the United States Mint, the focus is on minimizing SG&A costs where practicable to improve financial performance and to return more funds to the Treasury General Fund. In FY 2005, SG&A costs increased by $2.9 million to $165.5 million from $162.6 million in FY 2004, a 1.8 percent increase. The FY 2005 amount includes a one-time charge from a legal settlement of $9.0 million.

OFFICE SPACE: The United States Mint started to consolidate office space in FY 2004 to cut costs. By subleasing about 135,000 square feet of headquarters office space in Washington, DC, the United States Mint saved more than $5.5 million during FY 2004, and approximately $6.5 million in FY 2005.

SHARED SERVICES: 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 consider migrating to a designated COE such as the Bureau of Public Debt's (BPD) Administrative Resource Center (ARC). In FY 2005, the United States Mint began work to transfer to ARC many transactional functions associated with Travel, Human Resources and Procurement, and will continue to work with BPD to see that these functions are successfully transferred in FY 2006.

FOSTERING A MODEL WORKPLACE

DEVELOPING SKILLS IN THE WORKFORCE: A model workplace is necessary to accomplish identified initiatives. The United States Mint continues to foster a model workplace in which all employees are treated with dignity and respect; work together harmoniously; are valued for their contributions; are rewarded fairly for their achievements and receive training and assignments for the future. Some of the model workplace achievements include:

- Improving communications between managers and employees by getting feedback from the employees via the United States Mint Employee Pulse-Check survey as well as having managers walk the work areas to personally speak with employees regarding any concerns they may have;
- Improved communications to employees by delivering new informational materials, workshops and program events Mint-wide. Under Performance Management, Employee Labor Relations (ELR) staff fostered a new relationship between organizational performance management and individual performance management. Our progress and future commitments in the evolution of our Performance Management Program (PMP) helped the Department of Treasury earn a "GREEN" rating in the performance sub-element of the President's Management Agenda (PMA);
- The Equal Employment Opportunity (EEO) office experienced a decrease in the number of formal complaint activities in FY 2005 – 22 formal complaints were filed, compared to 36 formal complaints filed in FY 2004. The informal complaint activity also decreased from 42 in FY 2004 to 41 in FY 2005. There were 41 Alternative Dispute Resolution (ADR) cases in FY 2005. This represents a 52 percent reduction in ADR cases since FY 2003, when the United States Mint had 86 cases; and
- We implemented a Rotational Assignments initiative to broaden employee understanding of the organization – like those used by other Federal organizations and private companies to familiarize employees with other employees' jobs.

SAFETY: The well-being of our employees and the protection of our assets are essential in the world today. To strengthen our ability to deter and respond to all security threats, we are pursuing innovative threat assessment strategies, including collaboration with other law enforcement agencies, to effectively prevent and counteract any security threats against the United States Mint operations.

Three years after the United States Mint at Philadelphia was cited for 81 safety violations (139 specific items), our largest coin manufacturing facility was recognized as one of the safest worksites in the country. The ceremony was held in front of the United States Mint building in downtown Philadelphia and paid tribute to a team of 500 employees, managers and union leaders who joined forces to combat workplace hazards and make our facility a model for safety.

At the close of the award ceremony, the Occupational Health and Safety Administration's (OSHA) Voluntary Protection Programs' (VPP) Star status flag was raised, symbolizing a triumphant moment for the facility. In 2002, the facility labored through a six-week suspension of production after former Director Henrietta Holsman Fore ordered a top-to-bottom review to address the safety issues. OSHA's Star status is the highest honor a worksite can achieve under the VPP safety program.

> **Philadelphia Mint receives OSHA Award:**
>
> "I am thrilled to be here today to join in commending this facility for the significant strides it has made," said Acting Deputy Secretary Arnie Havens. "By working together, OSHA, management, employees and union leaders established reforms that have led to meaningful improvements in workplace safety."
>
> "The Philadelphia Mint's success is the perfect example of what can happen when an organization fully commits to worker safety and health," said Richard D. Soltan, regional administrator for OSHA in Philadelphia.

LOOKING AHEAD

Circulating coin shipments are forecasted to hold steady or grow moderately over the next few years. Although the economy is expected to grow at a steady pace, the increased use of electronic transactions, coin counting machines, and improved distribution will likely moderate demand for newly minted coins. Continued success will demand new products, new markets, new technologies, greater efficiencies and, most importantly, commitments to and from our people.

Production of quality products and excellent customer services are paramount. In FY 2006, the United States Mint will focus on:

HUMAN CAPITAL STRATEGY: To best position the United States Mint for the future, the United States Mint embarked on a major workforce planning effort led by the United States Mint Workforce Planning Steering Committee comprised of senior leaders and managers, which identified the organization's human capital needs and workforce levels for the next five years. Workforce planning will be conducted on an on-going basis. The effort will result in:

- Identification of the organization's human capital needs and workforce levels over the next five years in the context of the United States Mint's strategic plan and projected business environment and direction;
- Comparison of the agency's current skill profile to its future skill needs and identify the gaps that result;
- Recommended strategies that specifically address overcoming identified skill gaps; and
- Forward-looking analysis of factors and expected trends affecting occupations specific to the United States Mint that may affect retention, recruitment and employee development.

24-KARAT GOLD BULLION COINS: The new 24-karat gold bullion coins currently being developed by the United States Mint will complement the popular 22-karat gold American Eagle coins. The new coins will give investors a second option backed by the United States Government in the global precious metals market.

PRESIDENTIAL $1 COIN ACT OF 2005: *Public Law 109-145* provides for the manufacture of 24-karat gold bullion coins in 2006, Presidential $1 coins with First Spouse gold bullion coins starting in 2007, and Lincoln cent designs in 2009.

SUCCESSOR TO THE 50 STATE QUARTERS® PROGRAM: Through 2005, this program has returned $6 billion to the Treasury General Fund. The program will end in 2008. The United States Mint is working with Congress and Treasury to develop strategies for a successor program to the 50 State Quarters® Program.

LEAN ENTERPRISE: Lean Enterprise is a process designed to bring about rapid, step-change improvements to the performance of an organization through an overhaul of the value stream. It is comprised of a comprehensive set of elements, rules and tools that focus on value, the elimination of waste, and continuous incremental improvement, including improved supplier partnerships to increase efficiency and cut costs.

RESEARCH AND DEVELOPMENT PROGRAM: The United States Mint plans to nurture a small Research and Development (R&D) program that will explore new manufacturing, metal fabrication and finishing techniques that will improve its manufacturing operations and/or increase sales of its products. The program will not only explore what other mints are doing around the world, but will also explore new technologies developed by sister government agencies that might have application. We are also reviewing and considering cost effective alternative materials for circulating and numismatic coin denominations. The first comprehensive coinage material study was started in fiscal year 2005.

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

A significant facet of United States Mint operations is the 50 State Quarters® Program, which was launched in 1999 to commemorate and honor each of the 50 States over a ten-year period. Five new commemorative quarter-dollar coins are produced each year. Each quarter's reverse celebrates one of the 50 States with a design honoring that State's unique history, traditions and symbols. The quarters are released in the same order that the states ratified the United States Constitution or were admitted into the Union. In FY 2005, the United States Mint issued quarters commemorating Wisconsin, California, Minnesota, Oregon and Kansas.

United States Mint 50 State Quarters® released in FY 2005:

Wisconsin: Engraver, Alfred Maletsky, depicts an agricultural theme featuring the head of a cow, a round of cheese and an ear of corn. The design also bears an inscription of the State motto, ***"Forward."***

California: Entitled, ***"John Muir / Yosemite Valley,"*** was engraved by Don Everhart and depicts naturalist and conservationist John Muir admiring Yosemite Valley's monolithic granite headwall known as Half Dome with a soaring California condor.

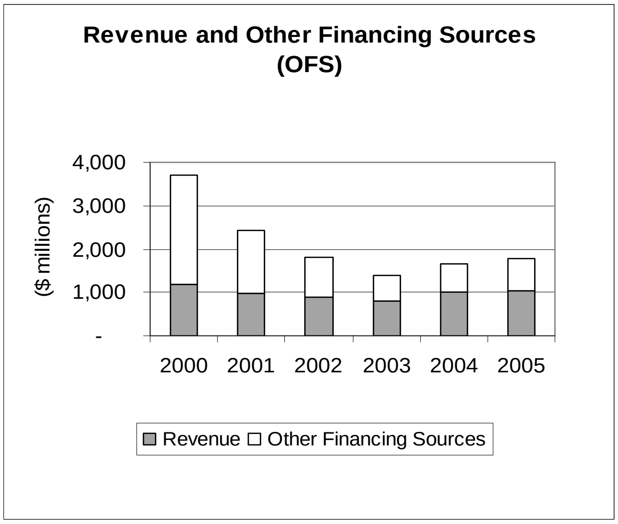
Minnesota: Was engraved by Charles Vickers and depicts a tree-lined lake with two people fishing, a loon on the water and a textured outline of the state surrounding its nickname, ***"Lqand of 10,000 Lakes."***

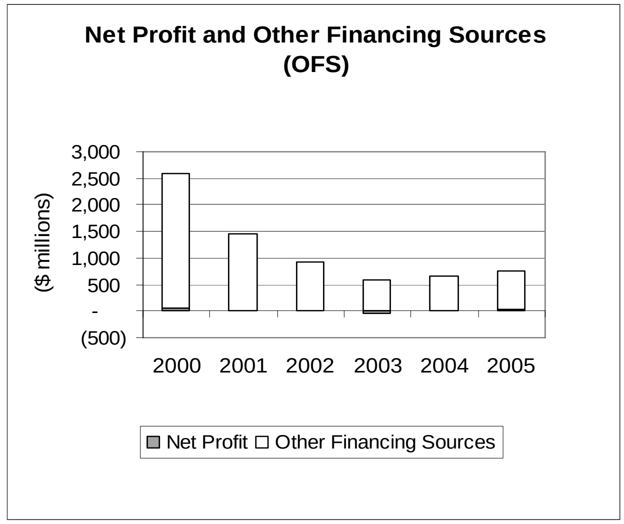
Oregon: Was engraved by Donna Weaver and features a portion of ***"Crater Lake,"*** viewed from the south-southwest rim to include Wizard Island and Watchman and Hillman Peaks on the lake's rim.

Kansas: Entitled, ***"Buffalo and Sunflower,"*** and features a buffalo and sunflower motif. This was engraved by Norman Nemeth.

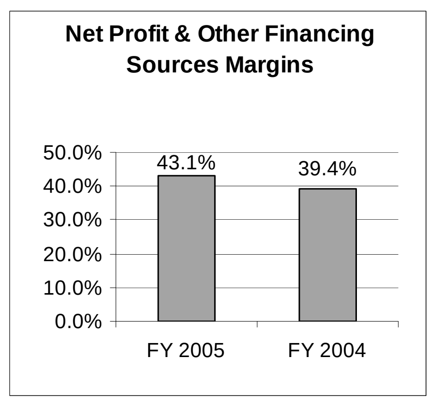
FINANCIAL AND PROGRAM ANALYSIS

OPERATIONS





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 Mint facilities, staff, and assets is included in the cost of production and is a proper charge to the Circulating and Numismatic Programs. This change was made as part of the conversion to a government GAAP presentation of the FY 2005 financial statements. The United States Mint's total earned revenue of $1,048.3 million plus other financing sources (seigniorage) of $722.7 million increased to $1,771.0 million in FY 2005 from FY 2004 amounts of $1,006.3 million for earned revenue plus $644.1 million for other financing sources (seigniorage), which totals $1,650.4 million. Earned revenue from circulating coinage represents the costs incurred to make the coin. Circulating earned revenue from coins shipped to the Federal Reserve Bank (FRB) of $445.4 million plus the Circulating other financing sources (seigniorage) of $699.4 million increased to $1,144.8 million in FY 2005 from $395.8 million earned revenue plus $597.7 million for other financing sources (seigniorage) for a total of $993.5 million in FY 2004. Other financing sources (seigniorage) from circulating coinage represents the difference between the face value of circulating coinage and the costs (which includes the metal, manufacturing, and transportation costs) to produce those coins. Numismatic sales (net of surcharges and commissions) to the public of $588.2 million plus numismatic sale of circulating coinage earned revenue of $14.6 million decreased to $602.8 million in FY 2005 compared to $594.8 million for numismatic sales to the public plus $15.7 million numismatic sales of circulating coinage earned revenue which totaled $610.5 million in FY 2004. Total numismatic sales of circulating coinage earned revenue of $14.6 million plus other financing sources (seigniorage) of $23.3 million decreased to a total of $37.9 million in FY 2005 from $15.7 million and $46.4 million which totaled $62.1 million, respectively, in FY 2004.



The net program profits plus other financing sources increased to $764.0 million in FY 2005 from $650.1 million in FY 2004. Total net profit margins[1] increased to 43.1 percent compared to 39.4 percent in the prior year despite a significant rise in the prices of the metals that are used in the fabrication of coins. The United States Mint was able

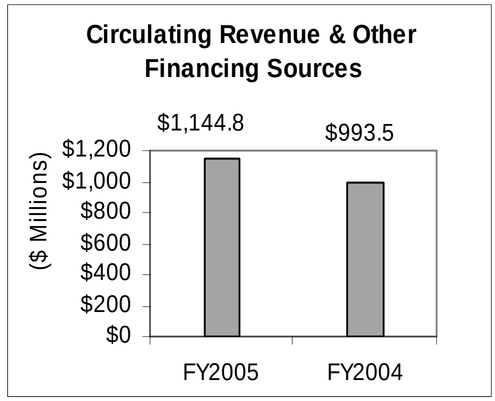
[1] Net Profit Margin is a ratio that compares net profit to revenue. It tells you how much profit a company makes for every $1 it generates in revenue. The United States Mint's net profit margin refers to net program profit plus other financing sources as a percentage of earned revenues plus seigniorage.

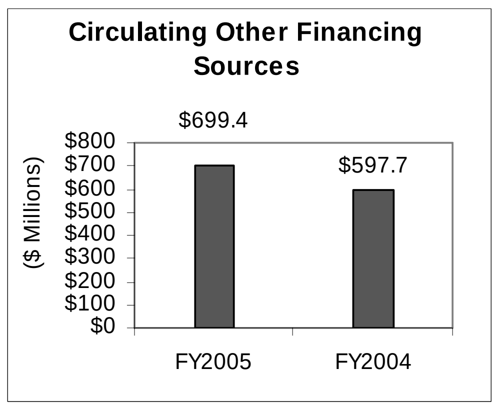
to increase margins by shipping more coins, improving time to market and reducing manufacturing and Selling, General and Administrative (SG&A) costs. As a result of the improved operating results and profits, the United States Mint returned $775 million to the Treasury General Fund in FY 2005 compared with $665 million in FY 2004.

CIRCULATING COINAGE SHIPPED TO 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 (FRB) as they are needed to replenish inventory and fulfill commercial demand. The FRB reimburses the United States Mint at face value for the coins when they are shipped.

Total circulating earned revenue from coins shipped to the FRB of $445.4 million plus other financing sources (seigniorage) of $699.4 million increased to $1,144.8 million in FY 2005 from $395.8 million earned revenue plus $597.7 million for other financing sources (seigniorage) for a total of $993.5 million in FY 2004. The increase in total earned revenue and other financing sources (seigniorage) reflects the increased volume of shipments to the FRB. The Westward Journey Nickel Series™, featured two designs in FY 2005 commemorating the Louisiana Purchase and the Lewis and Clark Expedition. The obverse design features a contemporary image of President Jefferson, along with two new reverse designs - the “American Bison” and the “Ocean in View.” Nickel collections increased to $70.9 million in FY 2005 from $69.6 million in FY 2004. Quarter collections increased to $663.9 million in FY 2005 from $560.4 million in FY 2004. In FY 2005, the United States Mint issued quarters commemorating Wisconsin, California, Minnesota, Oregon and Kansas.





Other financing sources from circulating coinage increased to $699.4 million in FY 2005 from $597.7 million in FY 2004. The average market price of nickel, copper and zinc increased 13 percent, 30 percent and 25 percent, respectively, over prior year prices. SG&A costs as a percentage of Circulating earned revenue and other financing sources decreased to 7.5 percent compared to 8.9 percent in the prior year. The following tables show the COGS, SG&A and Distribution costs on a per unit basis for each denomination.

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

	Penny	Nickel	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
Net Profit Margin	2.8%	3.4%	68.6%	70.4%	62.5%	82.5%		61.1%

CIRCULATING REVENUE & OTHER FINANCING SOURCES (in Millions)
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Penny	Nickel	Dime	Quarter	Half	Dollar	Mutilated & Other	Total
Revenue & OFS	$71.3	$69.6	$256.9	$560.4	$3.5	$31.8	$0.0	$993.5
Cost of Goods Sold	65.7	62.7	55.1	106.9	0.8	3.2	0.0	294.4
Selling, General & Administrative	1.0	0.8	25.6	57.6	0.4	3.5	0.0	88.9
Other Costs and Expenses	0.0	0.0	0.0	0.0	0.0	0.0	12.5	12.5
Other Financing Sources	$4.6	$6.1	$176.2	$395.9	$2.3	$25.1	-$12.5	$597.7
Net Profit Margin	6.5%	8.8%	68.6%	70.6%	65.7%	78.9%		60.2%

Circulating Unit Costs

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

	Penny	Nickel	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 Cost Per Unit	$0.0097	$0.0484	$0.0305	$0.0717	$0.1539	$0.1654

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

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

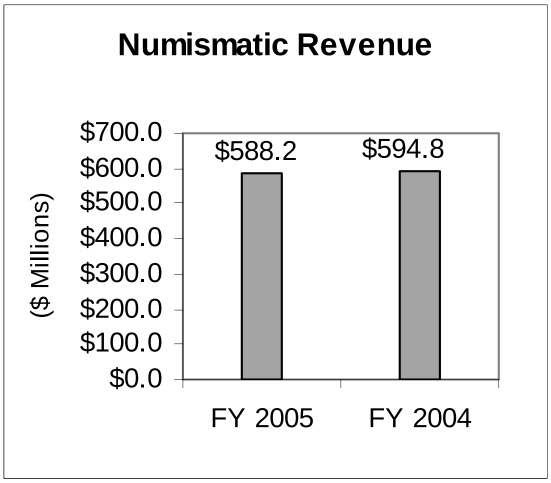
Supplemental Information per *Public Law 107-201*

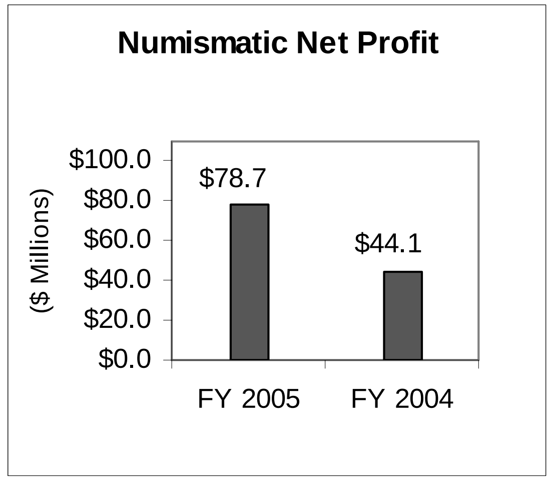
Public Law 107-201 (July 23, 2002) authorized the United States Mint to purchase silver on the open market to mint coins when the Strategic Stockpile of silver was depleted. The law requires an annual reporting of the amount of silver purchased on the open market by fiscal year. The following are purchases for FY 2005 and FY 2004:

	Quantity (FTO)	Market Value
FY 2005	15,462,284.6495	$ 110,164,958.01
FY 2004	12,968,078.1850	$ 81,939,233.25

NUMISMATIC SALES TO THE PUBLIC

Total numismatic sales (less surcharges and commissions) to the public decreased to $588.2 million in FY 2005 from $594.8 million in FY 2004. Bullion sales decreased to $270.7 million in FY 2005 from $315.7 million in FY 2004. Non-bullion sales to the public increased to $317.5 million in FY 2005 from $279.1 million in FY 2004. Total numismatic profit margin increased to 13.4 percent in FY 2005 from 7.4 percent in FY 2004. Although numismatic sales decreased compared to the prior year, the United States Mint was able to increase profits by improving time to market and reducing Cost of Good Sold (COGS).





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

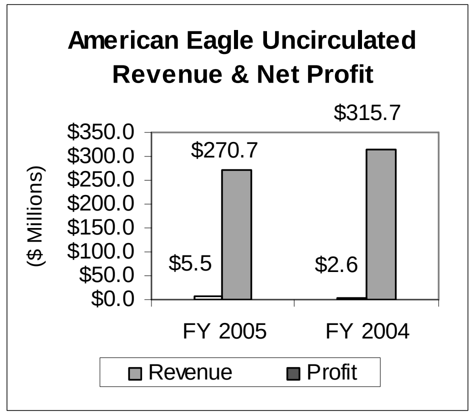
	American Eagle Uncirculated	American Eagle Proof	Commemoratives	Recurring	Total
Revenue (less surcharges & commissions)	$270.7	$93.2	$20.8	$203.5	$588.2
Cost of Goods Sold	264.3	62.4	13.1	92.8	432.6
Selling, General & Administrative	0.8	13.8	4.9	56.3	75.8
Other Cost	0.1	0.2	0.0	0.8	1.1
Net Profit	$5.5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

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

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

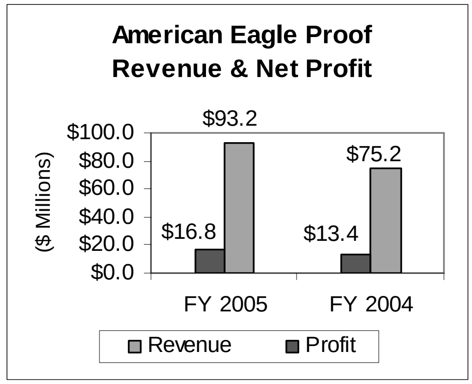
American Eagle Uncirculated (Bullion) Coins

American Eagle Uncirculated (Bullion) coins are typically purchased by investors seeking a simple, tangible means to own and invest in precious metals. Bullion sales decreased to $270.7 million in FY 2005 from $315.7 million in FY 2004.



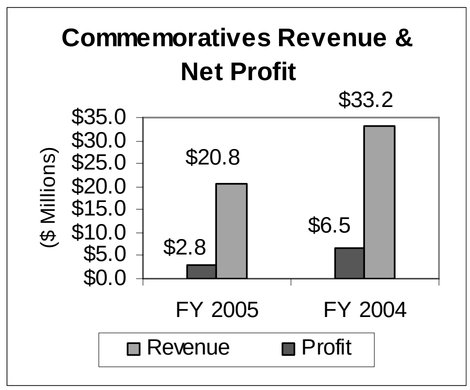
American Eagle Proof Coins

American Eagle Proof revenue increased to $93.2 million in FY 2005 from $75.2 million in FY 2004 due to increased unit sales and time to market improvements. American Eagle Proof profits increased to $16.8 million in FY 2005 from $13.4 million in FY 2004 and profit margins increased to 18.0 percent from 17.8 percent in the prior year.



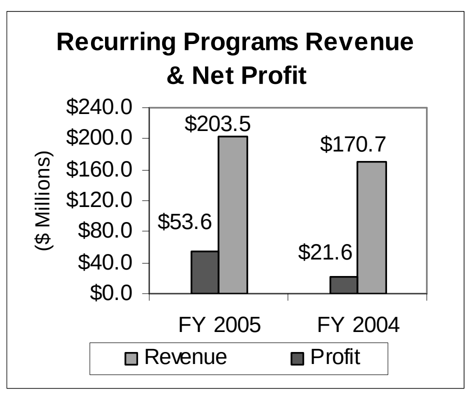
Commemorative Coins

Commemorative revenue (less surcharges and commissions) decreased to $20.8 million in FY 2005 from $33.2 million in FY 2004. The Lewis and Clark and the Thomas A. Edison Commemorative Coins were released in FY 2004, as authorized by Congress. These two issuances totaled $8.8 million in revenues for FY 2005 and generated $1.5 million in surcharges and commissions for the beneficiary organizations designated by the authorizing legislation. Congress authorized the issuance of the Chief Justice John Marshal Silver Dollar and the 2005 Marine Corps 230th Anniversary Silver Dollar commemorative coins, which were released in March 2005 and July 2005, respectively. Revenue from these two issuances totaled $17.7 million and generated $4.2 million in surcharges and commissions for the beneficiary organizations designated by authorizing legislation.



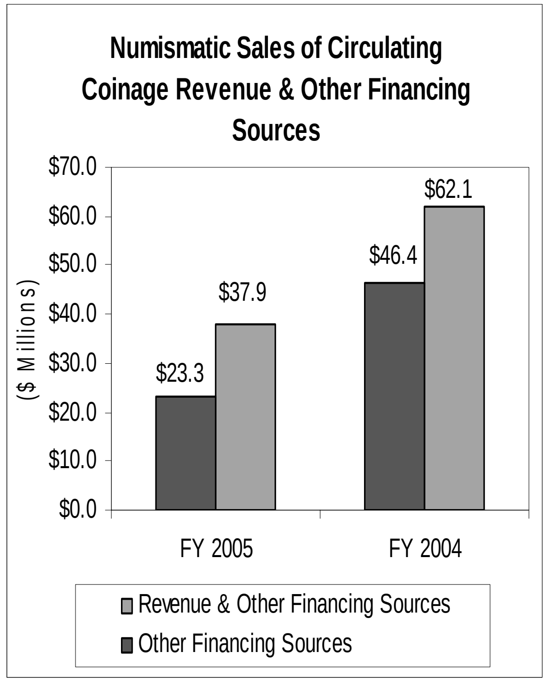
Recurring Programs

Recurring programs include proof sets, silver proof sets, uncirculated sets, 50 State Quarters® Proof Sets, 50 State Quarters Silver Proof Sets™, and other miscellaneous products. Revenue from recurring programs increased to $203.5 million in FY 2005 from $170.7 million in FY 2004. 2005 Nickels added $15.2 million to FY 2005 recurring revenue, an increase from $4.2 million in FY 2004. The strong performance of recurring products was due to time to market improvements. As a result of the United States Mint focusing on production planning and reducing time to market, all of the 2005 annual products were released one and one half to five and one half months earlier than the 2004 versions. Recurring profit margins increased to 26.3 percent in FY 2005 from 12.7 percent in FY 2004, a result of reducing COGS and improving time to market.



NUMISMATIC SALES OF CIRCULATING COINAGE

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



Total numismatic earned revenue from the sale of circulating coinage of $14.6 million plus other financing sources (seigniorage) of $23.3 million decreased to $37.9 million in FY 2005 from $15.7 million in earned revenue plus $46.4 million in other financing sources for a total of $62.1 million in FY 2004. FY 2004 sales reflected an anomalous sale of 78 million back-dated quarters to a predominant buyer. FY 2005 sales are more consistent with the numismatic circulating sales plan. The other financing sources of numismatic sales of circulating coinage decreased to $23.3 million in FY 2005 from $46.4 million in FY 2004. As in the case of circulating coins sold to the FRB, the portion of the other financing sources transferred to the Treasury General Fund are off-budget receipts.

PROTECTION OPERATIONS

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

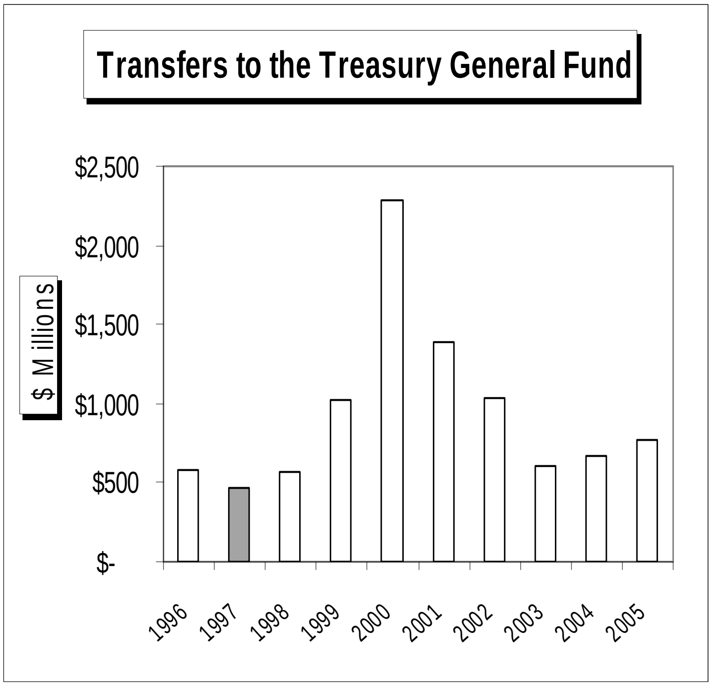
The United States Mint Police secure approximately $117.5 billion in market value of the nation's gold and silver reserves and protect the United States Mint's assets while safeguarding thousands of employees against potential threats at our facilities across the country. In FY 2005, the Protection program had a net cost of $37.4 million, a decrease from a net cost of $38.0 million in FY 2004.

In FY 2005, the United States Mint's Protection Program received a 93 percent Program Assessment Rating Tool (PART) score. The PART is a program self assessment that the Office of Management and Budget (OMB) requires of every Federal program. PART measures how effective the agency is in the program's purpose and design, strategic planning, program management and program results/accountability and holds programs to high standards. This is evidence that the United States Mint's Protection Program is well managed and achieving its purpose.

CAPITAL INVESTMENTS

Each year, the United States Mint commits funds for capital projects to maintain, upgrade or acquire physical structures, equipment, physical security and information technology systems. Funds obligated for capital projects totaled approximately $18.1 million in FY 2005. This included approximately $8.9 million for manufacturing projects, $3.7 million for security improvement projects, $4.1 million for information technology and $1.4 million for miscellaneous projects. The United States Mint's capital projects are focused on improving processes, developing new coin design capabilities and expanding information handling. These investments are planned to reduce costs, shorten the overall time from product concept to production and achieve greater flexibility to respond to market demands.

TRANSFERS TO THE TREASURY GENERAL FUND



The Public Enterprise Fund (PEF) legislation permits the United States Mint to operate in a business-like manner allowing the United States Mint flexibility to adjust spending to adapt to ever changing economic and business conditions. 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 2005, the United States Mint transferred $775 million to the Treasury General Fund. This total consisted of $730 million from the net operating results from the sale of circulating coins either to the FRB or through numismatic channels (off-budget) and $45 million from profits on numismatic collectible and investment sales (on-budget). In comparison, $665 million ($661 million off-budget and $4 million on-budget) was transferred to the Treasury General Fund in FY 2004. The amounts transferred to Treasury are directly related to the sales of United States Mint products. Stronger circulating collections in FY 2005 plus the numismatic profits on circulating-based coin products provided a greater source for off-budget transfers to the General Fund relative to FY 2004. The $45 million on-budget transfer occurred in the first quarter of FY 2005 and reflects the numismatic profit for FY 2004. This lag in the transfer of on-budget funds is necessary to ensure that the proper amount is transferred each year. Accordingly, the on-budget transfer in the first quarter in FY 2006 will reflect the profits from the sale of numismatic products in FY 2005.

PERFORMANCE SECTION

One of the most effective means of determining how well an organization is performing is through the use of performance measures. As prescribed by the Government Performance & Results Act (GPRA) 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 adding value, ensuring integrity and realizing world-class performance. To direct our efforts, the United States Mint identified key performance measures that cut across the entire organization. Tied to these performance measures are world-class targets and substantive initiatives to reach our goals. These measures are presented as bureau-wide strategic performance measures, which establish a single, critical set of measures to manage our operations effectively. In addition to being the critical measures used by management, many of these key measures can be broken out at the program level.

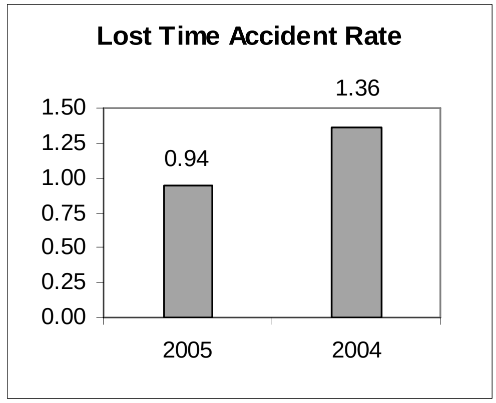
UNITED STATES MINT KEY PERFORMANCE MEASURES

Measure	September 30, 2005	FY 2005 Target	September 30, 2004
Lost Time Accident Rate	0.94	1.03	1.36
Pulse Check Survey *	64%	66%	63% *
Cycle-Time	69	53	85
Yield	85.9%	97%	86.1%
Machine availability	64%	66%	64%
Inventory Turnover	2.35	4.20	2.48
SG&A as a percent of Revenue & OFS	9.9%	10.0%	12.2%
Cost per 1000 coin equivalents	$7.42	$7.03	$7.93
Customer Service Index	91%	92%	78%
Total Losses	$1,135	$250,000	$3,109
Protection Cost per Square Foot	$32.43	$31.86	$32.51
Order Fulfillment	94%	NA	N/A

** The FY 2004 percentage in the Annual Report is based on 3rd quarter numbers.*

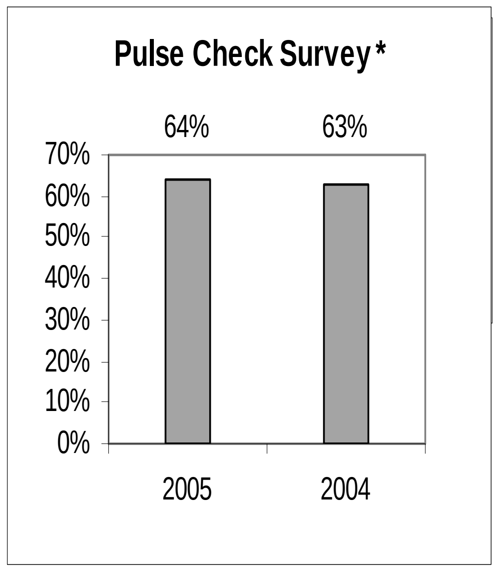
Lost Time Accident Rate

The United States Mint values its employees. Consistent with those values, the United States Mint strives to maintain a work environment that promotes the safety and well-being of employees on the job at all times. Lost Time Accidents (LTAs) are work-related accidents that lead to an employee missing at least one day of work. The Lost Time Accident Rate is the number of LTAs for every 200,000 hours worked (or the LTAs per 100 employees during a full year). The LTA Rate in FY 2005 was 0.94, a 31 percent improvement from 1.36 in FY 2004. The performance was better than the target rate of 1.03. The FY 2005 final result may be adjusted at a later date pending a review or dispute of each incident's present classification. The LTA rate has decreased four years in a row and improvements are expected to continue. Safety at the workplace has been and will continue to be a focus for the United States Mint.



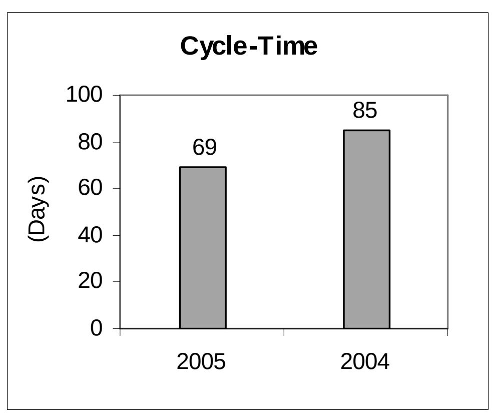
Employee Satisfaction

The United States Mint values its employees and strives to be an employer of choice, where employees are motivated and enthusiastic about coming to work. The Pulse-Check Survey is a 14-question survey designed to assess the attitudes of the United States Mint's employees concerning their work environment. It is administered each quarter to 25 percent of the United States Mint's permanent workforce. This measure captures the percentage of employees who are generally satisfied with their jobs. In FY 2005, 64 percent of survey respondents reported favorable job satisfaction, compared to a 63 percent satisfaction rate in FY 2004. The Pulse Check Survey is below the FY 2005 target of 66 percent. For comparison, the United States Mint result is not significantly different than an industry normative benchmark of 65 percent (based on 2002 data from 1,068 full-time US employees in manufacturing organizations with less than 10,000 employees). While individual responses are kept confidential, reports are created that allow analysis across broad categories for more detail. The United States Mint's management team reviews these quarterly reports to explore options for workplace improvements in order to improve the job satisfaction levels.



Cycle Time

The United States Mint wants to minimize the amount of time it takes to process raw materials into finished goods, eliminating non-value added steps from the processes and reducing the amount of raw material in inventory. The cycle time measure assesses the time it takes material to flow through the United States Mint's processes from raw material to order fulfillment. As of September 2005, the United States Mint's cycle time was 69 days, an improvement of 16 days from 85 days as of September 2004. The targeted cycle time was 53 days. The primary cause for not reaching the target is the size of the dollar coin inventory maintained by the United States Mint. No new production of dollar coins is taking place; demand is currently being met by existing inventory. Measured without the dollar coin, Cycle Time improved to 48 days in FY 2005, compared with 55 days in FY 2004.

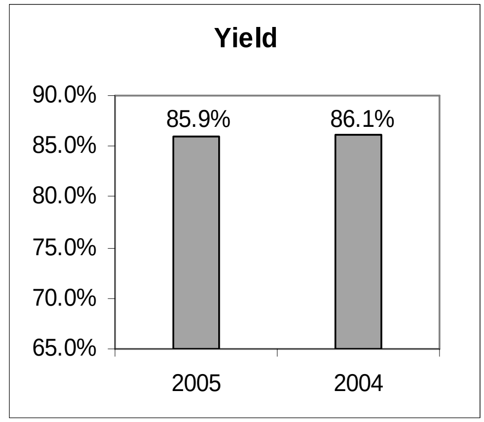


The United States Mint plans to continue improving the cycle time of the circulating coinage through further implementation of lean manufacturing techniques. The United States Mint is currently working with the Federal

Reserve Banks, the armored carrier industry and the commercial banking industry to reduce and balance coin inventories. Initiatives include improving circulating coin inventory management by implementing a coin supply chain pilot with the Cleveland Federal Reserve district and taking a broad look at opportunities to reengineer the manufacturing process and inventory handling.

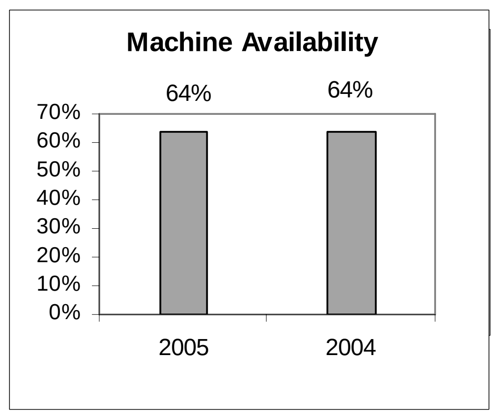
Yield

The United States Mint wants to minimize wasted material and transform as much of our materials into finished goods as is feasible. Yield measures the percentage of raw materials used that results in a finished product. FY 2005 Yield was 85.9 percent which is slightly lower than the previous year of 86.1 percent. Performance is short of the target of 97 percent, a stretch goal designed to encourage broad thinking and suggestions for improvement from all personnel. The main impediment to reaching the target is that the target does not include an allowance for the webbing that results from stamping round blanks from rectangular sheets of metal. The resulting scrap that is generated lowers the yield measure by 10-15 percentage points, depending on the mix of products that are produced. The United States Mint makes every effort to maximize the yield given our current processes. Substantial improvement will require innovative solutions.



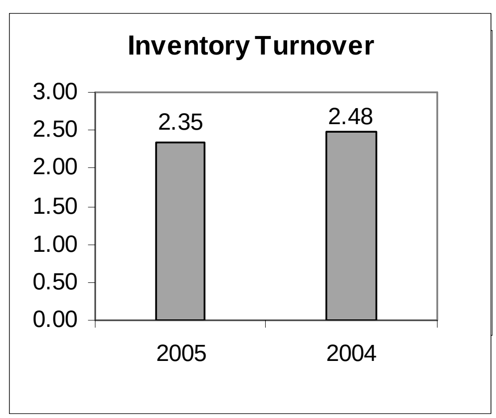
Machine Availability

Machine availability measures the amount of time production equipment is available to produce finished goods (excluding scheduled downtime). We want our machines 'at-the-ready' at all times to manufacture coins as warranted by the prevalent demand. As of September 2005, the United States Mint’s Machine Availability is 64 percent. This is level with FY 2004 performance, but falls short of the FY 2005 target of 66 percent. Newer equipment, improved technology to schedule and monitor maintenance and improved production management are enabling the United States Mint to have machines more available for production. The United States Mint plans to continue improving the machine availability through further implementation of lean manufacturing techniques.

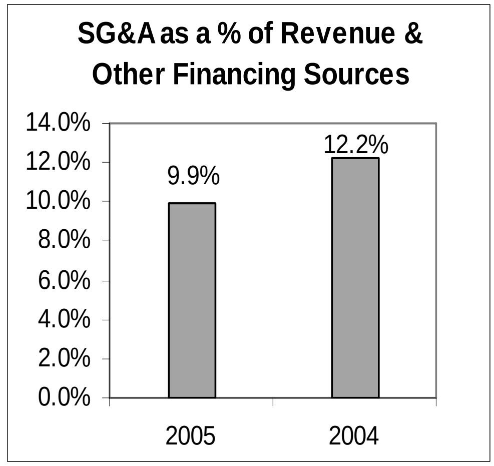


Inventory Turnover

The United States Mint seeks to minimize inventory of raw materials and finished goods to reduce the associated carrying costs. Inventory turnover is a measure of how often, during the course of a year, the United States Mint sells and replaces inventory of materials and final products. Inventory turnover is calculated as the total cost of goods sold divided by the average inventory level over a given period. The Inventory Turnover ratio decreased to 2.35 times in FY 2005 from 2.48 in FY 2004. While the Cost of Goods Sold remained level in FY 2005 compared with FY 2004, the average inventory increased during FY 2005 to $330.7 million from $317.3 million in FY 2004. The performance measure did not meet the target of 4.2 times.

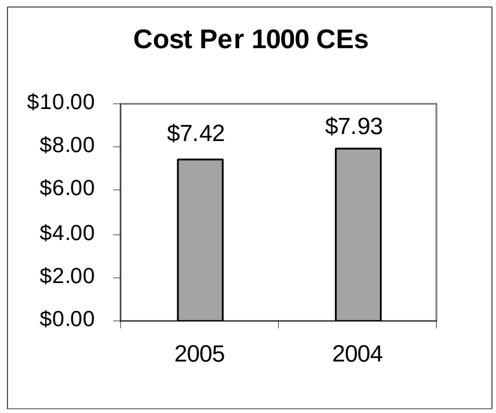


SG&A as a Percent of Revenue & OFS (Excluding Bullion Revenue)



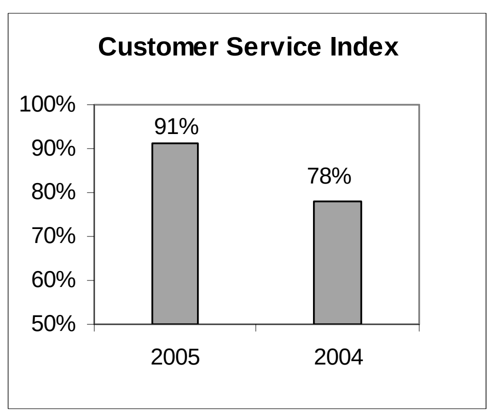
Sales, General and Administrative (SG&A) costs are the overhead, marketing and advertising costs of running the United States Mint. In a production oriented, non-service intensive type business like the United States Mint, the focus is on minimizing SG&A costs where practicable to improve profitability. In the case of the United States Mint, improving margins means that more funds will be returned to the Treasury General Fund as a result of operations. The reduction of SG&A expenses was a priority in FY 2005 and will continue to be in the future. SG&A as a percent of non-bullion revenue and other financing sources improved to 9.9 percent in FY 2005 from 12.2 percent in FY 2004. This performance measure excludes rental income from subleased office space of $6.5 million and rental expenses because they are offsetting. The measure also excludes a one-time $9.0 million charge from a legal settlement This settlement was an anomalous expense resulting from previous years' activities that was incurred by Headquarters on behalf of a field facility. Performance exceeded the FY 2005 target of 10.0 percent, and the United States Mint will continue to make reductions in general and administrative costs a priority in order to approach a benchmark of 7.7 percent.

Conversion Cost per 1000 Coin Equivalents



The United States Mint's costs vary by product, and the 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 2005 was $7.42, an improvement of 6.4 percent from $7.93 in FY 2004. The performance measure did not meet the target of $7.03. This target (stretch goal) was an 11 percent drop from the FY 2004 actual results and was set based on forecasted volume and cost estimates. Differences in the actual volume from the forecast may impact the achievement of specific targets in any given year. Coin equivalent production increased to 19.9 billion in FY 2005 compared with 17.8 billion in FY 2004 (12 percent). The associated conversion cost increased at a lesser rate (4 percent) to $147 million from $141 million in FY 2004 due to cost cutting and improved processes. The United States Mint plans to continue to reduce conversion costs for given production volumes through further implementation of lean manufacturing techniques at the manufacturing facilities.

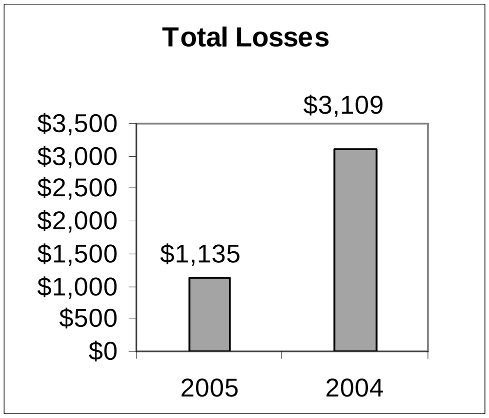
Customer Service Index



The Customer Service Index is an indicator of the quality of our products and services to the customer. Production of quality products and excellent customer service is paramount. The Customer Service Index contains two components: the order satisfaction rate (total orders less returns) and the percentage of orders fulfilled within seven days. The overall Customer Service Index increased by 13 percentage points (a 16.7 percent increase) to 91 percent in FY 2005 from 78 percent in FY 2004. The performance did not quite meet the target for FY 2005, which was 92 percent.

Total Losses

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

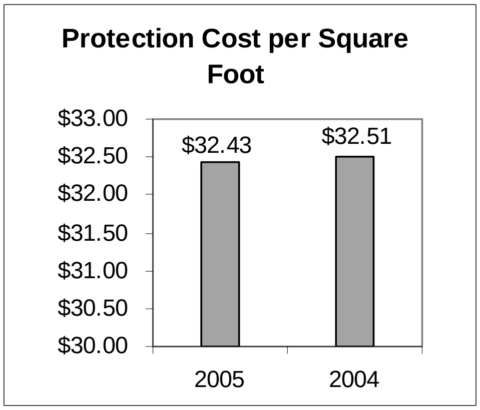


1. *Financial Losses*: intentional monetary losses, thefts or fraud from metal reserves, produced coinage, retail sales and other administrative losses.
2. *Cost of Intrusions*: the cost of repair or recovery from an intentional intrusion into United States Mint systems and facilities either electronically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

Total Losses in FY 2005 were $1,135 compared with $3,109 in FY 2004. This performance beat the target of $250,000. The United States Mint also keeps track of exposure, or the dollar amount of open cases. As of September 2005, the exposure is $276,295. The United States Mint has revised its future targets to be more in line with the recent performance.

Protection Cost per Square Foot

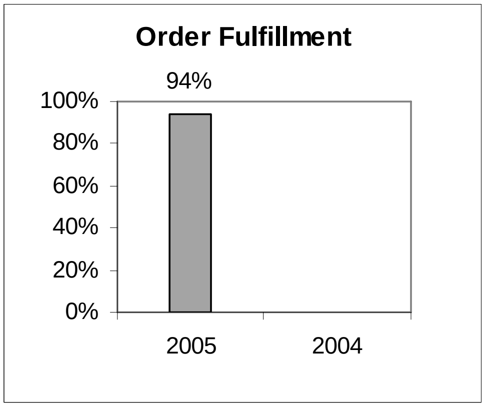
Protection cost per square foot shows the Office of Protection's total operating cost divided by the area of usable space. Usable space is defined as 90 percent of total square footage. The United States Mint Police use the cost per square foot to provide a measurement of efficiency over time. The square footage of usable area at the United States Mint is a stable figure and will only change significantly with major events such as the addition or removal of a facility. Protection cost per square foot in FY 2005 was $32.43, a slight improvement from $32.51 in FY 2004. FY 2005 performance is 2 percent higher than the targeted $31.86. Protection expenses are highly labor intensive, which results in continual upward pressure on costs. The Protection function requires that adequate staffing and coverage must be maintained at all times. The ability to apply downward pressure on cost must be tempered by level of readiness necessary to fulfill the protection mission.



The United States Mint Protection office is analyzing future personnel needs and budgetary requirements in order to look for ways to keep costs manageable while maintaining adequate protection of assets and employees. Plans include efforts to leverage new technology to enhance security by automating entry and exit procedures at United States Mint facilities.

Order Fulfillment

Order Fulfillment is a new 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. The Order Fulfillment was 94 percent in FY 2005. Essentially, this means that 94 percent of the United States Mint's revenue and other financing sources was earned from products that were shipped to the customer in a timely fashion. This is a new performance measure and will continue to be tracked for appropriateness and for setting future targets.



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 31USC3515(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 (GAAP) 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, a sovereign entity.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

Inspector General
United States Department of the Treasury:

Director
The United States Mint:

We have audited the accompanying balance sheet of the United States Mint (Mint) as of September 30,2005 and the related statements of net cost, changes in net position, financing, and custodial activity, and the combined statement of budgetary resources, for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 United States Mint as of September 30, 2005, and its net cost, change in net position, budgetary resources, reconciliation of net cost to budgetary obligations, and custodial activity, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Mint changed its method of preparing its financial statements to be in accordance with the accounting standards issued by the Federal Accounting Standards Advisory Board in fiscal year 2005. Prior to fiscal year 2005, the Mint presented its financial statements in accordance with the accounting standards issued by the Financial Accounting Standards Board. As a result of the lack of comparability, the fiscal year 2004 financial statements have not been presented with the fiscal year 2005 financial statements.

The information in the Management Discussion and Analysis section is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular No. A-136, *Financial Reporting Requirements,* Part A, *Form and Content of the Performance and Accountability Report*. 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 reports dated June 16, 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 audit.

KPMG LLP

June 16, 2006, except as to note 19, which is dated November 3, 2006.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
BALANCE SHEET
AS OF SEPTEMBER 30, 2005
(In Thousands)

ASSETS	
Intragovernmental:	
Fund Balance with Treasury (Note 3)	$279,387
Accounts Receivable (Note 4)	58
Advances and Prepayments (Note 5)	4,114
Total Intragovernmental Assets	283,559
Custodial Gold and Silver Reserves (Note 6)	10,493,740
Accounts Receivable, Net (Note 4)	14,900
Inventory and Related Property (Note 7)	185,630
Supplies	13,193
Property, Plant and Equipment, Net (Note 8)	271,581
Advances and Prepayments (Note 5)	1,612
Total Non-Intragovernmental Assets	10,980,656
Total Assets	$11,264,215
LIABILITIES	
Intragovernmental:	
Accounts Payable	$313
Accrued Workers' Compensation	6,805
Total Intra-governmental Liabilities	7,118
Custodial Liability to Treasury	10,493,740
Accounts Payable	40,513
Surcharges payable (Note 3)	10,678
Accrued Payroll and Benefits	14,996
Other Actuarial Liabilities	33,855
Unearned Revenues	5,791
Total Non-Intragovernmental Liabilities	10,599,573
Total Liabilities	10,606,691
Commitments and Contingencies (Note 11 & 12)	
NET POSITION	
Cumulative Results of Operations	657,524
Total Liabilities and Net Position	$11,264,215

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

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENT OF NET COST
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

NUMISMATIC PRODUCTION AND SALES	
Gross Cost	$524,072
Less Earned Revenue	(602,796)
Net Program Revenue	(78,724)
CIRCULATING PRODUCTION AND SALES	
Gross Cost	445,446
Less Earned Revenues (Note 14)	(445,446)
Net Program Revenue	-
Net Revenue Before Protection of Assets	(78,724)
PROTECTION OF ASSETS	
Protection Costs	37,543
Less Earned Revenue	(107)
Net Cost of Protection of Assets	37,436
Net Revenue from Operations	($41,288)

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

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

CUMULATIVE RESULTS OF OPERATIONS	
NET POSITION, Beginning of Year	$657,797
FINANCING SOURCES:	
Transfers to the Treasury General Fund On-Budget	(45,000)
Transfers to the Treasury General Fund Off-Budget	(730,000)
Other Financing Sources (Seigniorage) (Note 14)	722,686
Imputed Financing Sources (Note 10)	10,753
Total Financing Sources	(41,561)
Net Revenue from Operations	41,288
Net Position, End of Year	$657,524

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

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

Budgetary Resources	
Unobligated Balance:	
Beginning of the Period	$130,290
Spending Authority from Offsetting Collections:	
Earned:	
Collected	1,091,486
Receivable from Federal Sources	(4,363)
Subtotal	1,087,123
Permanently Not Available	(45,000)
TOTAL BUDGETARY RESOURCES	$1,172,413
Status of Budgetary Resources	
Obligations Incurred:	
Reimbursable (Note 16)	$1,048,090
Unobligated Balances:	
Apportioned	124,323
TOTAL STATUS OF BUDGETARY RESOURCES	$1,172,413
Relationship of Obligations to Outlays	
Obligated Balance, Net, Beginning of Period	$198,891
Obligated Balance, Net, End of Period:	
Accounts Receivable	(58)
Undelivered Orders	47,898
Total Liabilities	112,951
Outlays:	
Disbursements	1,089,647
Collections (Note 19)	(1,091,486)
NET OUTLAYS	($1,839)

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

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENT OF FINANCING
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

Resources Used to Finance Activities:	
Budgetary Resources Obligated	
Obligations Incurred	$1,048,090
Less: Spending Authority from Offsetting Collections and Recoveries	1,087,123
Net Obligations	(39,033)
Other Resources	
Transfers to the Treasury General Fund On-Budget	(45,000)
Transfers to the Treasury General Fund Off-Budget	(730,000)
Imputed Financing from Costs Absorbed by Others (Note 10)	10,753
Other Financing Sources (Seigniorage) (Note 14)	722,686
Net Other Resources Used to Finance Activities	(41,561)
Total Resources Used to Finance Activities	(80,594)
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	(10,520)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	8,034
Other	7,314
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	4,828
Total Resources Used to Finance the Net Cost of Operations	(85,422)
Components not Requiring or Generating Resources in the Current Period	
Depreciation and Amortization	44,396
Revaluation of Assets	2,853
Other	(3,115)
Total Components of Net Revenue from Operations that will not require or Generate Resources	44,134
Total Components of Net Revenue from Operations that will not require or Generate Resources in the Current Period	44,134
Net Revenue from Operations	($41,288)

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

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENT OF CUSTODIAL ACTIVITY
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

Revenue Activity	
Sources of Cash Collections:	
Sale of Treasury Silver (Note 20)	$52,745
Total Revenue Received	52,745
Disposition of Custodial Revenue & Collections	
Transferred to the General Fund	52,745
Total Disposition of Custodial Revenue	52,745
Net Custodial Activity	$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 beneficiary organizations, and to protect certain federal assets in its custody. Numismatic products include medals, proof coins, uncirculated coins, platinum, gold, and silver bullion coins, and commemorative coins. Custodial assets consist of 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,* 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." The United States Mint has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP), based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. However, during FY 2005, the United States Mint converted to preparing its financial statements based on accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB), which was designated by the American Institute of Certified Public Accountants (AICPA) as the standard-setting body for financial statements of federal government entities, with respect to the establishment of US GAAP. 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.

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. The difference between the face value of circulating coins sold and the total cost of metals, manufacturing and transportation of 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). Other financing sources (Seigniorage) results from the sovereign power of the Government to directly create money and, although not an inflow of resources from the public, does increase the Government's net position in the same manner as an inflow of resources. Because it is not demanded, earned, or donated, it is an other financing source rather than revenue. 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 profit. Bullion products are priced based on the market price of the precious metals plus a premium to cover manufacturing costs and profit.

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 for the storage of goods for other federal entities and reimbursement 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 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 since 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.

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

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 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 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 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.

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 beneficiary organizations. These amounts are defined as "Surcharges." A surcharges payable is established for surcharges received but not yet paid to the beneficiary.

(Continued)

Pursuant to the *P.L. 104-208, Omnibus Consolidated Appropriations for Fiscal Year 1997* (the Act), benefiting organizations cannot receive surcharge payments unless all of the United States Mint's operating costs of the coin program are fully recovered. The United States Mint may make interim surcharge payments during a commemorative program if the benefiting organization meets the eligibility criteria in the Act, if the profitability of the program is determinable and if the United States Mint is assured it is not at risk of a loss. *P.L. 108-15, American 5-Cent Coin Design Continuity Act of 2003,* contains a provision that beneficiary organizations have two years from the end of the program sales to meet the requirements of *P.L. 104-208*. If the requirements are not met within two years, the surcharges collected are to be deposited in the Treasury as miscellaneous receipts. Additionally, *P.L. 108-15* changed the fund raising requirement for beneficiary organizations from an amount equal to the maximum surcharges possible based on the maximum mintage to an amount equal to the surcharges actually collected based on sales.

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 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.

Displays and Archives

The United States Mint has a display area at each of its facilities and maintains archives at its headquarters in Washington, D.C. The displays and archives include valuable coins and commemoratives minted domestically and internationally and other artifacts related to minting operations. Most of these items are not included in balances reported in these financial statements. Records are maintained of all coins, commemoratives and valuable artifacts. Physical inspections are performed to assure accountability.

Protection Costs

Virtually all of the Treasury's gold and silver reserves are 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.

(Continued)

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 two vendors at competitive market prices.

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 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, which the United States Mint does not obligate until apportioned by OMB. These apportionments are considered budgetary resources. The United States Mint's Budgetary Resources consist of unobligated balances, transfers, and spending authority from offsetting collections, which is net of amounts temporarily or permanently not available.

Included in temporarily and permanently not available are transfers to the General Fund. Temporarily not available are circulating coin transfers to the General Fund that have been specifically set aside for possible release by OMB, however the United States Mint has no intent on acquiring these funds. Permanently not available are Numismatic coin transfers to the General Fund.

Note 2 Non-Entity Assets

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

Custodial Gold Reserves (Deep Storage)	$10,355,539
Custodial Silver Reserves (Deep Storage)	9,148
Custodial Gold Reserves (Working Stock)	117,514
Custodial Silver Reserves (Working Stock)	11,539
Total Non-entity Assets	10,493,740
Total Entity Assets	770,475
Total Assets	$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 its working stock gold and silver 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, Custodial Gold and Silver Reserves and Treasury 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:

Revolving Fund	$279,387
Total Fund Balance with Treasury	$279,387

Status of Fund Balance with Treasury

Unobligated Balance	$124,323
Obligated Balance, Not Yet Disbursed	155,064
Total	$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, 2005, the revolving fund balance includes $10.7 million in restricted amounts for possible payment of surcharges and commissions to beneficiary organizations.

Note 4 Accounts Receivable, Net

Components of accounts receivable at September 30 are as follows:

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

Intragovernmental accounts receivable represent amounts due from other federal agencies for products or services. Receivables with the public primarily consist of circulating coin shipments to the FRB and metal scrap and webbing sold to fabricators.

Note 5 Advances and Prepayments

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

Intragovernmental	$4,114
With the Public	1,612
Total Other Assets	$5,726

Intragovernmental advances and prepayments include $1.6 million that the United States Mint paid the Treasury Working Capital Fund (the 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 the construction contractors, which are other federal agencies. As of September 30, 2005, the balance for such payments was $2.2 million.

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 31USC5117(b) and 31USC5116(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.

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

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

Note 7 Inventory and Related Property

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

Raw Materials	$50,434
Work-In-Process	46,384
Inventory held for current sale	66,857
Inventory held in reserve for future sale	21,955
Total Inventory and Related Property	$185,630

Raw materials consist of unprocessed materials and byproducts of the manufacturing process. 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.

(Continued)

Note 8 Property, Plant and Equipment, Net

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

	Asset Cost	Accumulated Depreciation and Amortization	Total Property, Plant and Equipment, Net
Land	$2,529	-	$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	-	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 year ended September 30 were $44.4 million .

Note 9 Liabilities Not Covered by Budgetary Resources

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

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

Liabilities covered by budgetary resources include liabilities for which congressional action is not needed before budgetary resources can be provided. Liabilities not covered by budgetary resources are custodial liabilities to Treasury that are entirely offset by custodial gold and silver reserves held on behalf of the federal government.

Note 10 Retirement Plans and Other Post-employment Costs (Imputed Financing)

At the end of FY 2005, three hundred eighteen (318) United States Mint employees participated in the Civil Service Retirement System (CSRS), to which the United States Mint contributes 25.0 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 FY2005, FERS employees were allowed a maximum annual contribution of 15 percent of salary to a maximum of $14,000. Employees participating in FERS are covered by the Federal Insurance Contribution Act (FICA) for which the United States Mint contributes a matching amount to the Social Security Administration.

(Continued)

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 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:

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

The United States Mint is also recognizing its share of the future cost of post-retirement health benefits and life insurance for employees while they are still working with an offset classified as imputed financing. OPM continues to report the overall liability of the federal government and make direct recipient payments. OPM has also provided certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The cost factor relating to health benefits is $4,903 per employee enrolled in the Federal Employees Health Benefits Program. 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.

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):

Health Benefits	$8,050
Life Insurance	22
Pension Expense	2,681
Total Imputed Cost	$10,753

Note 11 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. Since all of the United States Mint's leases are considered cancelable, there are no minimum lease payments due, and no footnote disclosure on future lease payments is required.

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, 2005, the Mint sub-leased in excess of 135,000 square feet in two leased buildings. As of September 30, 2005, tenants include: the Internal Revenue Service, the Treasury Executive Institute, the Bureau of the Public Debt, the U.S. Customs Service and Border Protection, and the U.S. Marshals Service. All of the subleases are operating leases.

Future Projected Receipts:
(In Thousands)

Fiscal Year	Land and Buildings
2006	$4,453
2007	416
2008	176
2009	180
2010	183
After 2010	234
Total Future Operating Lease Receivables	$5,642

Note 12 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 PEF. 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.

For the past few years, the United States Mint disclosed in the Notes to the Financial Statements a contingent liability estimated at $32 million related to a class action case alleging discrimination and harassment at the Denver Mint. In early 2006, the agency and the class reached a proposed tentative settlement of two cases for $9.3 million which has been accrued and presented with accounts payables as of September 30, 2005. The tentative settlement for one of the cases totaling $8.99 million was subject to a fairness review by the Equal Employment Opportunity Commission. On August 23, 2006, the EEOC Administrative Judge approved the settlement agreement as a fair and just resolution of the matter.

Note 13 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 costs by program."

(Continued)

NUMISMATIC PRODUCTION AND SALES	
Cost:	
Intragovernmental:	
Selling, General and Administrative	$22,405
Imputed Costs	1,075
Total Intragovernmental Costs	23,480
Public:	
Cost of Goods Sold	443,409
Selling, General and Administrative	57,183
Total Public Cost	500,592
Gross Cost	**524,072**
Revenue:	
Intragovernmental:	
Less Rent Revenues	6,533
Less Other Intragovernmental Revenues	93
Total Intragovernmental Revenue	6,626
Public	596,170
Total Earned Revenue	**602,796**
Net Program Revenue	(78,724)
CIRCULATING PRODUCTION AND SALES	
Cost:	
Intragovernmental:	
Selling, General and Administrative	32,529
Imputed Costs	9,678
Total Intragovernmental Costs	42,207
Public:	
Cost of Goods Sold	336,209
Selling, General and Administrative	53,412
Other Costs and Expenses (Mutilated)	13,618
Total Public Cost	403,239
Gross Cost	**445,446**
Revenue:	
Public	445,446
Total Earned Revenues	**445,446**
Net Program Revenue	-
Net Revenue Before Protection of Assets	(78,724)
PROTECTION OF ASSETS	
Public:	
Protection Cost	37,543
Total Earned Revenues	(107)
Net Cost of Protection of Assets	37,436
Net Revenue from Operations	($41,288)

(Continued)

Note 14 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 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). Other financing sources (Seigniorage) is returned to the Treasury General Fund as an off-budget receipt. 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:

Revenue-FRB	$445,446
Other Financing Sources (Seigniorage)-FRB	699,398
Total Circulating Coins	$1,144,844
Revenue-with the public	$14,575
Other Financing Sources (Seigniorage)-with the public	23,288
Total Numismatic Sales of Circulating Coins	$37,863

Note 15 Related Parties

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

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

Numismatic checks and credit card orders are processed by a commercial bank. Fees associated with these services are absorbed by the Treasury and are not reflected in the United States Mint's financial statements.

Note 16 Apportionment Categories of Obligations Incurred

The United States Mint receives apportionments of its resources from the OMB. An apportionment is a plan, approved by 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. The 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)

Reimbursable:	
Category B	
Total Operating Expenses	$1,028,540
Numismatic Capital	5,744
Circulating and Protection Capital	13,806
Total Apportionment Categories of Obligations Incurred	$1,048,090

Note 17 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 was published in February 2006 and made available through OMB.

The President's Budget submission was based on estimates. The Mint prepared the Statement of Budgetary Resources based on actual documentation that better reflects the status of the Mint's budgetary resources.

United States Mint Public Enterprise Fund	Statement of Budgetary Resources	President's Budget
Total Budgetary Resources	$1,172,413	$1,051,255
Status of Budgetary Resources:		
Obligations Incurred	1,048,090	989,369
Unobligated Balances-available	124,323	61,886
Total Status of Budgetary Resources	$1,172,413	$1,051,255
Net Outlays	($1,839)	($1,839)

Note 18 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. In FY 2005, the United States Mint transferred a total of $775 million in excess receipts to the Treasury General Fund.

Note 19 Collections and Subsequent Events

Subsequent to year-end, circulating transfers of $730 million to the General Fund were excluded from collections in the Statement of Budgetary Resources and Statement of Financing to conform with and to be consistent with the Department of Treasury reporting of Seigniorage.

Note 20 Custodial Activity

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, that 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.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control over Financial Reporting

Inspector General
United States Department of the Treasury:

Director
The United States Mint:

We have audited the accompanying balance sheet of the United States Mint (Mint) as of September 30, 2005 and the related statements of net cost, changes in net position, financing, and custodial activity, and the combined statement of budgetary resources, for the year then ended, and have issued our report thereon dated June 16, 2006, except as to note 19, which is dated November 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

In planning and performing our fiscal year 2005 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. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on the Mint's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of 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, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

KPMG

In our fiscal year 2005 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.

Additional Required Procedures

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the *Management Discussion and Analysis* section, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

* * * * *

We noted certain additional matters that we reported to the management of the Mint in a separate letter dated November 3, 2006.

This report is intended solely for the information and use of the Mint's management, the U.S. Department of the Treasury's Office of Inspector General, OMB, the 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

June 16, 2006

Improvement is needed in Financial Accounting and Reporting

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. During our audit, 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. We noted that a small core group has 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 subsidiary information that reconciles to the general ledger and some 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 request from the Office of Corporate Accounting.

(Continued)

Financial Management Oversight

Monitoring the effectiveness of internal control should occur in the normal course of business. 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.

During our audit, 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 its 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.

We also noted instances where the Mint incorrectly applied accounting standards (for example, revenue recognition for consignment sales and asset capitalization), due to inadequate oversight by individuals who have been assigned authority to perform management review functions. Also, there are no formal policies and procedures that require reconciliations and journal entries to be signed-off by the preparer or reviewer. In addition, some Mint personnel were 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

Property, Plant and Equipment Management

The Mint did not implement sufficient internal controls to ensure that property, plant and equipment were adequately safeguarded from loss and properly accounted for. Internal control should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use or disposition of assets.

During fiscal year 2005, we noted that the Mint conducted an annual physical inventory of property, plant and equipment, and was unable to physically locate 301 items totaling approximately $99,398, primarily information technology equipment, at Headquarters.

We also noted that the current procedures and internal controls do not provide adequate assurance that all capital assets are properly reported in the financial statements. Specifically, we noted the following:

- Construction-in-progress (CIP) includes certain research and development costs that should not be capitalized, and costs for projects that were determined to be completed.
- "Assets held in stock" categories include certain assets that are actually in use and should be included in the appropriate property, plant and equipment category and depreciated.
- Property, plant and equipment include assets that are not yet received and should be included in "Advances and Prepayments".
- Property, plant and equipment include certain transactions which should have been expensed (example, items below the capitalization threshold and repairs and maintenance items).

(Continued)

- Property, plant and equipment include items which are no longer being used.
- Property, plant and equipment include items that were not categorized in the proper category.
- Assets physically inspected were not included in property, plant and equipment, as they did not have a property identification number.

Budgetary Resources Accounting

The Mint has historically used accounting standards issued by the Financial Accounting Standards Board (FASB) and not by the Federal Accounting Standards Advisory Board (FASAB) as the guidance for preparing its financial statements through fiscal year 2004. For fiscal year 2005, the Mint's management elected to adopt and prepare its financial statements in accordance with FASAB accounting standards, 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 FASB accounting standards, 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 to ensure compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA).

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. For fiscal year 2005, the Mint had to use a manual process to determine the budgetary balances, as they do not have an integrated system to track and govern the status of obligations. However, the use of a manual process subjects the Mint's overall funds control objective to significant control risk. Therefore, the Mint must have an automated funds control system to monitor and control the budgetary resources process.

Recommendations:

We 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 reconciliation and other 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.

(Continued)

6. Perform an extensive physical inventory of its property, plant and equipment at all locations to identify assets without property identification number. Further, the policies and procedures over purchasing fixed assets should be strengthened to ensure that all assets are assigned a property identification number 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. Implement and follow existing Mint policies and procedures, including production facilities quality control procedures, to ensure that property, plant and equipment only includes costs for items meeting the definition of capitalizable general property, plant and equipment.

9. Establish an internal review process that requires a supervisor to systematically review the transactions recorded in the Asset Management module of PeopleSoft timely. This will ensure that property, plant and equipment are properly capitalized and errors are identified and correctly timely.

10. Develop and implement a general ledger system that 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. Implement integrated systems controls as soon as it practical to record obligations as incurred and manage funds control at the transaction level. In the interim, the Mint should develop Mint-wide policies and procedures for management to perform adequate review of all obligations, which will help to ensure that balances are accurately and timely adjusted on a monthly basis. The process 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.

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

Exhibit II

November 3, 2006

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

Ladies and Gentlemen:

We have reviewed the fiscal year 2005 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
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

Inspector General
United States Department of the Treasury:

Director
The United States Mint:

We have audited the accompanying balance sheet of the United States Mint (Mint) as of September 30, 2005 and the related statements of net cost, changes in net position, financing, and custodial activity, and the combined statement of budgetary resources for the year then ended, and have issued our report thereon dated June 16, 2006, except as to note 19, which is dated November 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

The management of the Mint is responsible for complying with laws, regulations, and contracts applicable to the Mint. As part of obtaining reasonable assurance about whether the Mint's fiscal year 2005 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 financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, 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 laws, regulations, and contracts 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, regulations, and contracts discussed in the second 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. 01-02.

Under OMB Bulletin No. 01-02 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 at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

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 United States Government Standard General Ledger at the transaction level.

The Mint has historically prepared its financial statements in accordance with accounting standards issued by the Financial Accounting Standards Board (FASB). However, after fiscal year 2005, the Mint adopted and prepared its financial statements in accordance with accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB). 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 FASB and not FASAB accounting standards and accordingly does not include budgetary accounts. We recommend that the United States Mint develop and implement a general ledger system that fully uses the United States Government Standard General Ledger 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's Office of Inspector General, OMB, the 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

June 16, 2006