United States General Accounting Office 129979

GAO

Report to the Secretary of Energy

May 1986

FINANCIAL AUDIT

DOE Uranium Enrichment Activity Financial Statements: September 30, 1984

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-220995

May 7, 1986

The Honorable John S. Herrington
The Secretary of Energy

Dear Mr. Secretary:

This report presents our opinion on the financial statements of the U.S. Department of Energy's (DOE's) Uranium Enrichment Activity (UEA) for the year ended September 30, 1984. UEA enriches uranium hexafluoride in the isotope U-235 for commercial power reactor operators and for government program users.

Our report emphasizes four matters. One, UEA's operations have been substantially restructured due to changing economic conditions resulting in UEA decisions, announced June 5, 1985, to cancel the gas centrifuge enrichment project and to put the Oak Ridge, Tennessee, gaseous diffusion plant on standby. These decisions will result in an estimated cost to the government of approximately $4.9 billion, of which $1.2 billion was recorded in 1984. Two, the decision to write off the $1.2 billion for pricing purposes violates the cost recovery provisions of the Atomic Energy Act. Three, subsequent to year-end, a suit was filed challenging the validity of UEA's utility service contracts. A U.S. District Court has since determined the contracts to be void because they were not consistent with DOE's enrichment services criteria and were not submitted to the Congress for the required comment period. Four, no provision has been made for decommissioning and decontamination of gaseous diffusion plants and the ultimate disposal of low-level radioactive waste.

This report contains our report on UEA's system of internal accounting controls and our report on UEA's compliance with laws and regulations. The compliance report discloses UEA's noncompliance with the Atomic Energy Act's provision requiring cost recovery and UEA's noncompliance with other statutory principles regarding its new utility services contract with its customers.

We also present in this report, as supplementary information, schedules reconciling DOE's published pricing statements to the financial statements in this report prepared under generally accepted accounting principles.

The Comptroller General has the authority to audit UEA's financial transactions in accordance with 31 U.S.C. 3523. We conducted our examination in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Director of the Office of Management and Budget; the Senate Committee on Energy and Natural Resources; the House Committee on Energy and Commerce; the Senate Committee on Governmental Affairs; the House Committee on Government Operations; the Subcommittee on Energy and Water Development, Senate Committee on Appropriations; the Subcomittee on Energy and Water Development, House Committee on Appropriations; and the Department of Energy's Office of Inspector General.

Sincerely yours,

Frederick D. Wolf
Director

Contents

Abbreviations

DOE	U.S. Department of Energy
UEA	Uranium Enrichment Activity

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To the Secretary
U.S. Department of Energy

We have examined the balance sheet of the U.S. Department of Energy's (DOE's) Uranium Enrichment Activity (UEA) as of September 30, 1984, and the related statements of operations, changes in government equity, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

UEA is part of DOE and does not exist as a separate, legal entity, as more fully described in note 1A. For financial reporting purposes, the entity is defined as those activities which provide uranium enriching services to its customers. UEA prepares its financial statements by extracting and adjusting UEA-related accounts from the financial records of DOE and its contractors. Material UEA transactions with DOE are described in note 1B.

UEA's operations have been substantially restructured as a result of changing economic conditions. In 1984 and the preceding several years, the three UEA gaseous diffusion plants operated at approximately 40 percent of their production capacity. This situation existed because of an erosion of UEA's share of the uranium enrichment market due to competition from other suppliers at lower prices, ample worldwide inventories of enriched uranium, and lower prospects for growth in the nuclear power industry. These factors culminated in decisions, announced on June 5, 1985, to cancel the gas centrifuge enrichment project under construction and put the gaseous diffusion plant at Oak Ridge, Tennessee, on standby, as discussed in note 7B. These decisions will reduce government equity by approximately $4.9 billion in write-offs according to DOE management. In the 1984 financial statements, $1.2 billion of this amount was recognized as discussed in note 4. The remaining $3.7 billion will be recognized in the 1985 statements. UEA does not plan to recover the assets written off through its pricing formula. In our legal opinion of December 27, 1984, we determined that excluding the $1.2 billion for pricing purposes violated the current cost recovery provisions of the Atomic Energy Act. In a future opinion, we will address the legality of writing off the additional assets for pricing purposes.

In December 1984, a suit was filed challenging the validity of UEA's new utility service contracts with customers for enrichment services, as discussed in note 6D. On September 19, 1985, the U.S. District Court issued a determination that the utility service contracts are void because the contracts were not consistent with DOE's enrichment service criteria and DOE did not submit any necessary changes for the statutorily-required 45-day notification period to the appropriate congressional oversight committees. The U.S. Department of Justice, on behalf of UEA, filed a notice of appeal on September 25, 1985. UEA management believes, and we concur, that resolution of the matter will not have a material effect on the September 30, 1984, financial statements.

The costs and extent of decommissioning the gaseous diffusion facilities at time of final shutdown and how the costs might be shared between UEA and others are uncertain at this time according to UEA management, as explained in note 6C. Also, UEA stores large quantities of low-level radioactive waste in durable containers,which are presently maintained and guarded at a minimal cost, as explained in note 6C. UEA management believes that this cost-effective method will be used well into the future. No provision has been made in the financial statements for future costs to be incurred for decommissioning and decontamination and the ultimate disposal of waste.

Prior to the year ended September 30, 1984, UEA had prepared its financial statements in accordance with DOE-established criteria, assumptions, and instructions. For the year ended September 30, 1984, UEA revised its already issued financial statements to be in conformity with generally accepted accounting principles. Although adjustments have been made to cumulative results of operations as of the beginning of the year, it was not practicable to determine what adjustments would be necessary in the financial statements of the preceding year to restate results of operations and changes in financial position in conformity with the accounting principles used in the current year.

In our opinion, the financial statements referred to above present fairly the financial position of DOE's Uranium Enrichment Activity as of September 30, 1984, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles. As discussed above, the footnotes to the financial statements discuss several substantive issues which are unresolved and which will or could materially affect UEA's financial position in subsequent periods.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules reconciling DOE's published pricing statements to the financial statements in this report prepared under generally accepted accounting principles is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements as a whole.

Frederick D. Wolf
Director

June 28, 1985,
except as to note 6D,
as to which the date is
September 25, 1985

Report on Internal Accounting Controls

We have examined the financial statements of the U.S. Department of Energy's Uranium Enrichment Activity for the year ended September 30, 1984, and have issued our opinion thereon. As part of our examination, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- conversion,
- expenditures,
- financial reporting,
- fixed assets,
- payroll,
- revenue, and
- treasury.

Our study included all of the control categories listed above. However, we did not evaluate the accounting controls over the financial reporting, fixed assets, payroll, and treasury categories because it was more efficient to expand substantive audit tests. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on UEA's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls identified above.

The management of UEA is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on UEA's system of internal accounting controls taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

Report on Compliance With Laws and Regulations

We have examined the financial statements of the U.S. Department of Energy's Uranium Enrichment Activity for the year ended September 30, 1984, and have issued our opinion thereon. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances.

In our opinion, DOE did not comply with the terms and provisions of laws and regulations for the transactions tested. As discussed more fully in our legal opinion to the Chairman of the Subcommittee on Energy Conservation and Power, House Committee on Energy and Commerce (B-207463, December 27, 1984), DOE did not comply with the Atomic Energy Act of 1954, as amended (42 U.S.C. 2201 (v)) requiring UEA to recover the cost of its operations when setting prices to be charged to its customers. Specifically, UEA wrote off $1.2 billion of undepreciated plant and capital equipment without including these costs in its pricing formula. We also reported that DOE's actions with regard to its new utility services contract were not in compliance with applicable statutory principles. UEA did not amend its pricing criteria as required by the Atomic Energy Act, as amended (42 U.S.C. 2201 (v)). Consequently, UEA did not comply with the 45-day notification to the appropriate congressional oversight committees as required by the Atomic Energy Act, as amended (42 U.S.C. 2201 (v)), and did not comply with administrative procedures set forth in the Administrative Procedure Act, (5 U.S.C. 551 et seq.) and the Department of Energy Organization Act (42 U.S.C. 7191).

Further, because of those material instances of noncompliance noted in the preceding paragraph, we cannot, in our opinion, state that DOE was in compliance with the terms and and provisions of laws and regulations for those transactions not tested.

The conditions noted above were considered in determining the nature, timing, and extent of the audit tests applied in our examination and have been emphasized in our opinion on UEA's September 30, 1984, financial statements.

Financial Statements

Balance Sheet

		September 30, 1984 (dollars in thousands)
Assets		
Current Assets		
Cash:		
Funds in U.S. Treasury (note 1B)	$1,227,272	
Cash with contractors	730	$1,228,002
Trade accounts receivable:		
Domestic	16,367	
Foreign	38,445	54,812
Inventories (note 1C):		
Separative work	2,090,975	
Uranium	1,156,598	
Production stores and process spare parts (net)	47,912	3,295,485
Prepayments and deposits		16,000
Total current assets		**4,594,299**
Plant and equipment		
Completed plant and equipment	4,181,909	
Less accumulated depreciation (note 1D)	1,990,536	
Less reserve for unrecoverable capital cost (note 4)	1,172,646	1,018,727
Construction work in progress (note 7)		2,908,178
Total plant and equipment		**3,926,905**
Other assets		
Uranium held for future use (note 1C(2))	1,002,175	
Long-term accounts receivable, domestic	13,314	1,015,489
Total other assets		**1,015,489**
Total Assets		**$9,536,693**

	September 30, 1984 (dollars in thousands)
Liabilities and Government Equity	
Current liabilities	
Accounts payable and accrued expenses	$ 114,229
Uranium provided by customers (note 1C(2))	1,013,813
Advances from customers (note 1E)	64,207
Total current liabilities	**1,192,249**
Other liabilities	
Long-term advances from customers (note 1E)	130,852
Total liabilities	**1,323,101**
Contingencies and commitments (note 6)	
Government equity	
Unexpended appropriations (note 1B)	1,227,272
Invested capital (note 7)	7,596,930
Cumulative results of operations	(610,610)
Total government equity	**8,213,592**
Total Liabilities and Government Equity	**$9,536,693**

The accompanying notes are an integral part of these statements.

Statement of Operations

		For the fiscal year ended September 30, 1984 (dollars in thousands)
Revenues		
Separative work (note 1C(1)):		
Domestic	$ 815,997	
Foreign	676,940	
Government	139,989	$1,632,926
Uranium sales (note 1C (2)):		
Domestic	14,855	
Foreign	12,654	27,509
Gross revenue		**1,660,435**
Cost of Sales		
Separative work (note 1C(1))	1,042,661	
Uranium (note 1C(2))	19,206	1,061,867
Gross margin		**598,568**
Operating Expenses		
Process development:		
Centrifuge	85,131	
Diffusion	16,616	
Advanced isotope separation	96,599	198,346
Processing tails and storage	2,097	
Preparation of materials for shipment	3,892	
DOE administration	18,916	
Security investigations	3,679	
Community support	2,075	
Engineering and planning studies	8,094	
Depreciation (note 1D)	25,621	
Centrifuge support services	25,782	
Loss on asset retirement from cascade improvement program (note 3)	1,926	
Other	13,556	105,638
Total operating expenses		**303,984**
Operating income		**294,584**
Other Expenses		
Interest:		
Advance payments (note 1E)	27,334	
Government investment (note 2)	335,198	
Loss on unrecoverable capital investment (note 4)	1,200,000	1,562,532
Net (Loss)		**($1,267,948)**

The accompanying notes are an integral part of these statements.

Statement of Changes in Government Equity

	For the fiscal year ended September 30, 1984			
	Unexpended appropriations	Invested capital	Cumulative results of operations	Total equity
	(- - - - - - - - - dollars in thousands - - - - - - - - - -)			
Government equity, September 30, 1983	$ 833,429	$7,060,126	$ 563,250	$8,456,805
Net (loss)			(1,267,948)	(1,267,948)
Net appropriations (note 1B)	393,843	78,596		472,439
Interest on government investment (note 2)		598,244		598,244
Government transfers, net of collections:				
Separative work		(94,088)	94,088	
Uranium (note 1C(2))		(45,948)		(45,948)
Government equity, September 30, 1984	$1,227,272	$7,596,930	$ (610,610)	$8,213,592

The accompanying notes are an integral part of these statements.

Statement of Changes in Financial Position

	For the fiscal year ended September 30, 1984 (dollars in thousands)	
Resources Provided		
Net (loss)	($1,267,948)	
Add expenses not requiring working capital in the current period:		
Depreciation	88,704	
Interest accrued on advance payments	27,334	
Loss on disposition of assets	17,596	
Imputed interest	335,198	
Loss on unrecoverable capital investment	1,200,000	$400,884
Net appropriation		472,439
Decrease in accounts receivable due after one year		8,912
Decrease in uranium held for future use		225
Total resources provided		**882,460**
Resources Applied		
Additions to property, plant, and equipment		571,201
Decrease in long-term advances from customers		65,160
Government transfers of uranium		45,948
Total resources applied		**682,309**
Increase in Working Capital		**$200,151**
Increases (Decreases) in Components of Working Capital:		
Current assets		
Cash		$393,889
Trade accounts receivable		(228,672)
Inventory		(18,226)
Prepayments and deposits		(732)
Current liabilities		
Accounts payable and accrued expenses		16,149
Uranium provided by customers		1,364
Advances from customers		36,379
Increase in Working Capital		**$200,151**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

1. Description of Entity and Significant Accounting Policies

A. Description of Entity: Uranium Enrichment Activity (UEA) is part of the U.S. Department of Energy (DOE) devoted to the enrichment of uranium hexafluoride in the isotope U-235 for commercial power reactor operators and for government program users and does not exist as a separate legal entity. For financial reporting purposes, the entity is defined as those activities which provide enriching services to its customers. UEA prepares its financial statements by extracting and adjusting UEA-related accounts from the financial records of DOE and its contractors.

UEA is authorized by section 161v of the Atomic Energy Act of 1954, as amended, which requires the establishment of criteria setting forth the general terms and conditions applicable to the provision of uranium enrichment services. These criteria have been established by DOE. The act requires UEA to recover the government's costs over a reasonable period of time, which DOE has established to be the ensuing 10-year period.

B. Related Parties: UEA sells separative work to other DOE programs at a price which is less than sales to commercial customers. The difference, representing depreciation and imputed interest, reduces UEA's invested capital. For the year ended September 30, 1984, UEA recorded revenue of $140 million in separative work sold to other DOE programs and reduced UEA's invested capital by $94 million. UEA also transferred $46 million of uranium from the DOE stockpile to other DOE programs.

UEA receives annual congressional appropriations for operating and capital expenses which are offset by UEA revenue collected. For the year ended September 30, 1984, unexpended appropriations increased by $394 million to $1,227 million, and invested capital increased by $79 million.

The year-end fund balance in the U.S. Treasury, representing UEA unpaid obligations and other unexpended appropriations, is reported on the UEA balance sheet as "Funds in U.S. Treasury."

C. Inventories: UEA inventories consist of the following:

(1) Separative work units (SWUs) are a measure of the separation achieved in a uranium enrichment facility after separating a given quantity of uranium containing 0.71 percent U-235 (normal) into two components, one having a higher percentage of U-235 (enriched) and one having a lower percentage U-235 (depleted).

Customer-owned normal assay uranium is delivered to UEA enrichment facilities where it is processed (enriched). Unit costs of SWU in inventory and cost of sales are determined based on average costs. The SWU quantities in inventory and sales are determined based on an identification of the SWU in individual product cylinders. The SWU content for a given quantity of enriched uranium varies depending on the waste assay (tails) being withdrawn at the time the SWU is produced. Increasing the tails assay decreases the SWU content and increases the amount of normal feed required. Decreasing the tails assay has the reverse effect.

(2) Uranium consists of all government-owned and customer-supplied uranium at the gaseous diffusion plants. Some of it is included as a component of the preproduced enriched product. The government uranium is used to support the continuous feeding of the enrichment process and as supplemental feed.

Government-owned uranium available to UEA from the DOE stockpile may be utilized to produce enriched uranium at tails assays higher than contracted for by the customer. The government-owned feed utilized in this manner is referred to as "supplemental feed." During FY 1984, 739 metric tons of uranium which had been utilized as supplemental feed in prior years' operations were sold to commercial customers, and revenues in the amount of $27 million were recorded. Related costs of $19 million resulted in a net income from feed sales of $8 million. In addition, 1,767 metric tons of uranium with a cost of $46 million were transferred to other government programs without reimbursement and are treated as a reduction in invested capital.

One billion dollars worth of government-owned uranium at UEA facilities, in excess of current production needs but stockpiled for future use, is reported as an "other asset" on the UEA balance sheet. UEA's balance sheet also includes customer uranium supplied for enrichment valued at $1 billion as a current liability. UEA is committed to return equivalent material to its trade customers after enrichment services are performed.

(3) Production stores and process spare parts consist of items normally required to operate and maintain a large industrial complex. Production stores are expensed as consumed. Process spare parts are those items which are unique, require long lead times for reorder, and are critical to the continuity of plant operations. A reserve for obsolescence is established, and the costs of these items are charged to operations over a period representing the useful life of the process.

D. Depreciation: Depreciation expense is calculated on a straight-line basis in accordance with established standard service lives. The service life of buildings is 10 to 50 years; of equipment, 5 to 40 years.

E. Advances From Customers: Under the terms of toll-enriching contracts, customers are required to make a part of the SWU payment in advance of delivery. These advances are reported as a liability by UEA. As customers take product deliveries, the advance payments together with accumulated interest are given as credits. Revenue is earned at the time the advance payments are applied to a product delivery. Interest accrued on advance payment deposits is treated as an operating expense at the time accrued.

As of September 30, 1984, $195 million remained as the unearned portion and related interest earned on advance payments collected from toll-enriching customers. Of this amount, $64 million to be applied during the next 12 months is classified as a current liability. The remaining $131 million is classified as a long-term liability. Interest was accrued using the per annum rate established by DOE for general application in the determination of schedule adjustment charges and advance payments interest credits. For fiscal year 1984, this rate was 11.050 percent. Interest credits of $27 million were accrued for the period.

2. Interest on Government Investment

The calculation of imputed interest on government investment for the period is based on the average interest rate payable by the U.S. Treasury on its total marketable public obligations. For fiscal year 1984, the average rate was 11.052 percent. The imputed interest accrual follows.

	Dollars in thousands
Total interest accrued for the period	**$598,244**
Less interest capitalized on construction work-in-progress	(268,559)
Add amortization of interest on completed projects	5,513
Interest charged to operations	**$335,198**

3. Loss on Asset Retirement for Cascade Improvement Program

The $2 million loss represents the net book cost of plant and equipment retirements which occurred during the year in connection with the long-term cascade improvement program.

4. Loss on Unrecoverable Capital Investment

Because of the international forces of supply and demand, in 1984 UEA determined that it could not sell enriching services at a price which would recover the total remaining net investment in the enriching facilities and the associated imputed interest. Accordingly, a reserve for unrecoverable capital cost has been established as a reduction in gaseous diffusion plants and government equity. Costs in the amount of $1.2 billion are recognized on the fiscal year 1984 statement of operations as a loss. Effective April 1, 1984, a portion of depreciation expense determined to be representative of the unrecoverable costs is charged to the reserve and, therefore, is not included in the operating results for the period as presented on the statement of operations. Imputed interest on plant and equipment is based on the net investment less the balance of the reserve.

5. Pension Plans

Martin Marietta Energy Systems and Goodyear Atomic Corporation, operating contractors for the enrichment activity, have defined-benefit pension plans applicable to all employees. Costs of the plans are actuarially determined, and prior service costs applicable to the plans are being amortized over periods ranging from 10 to 15 years. DOE employees assigned to UEA contribute a percent of their salaries, which is matched by UEA and paid into the civil service retirement plan of the U.S. government. Total pension cost for fiscal year 1984 amounted to approximately $20 million.

6. Contingencies and Commitments

A. Construction Commitments: Total construction commitments as of September 30, 1984, of $305 million include capital equipment commitments of $20 million.

B. Power Commitments: Commitments under power contracts at fiscal year 1985 rates are:

	Demand charge	Energy charge	Total charge	Expiration date
	(dollars in billions)			
Tennessee Valley Authority	$ 2.8	$ 1.2	$ 4.0	6/30/95
Electric Energy Corporation	0.2	0.5	0.7	12/31/89
Ohio Valley Electric Corporation	0.5	1.7	2.2	10/14/92
Total	**$ 3.5**	**$ 3.4**	**$ 6.9**	

UEA is required to pay demand charges for contracted generating capacity even if no power is taken.

C. Decommissioning and Decontamination: The cost of decommissioning the gaseous diffusion facilities at the time of final shutdown, a schedule for facility final shutdown, the extent of decommissioning required, and how the costs might be shared between UEA and others are uncertain at this time. Included in this effort will be the disposal of large quantities of low-level radioactive waste. UEA presently stores large quantities of low-level radioactive waste in durable containers, which are maintained and guarded at a minimal cost. UEA management believes that this cost-effective method will be used well into the future. No provision has been made in the financial statements for decommissioning and decontamination costs and the ultimate disposal of waste.

D. Litigation: In December 1984, a suit was filed challenging the validity of UEA's new utility services contracts with customers for enrichment services. The plaintiffs sought declaratory and injunctive relief but no monetary damages. On September 19, 1985, the U.S. District Court issued a determination that the utility services contracts are void because the contracts were not consistent with DOE's enrichment service criteria. Also, DOE did not submit any necessary changes for the statutorily required 45-day notification period to the appropriate congressional oversight committees. The U.S. Department of Justice, on behalf of UEA, filed a notice of appeal on September 25, 1985. UEA management believes that resolution of the matter will not have a material effect on the September 30, 1984, financial statements. The effect of this action on UEA's future business, if any, cannot be determined at this time.

7. Significant Subsequent Events

A. On February 6, 1985, the Secretary of Energy approved a policy whereby 50 percent of the government-owned uranium inventory will be reserved for future defense needs. As a result, 26,500 metric tons of uranium, with a cost of $689 million, will be reclassified in the fiscal year 1985 financial statements from invested capital to a liability account for DOE defense programs.

B. On June 5, 1985, the Secretary of Energy decided the following:

--The Oak Ridge, Tennessee, gaseous diffusion plant would be placed on standby status by September 30, 1985.

--The gas centrifuge enrichment project was immediately discontinued.

--All development activities relative to the gas centrifuge process were immediately discontinued.

The impact of these decisions on UEA financial accounting and reporting is in the process of being evaluated and will be reflected as appropriate in the UEA financial statements for fiscal year 1985. The current estimate of these decisions is approximately a $3.7 billion charge to operations.

Schedules Reconciling Pricing Statements to GAAP Financial Statements

Balance Sheet

	September 30, 1984			
	Per pricing statements	Adjustments	Notes[a]	Per GAAP statements
	(- - - - - - dollars in thousands			- - - - -)
Assets				
Current assets				
Cash:				
Funds in U.S. Treasury	$ 0	$1,227,272	(1)	$1,227,272
Cash with contractors	11,230	(10,500)	(2)	730
	11,230	1,216,772		1,228,002
Trade accounts receivable:				
Domestic	29,681	(13,314)	(3)	16,367
Foreign	38,445			38,445
	68,126	(13,314)		54,812
Inventories:				
Separative work	1,642,315	448,660	(4)	2,090,975
Uranium	591,445	565,153	(4)	1,156,598
Production stores and process spare parts (net)	47,912			47,912
	2,281,672	1,013,813		3,295,485
Prepayments and deposits	5,500	10,500	(2)	16,000
Total current assets	**2,366,528**	**2,227,771**		**4,594,299**
Plant and equipment				
Completed plant and equipment	4,036,193	145,716	(5)	4,181,909
Less accumulated depreciation	1,990,536			1,990,536
Less reserve for unrecoverable capital cost	1,172,646			1,172,646
	873,011	145,716		1,018,727
Construction work in progress	2,310,162	598,016	(5)	2,908,178
Total plant and equipment	**3,183,173**	**743,732**		**3,926,905**
Other assets				
Uranium held for future use	0	1,002,175	(6)	1,002,175
Long-term accounts receivable, domestic	0	13,314	(3)	13,314
Total other assets	**0**	**1,015,489**		**1,015,489**
Total Assets	**$ 5,549,701**	**$3,986,992**		**$9,536,693**

	September 30, 1984			
	Per pricing statements	Adjustments	Notes[a]	Per GAAP statements
Liabilities and Government Equity				
Current liabilities				
Accounts payable and accrued expenses	$ 114,229	$ 0		$ 114,229
Uranium provided by customers	0	1,013,813	(4)	1,013,813
Advances from customers	195,059	(130,852)	(7)	64,207
Total current liabilities	**309,288**	**882,961**		**1,192,249**
Other liabilities				
Long-term advances from customers	0	130,852	(7)	130,852
Total liabilities	**309,288**	**1,013,813**		**1,323,101**
Contingencies and commitments				
Government equity				
Unexpended appropriations	0	1,227,272	(1)	1,227,272
Invested capital	5,469,563	2,127,367	(8)	7,596,930
Cumulative results of operations	(229,150)	(381,460)	(8)	(610,610)
Total government equity	**5,240,413**	**2,973,179**		**8,213,592**
Total Liabilities and Government Equity	**$5,549,701**	**$3,986,992**		**$9,536,693**

[a]See accompanying notes to adjustments as indicated by numbers in parentheses.

Statement of Operations

	For the fiscal year ended September 30, 1984			
	Per pricing statements	Adjustments	Notes[a]	Per GAAP statements
	(- - - - - - dollars in thousands - - - - - - -)			
Revenues				
Separative work:				
Domestic	$ 815,997			$ 815,997
Foreign	676,940			676,940
Government	234,077	($94,088)	(9)	139,989
	1,727,014	(94,088)		1,632,926
Uranium sales:				
Domestic	14,855			14,855
Foreign	12,654			12,654
Government	178,684	(178,684)	(9)	0
	206,193	(178,684)		27,509
Gross revenue	**1,933,207**	**(272,772)**		**1,660,435**
Cost of Sales				
Separative work	1,058,584	(15,923)	(10)	1,042,661
Uranium	65,154	(45,948)	(11)	19,206
	1,123,738	(61,871)		1,061,867
Gross margin	**809,469**	**(210,901)**		**598,568**
Operating Expenses				
Process development:				
Centrifuge	85,131			85,131
Diffusion	16,616			16,616
Advanced isotope separation	96,599			96,599
	198,346			198,346
Processing tails and storage	2,097			2,097
Preparation of materials for shipment	3,892			3,892
DOE administration	18,916			18,916
Security investigations	3,679			3,679
Community support	2,075			2,075
Engineering and planning studies	8,094			8,094
Depreciation	25,621			25,621
Interest on advance payments	27,334	(27,334)	(12)	0
Centrifuge support services	0	25,782	(13)	25,782
Loss on asset retirement from cascade improvement program	0	1,926	(14)	1,926
Other	43,256	(29,700)	(13)	13,556
	134,964	(29,326)		105,638
Total operating expenses	**333,310**	**(29,326)**		**303,984**
Operating income	**476,159**	**(181,575)**		**294,584**

Other Expenses

Interest:				
Advance payments	0	27,334	(12)	27,334
Government investment	599,412	(264,214)	(15)	335,198
Loss on asset retirement from cascade improvement program	1,926	(1,926)	(14)	0
Loss on unrecoverable capital investment	1,200,000			1,200,000
Total other expenses	1,801,338	(238,806)		1,562,532
Net (Loss)	($1,325,179)	$57,231	(16)	($1,267,948)

[a]See accompanying notes to adjustments as indicated by numbers in parentheses.

Notes to Adjustments

To convert UEA's fiscal year 1984 special purpose financial statements (published financial statements for pricing purposes) to general purpose statements in conformance with generally accepted accounting principles for the federal government,[1] the special statements were revised.

Balance Sheet

The balance sheet was prepared in a format for a manufacturing entity and identifies current assets and liabilities, plant and equipment, other assets and liabilities, and government equity. Specific adjustments were made as follows:

Current assets

(1) Funds in U.S. Treasury were added as cash and as unexpended appropriations in government equity ($1,227,272).

(2) Cash with contractors was reduced by $10,500 representing cash advanced to an operating contractor under a cost-type nonintegrated contract. This amount is to be collected by UEA by offset against cost reimbursement invoices. This amount was reclassified as prepayments and deposits.

(3) Trade accounts receivable expected to be collected after one year ($13,314) was reclassified as an "other asset."

(4) Uranium and separative work inventories were increased by $1,013,813 to include customer provided material. A liability for the return of this material was also shown.

Plant and equipment

(5) Construction work-in-progress was increased by $743,732 to reflect capitalization of interest in accordance with generally accepted accounting principles from the effective date of October 1, 1980, less $145,716 in capitalized interest for completed construction work.

Other assets

(6) Uranium held for future use ($1,002,175) was added and represents DOE-owned uranium in excess of current UEA needs.

Current liabilities

(7) Advances from customers expected to be applied after 1 year ($130,852) were reclassified as long-term.

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[1]Title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies.

Government equity

(8) Adjustment to government equity

	Unexpended appropriations	Invested capital	Cumulative results of operations	Total equity
	(- - - - - - - dollars in	thousands - - - - - - -)		
Published Pricing Statements, 9/30/84	**$ 0**	**$5,469,563**	**($229,150)**	**$5,240,413**
Add:				
Unexpended appropriations, 9/30/84	1,227,272			1,227,272
Uranium held for future use		1,002,175		1,002,175
Interest capitalized on construction work-in-progress			743,732	743,732
Cumulative profit on commercial uranium sales		(153,161)	153,161	
Conway formula depreciation expense not included in price (1970-1975)		105,086	(105,086)	
Reclassify transfers		(10,810)	10,810	
Transfer unrecoverable capital costs to fiscal year 1984 operations		1,200,000	(1,200,000)	
Receipts of uranium from customers in excess of operating requirements		(15,923)	15,923	
Subtotal	**1,227,272**	**2,127,367**	**(381,460)**	**2,973,179**
GAAP Statements, 9/30/84	**$1,227,272**	**$7,596,930**	**($610,610)**	**$8,213,592**

Income Statement

(9) Revenues were reduced to eliminate DOE imputed revenue for separative work ($94,088) and for uranium sales ($178,684) to other government programs.

(10) Cost of sales for separative work was reduced by $15,923 for receipts of uranium from customers in excess of operating requirements.

(11) Cost of sales for uranium was reduced by $45,948 for the cost of uranium delivered to DOE as a reduction of government equity.

(12) Interest on advance payments was reclassified as an "other expense" (financing cost).

(13) Operating expenses were reduced by $3,918 for transfers and adjustments between DOE and UEA, and $25,782 was reclassified from other operating expense to centrifuge support services expense.

(14) Loss on asset retirement from cascade improvement program of $1,926 was reclassified to operating expenses from other expenses.

(15) Interest on government investment was reduced by $263,046 to reflect interest capitalized on construction work-in-progress for fiscal year 1984 and by $1,168 to adjust the 1984 interest accrual.

(16) Net (loss) was the cumulative effect of changes (9) to (15), which resulted in a $57,231 reduction in the fiscal year 1984 loss.

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