



UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

**OFFICE OF THE
INSPECTOR GENERAL**

November 9, 2011

MEMORANDUM TO: Chairman Jaczko

FROM: Hubert T. Bell **/RA/**
Inspector General

SUBJECT: RESULTS OF THE AUDIT OF THE UNITED STATES
NUCLEAR REGULATORY COMMISSION'S FINANCIAL
STATEMENTS FOR FISCAL YEAR 2011 (OIG-12-A-03)

The Chief Financial Officers Act of 1990, as amended (CFO Act), requires the Inspector General (IG) or an independent external auditor, as determined by the IG, to annually audit the United States Nuclear Regulatory Commission's (NRC) financial statements in accordance with applicable standards. In compliance with this requirement, the Office of the Inspector General (OIG) retained Urbach Kahn & Werlin, LLP, which merged with Clifton Gunderson, LLP (CG), to conduct this annual audit. Transmitted with this memorandum are the following CG reports:

- Opinion on the Principal Statements.
- Opinion on Internal Control.
- Compliance with Laws and Regulations.

NRC's Performance and Accountability Report includes comparative financial statements for FY 2011 and FY 2010. Therefore, it is important to note that Urbach Kahn & Werlin, LLP, performed the audit of NRC's FY 2010 financial statements. CG performed the audit of NRC's FY 2011 financial statements.

Objective of a Financial Statement Audit

The objective of a financial statement audit is to determine whether the audited entity's financial statements are free of material misstatement. An audit 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.

CG's audit and examination were made in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. The audit included, among other things, obtaining an understanding of NRC and its operations, including internal control over financial reporting; evaluating the design and operating effectiveness of internal control and assessing risk; and testing relevant internal controls over financial reporting. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

FY 2011 Audit Results

The results are as follows:

Financial Statements

- Unqualified opinion

Internal Controls

- Unqualified opinion

Compliance with Laws and Regulations

- No reportable instances of noncompliance/no substantial noncompliance noted

Office of the Inspector General Oversight of CG Performance

To fulfill our responsibilities under the CFO Act and related legislation for oversight of the quality of the audit work performed, we monitored CG's audit of NRC's FY 2011 financial statements by:

- Reviewing CG's audit approach and planning.
- Evaluating the qualifications and independence of CG's auditors.
- Monitoring audit progress at key points.

- Examining the working papers related to planning and performing the audit and assessing NRC's internal controls.
- Reviewing CG's audit reports for compliance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended.
- Coordinating the issuance of the audit reports.
- Performing other procedures deemed necessary.

CG is responsible for the attached auditor's reports, dated November 7, 2011, and the conclusions expressed therein. OIG is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight, as differentiated from an audit in conformance with *Government Auditing Standards*, was not intended to enable us to express, and accordingly we do not express, an opinion on:

- NRC's financial statements.
- The effectiveness of NRC's internal control over financial reporting.
- NRC's compliance with laws and regulations.

However, our monitoring review, as described above, disclosed no instances where CG did not comply, in all material respects, with applicable auditing standards.

Meeting with the Chief Financial Officer

At the exit conference on November 8, 2011, representatives of the Office of the Chief Financial Officer, OIG, and CG discussed the results of the audit.

Comments of the Chief Financial Officer

In his response, the Chief Financial Officer (CFO) agreed with the report. The full text of the CFO's response follows this report.

We appreciate NRC staff's cooperation and continued interest in improving financial management within NRC.

Attachment: As stated

cc: Commissioner Svinicki
 Commissioner Apostolakis
 Commissioner Magwood
 Commissioner Ostendorff
 N. Mamish, OEDO
 K. Brock, OEDO
 C. Jaegers, OEDO



INDEPENDENT AUDITOR'S REPORT

Inspector General
United States Nuclear Regulatory Commission

Chairman
United States Nuclear Regulatory Commission

In our audit of the United States Nuclear Regulatory Commission (NRC) for fiscal year 2011, we found:

- The financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.
- The NRC maintained, in all material respects, effective internal control over financial reporting.
- We noted no reportable instances of noncompliance with federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transaction level.
- We noted no reportable instances of noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions and our conclusions relating to other information presented in the Management's Discussion and Analysis and other supplementary information, (2) management's responsibilities, and (3) our objectives, scope and methodology.

Opinion on the Financial Statements

In our opinion, the financial statements including the accompanying notes present fairly, in all material respects, the financial position of the NRC as of September 30, 2011 and 2010, and its net cost, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America. The financial statements of NRC as of September 30, 2010 were audited by Urbach Kahn & Werlin LLP, which practice was acquired by Clifton Gunderson LLP by merger on March 22, 2010. Urbach Kahn & Werlin LLP's report dated November 7, 2010, expressed an unqualified opinion on those financial statements.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

Opinion on Internal Control

In our opinion, the NRC maintained, in all material respects, effective control over financial reporting as of September 30, 2011, that provided reasonable assurance that misstatements, losses or noncompliance material in relation to the financial statements would be prevented, or detected and corrected, on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 (c), (d), the Federal Managers' Financial Integrity Act (FMFIA), and the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, and Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government*, as required by OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

Compliance with Laws and Regulations

Under the Federal Financial Management Improvement Act (FFMIA), we are required to report whether the NRC's financial management systems substantially comply with federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level. To meet this requirement, we performed tests of compliance with the provisions of FFMIA Section 803(a). The results of our tests disclosed no substantial noncompliance with federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level.

The results of our tests of compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Other Information

The information in Management's Discussion and Analysis and other Required Supplementary Information in NRC's Performance and Accountability Report 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The Program Performance and Other Accompanying Information sections listed in the Table of Contents are presented for additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

Management Responsibilities

Management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, (2) establishing and maintaining effective internal control over financial reporting, and evaluating its effectiveness, (3) ensuring that the NRC's financial management systems substantially comply with FFMIA requirements, and (4) complying with applicable laws and regulations. NRC management evaluated the effectiveness of NRC's internal control over financial reporting as of September 30, 2011, based on criteria established under FMFIA. NRC management's assurances are included in the Management's Discussion and Analysis.

Objectives, Scope and Methodology

We are responsible for planning and performing our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 are responsible for planning and performing our examination to obtain reasonable assurance about whether management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011. Our examination included obtaining an understanding of NRC and its operations, including internal control over financial reporting; considering NRC's process for evaluating and reporting on internal control over financial reporting which the NRC is required to perform by FMFIA; assessing the risk that a material misstatement exists in the financial statements and the risk that a material weakness exists in internal control over financial reporting; evaluating the design and operating effectiveness of internal control and assessing risk; testing relevant internal controls over financial reporting; and performing such other procedures as we considered necessary in the circumstances. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with the laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements. We did not test compliance with all laws and regulations applicable to the NRC. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2011. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We conducted our audit and examinations in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. We believe that our audit and examinations provide a reasonable basis for our opinions.

We noted less significant matters involving the NRC's internal control and its operation, which we have reported to agency management separately.

Distribution

This report is intended solely for the information and use of the NRC Office of Inspector General, the management of NRC, OMB, the GAO, and the United States Congress, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Clifton Henderson LLP".

Arlington, Virginia
November 7, 2011



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A handwritten signature in black ink that reads "Clifton Henderson LLP". The signature is written in a cursive, flowing style.

Arlington, Virginia
November 7, 2011

NRC Fiscal Year 2011 Financial Statements and Notes

(Extracted from NRC's Fiscal Year 2011 Performance and Accountability Report)

PRINCIPAL STATEMENTS

BALANCE SHEET *(In Thousands)*

As of September 30,	2011	2010
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	\$ 394,580	\$ 420,080
Accounts receivable (Note 3)	8,287	7,674
Other-Advances and prepayments	3,681	3,073
Total intragovernmental	406,548	430,827
Accounts receivable, net (Note 3)	92,009	123,242
Property and equipment, net (Note 4)	46,542	36,231
Other	41	25
Total Assets	\$ 545,140	\$ 590,325
Liabilities		
Intragovernmental		
Accounts payable	\$ 13,554	\$ 13,876
Other (Note 5)	4,010	5,986
Total intragovernmental	17,564	19,862
Accounts payable	29,648	26,666
Federal employee benefits (Note 6)	7,245	7,575
Other (Note 5)	75,158	106,041
Total Liabilities	129,615	160,144
Net Position		
Unexpended appropriations	310,332	311,869
Cumulative results of operations (Note 8)	105,193	118,312
Total Net Position	415,525	430,181
Total Liabilities and Net Position	\$ 545,140	\$ 590,325

The accompanying notes to the principal statements are an integral part of this statement.

STATEMENT OF NET COST *(In Thousands)*

For the years ended September 30,	2011	2010
Nuclear Reactor Safety and Security		
Gross costs	\$ 857,569	\$ 882,591
Less: Earned revenue	(786,741)	(836,303)
Total Net Cost of Nuclear Reactor Safety and Security (Note 9)	70,828	46,288
Nuclear Materials and Waste Safety and Security		
Gross costs	239,350	257,862
Less: Earned revenue	(101,919)	(87,178)
Total Net Cost of Nuclear Materials and Waste Safety and Security (Note 9)	137,431	170,684
Net Cost of Operations	\$ 208,259	\$ 216,972

The accompanying notes to the principal statements are an integral part of this statement.

STATEMENT OF CHANGES IN NET POSITION *(In Thousands)*

For the years ended September 30,	2011	2010
Cumulative Results of Operations		
Beginning Balance	\$ 118,312	\$ 128,359
Budgetary Financing Sources		
Appropriations used (Note 11)	134,626	137,113
Non-exchange revenue (Note 11)	-	-
Transfers-in/out without reimbursement	9,980	29,000
Other Financing Sources		
Imputed financing from costs absorbed by others (Note 11)	50,534	40,812
Total Financing Sources	195,140	206,925
Net Cost of Operations	(208,259)	(216,972)
Net Change	(13,119)	(10,047)
Cumulative Results of Operations	\$ 105,193	\$ 118,312
Unexpended Appropriations		
Beginning Balance	\$ 311,869	\$ 338,637
Budgetary Financing Sources		
Appropriations received	133,346	128,345
Other adjustments (Rescissions)	(257)	(18,000)
Appropriations used (Note 11)	(134,626)	(137,113)
Total Budgetary Financing Sources	(1,537)	(26,768)
Total Unexpended Appropriations	310,332	311,869
Net Position	\$ 415,525	\$ 430,181

The accompanying notes to the principal statements are an integral part of this statement.

STATEMENT OF BUDGETARY RESOURCES *(In Thousands)*

For the years ended September 30,	2011	2010
Budgetary Resources		
Unobligated balance, brought forward, October 1	\$ 44,699	\$ 81,126
Recoveries of prior year unpaid obligations		
Actual	18,841	22,446
Budget authority		
Appropriation	1,054,219	1,066,859
Spending authority from offsetting collections		
Reimbursements earned-collected	12,439	10,086
Reimbursements earned-change in receivables	946	(424)
Change in unfilled customer orders-advance received	(3,506)	1,198
Change in unfilled customer orders-without advance	4,614	493
Subtotal-spending authority from offsetting collections	14,493	11,353
Permanently not available	(257)	(18,000)
Total Budgetary Resources	\$ 1,131,995	\$ 1,163,784
Status of Budgetary Resources		
Obligations incurred (Note 12)		
Direct	\$1,078,667	\$ 1,108,948
Reimbursable	4,818	10,137
Subtotal	1,083,485	1,119,085
Unobligated balance		
Apportioned	28,853	29,744
Exempt from apportionment	9,892	7,079
Subtotal	38,745	36,823
Unobligated balance, not available	9,765	7,876
Total Status of Budgetary Resources	\$1,131,995	\$ 1,163,784
Change in Obligated Balance		
Obligated balance, net		
Unpaid obligations brought forward, October 1	\$ 375,381	\$ 367,498
Obligations incurred, net	1,083,485	1,119,085
Gross outlays	(1,088,396)	(1,088,687)
Recoveries of prior year unpaid obligations, actual	(18,841)	(22,446)
Change in uncollected customer payments, from Federal sources	(5,560)	(69)
Obligated balance, net, end of period		
Unpaid obligations	359,402	383,154
Uncollected customer payments, from Federal sources	(13,333)	(7,773)
Total unpaid obligated balance, net, end of period	\$ 346,069	\$ 375,381
Net outlays		
Gross outlays	\$1,088,396	\$ 1,088,687
Offsetting collections	(8,933)	(11,284)
Distributed offsetting receipts	(910,901)	(909,514)
Net Outlays	\$ 168,562	\$ 167,889

The accompanying notes to the principal statements are an integral part of this statement.



NOTES TO THE PRINCIPAL STATEMENTS

(All Tables are Presented in Thousands)

Note 1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The U.S. Nuclear Regulatory Commission (NRC) is an independent regulatory agency of the Federal Government that was created by the U.S. Congress to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of the public health and safety, to promote the common defense and security, and to protect the environment. Its purposes are defined by the *Energy Reorganization Act of 1974*, as amended, along with the *Atomic Energy Act of 1954*, as amended, which provide the foundation for regulating the Nation's civilian use of nuclear materials.

The NRC operates through the execution of its congressionally approved appropriations for Salaries and Expenses (which includes funds derived from the Nuclear Waste Fund) and the Office of the Inspector General. In addition, the U.S. Agency for International Development (USAID) provides transfer appropriations to develop nuclear safety, regulatory authorities, and independent oversight of nuclear reactors in Russia, Ukraine, Kazakhstan, Georgia, and Armenia.

B. Basis of Presentation

These principal statements report the financial position and results of operations of the NRC as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. These financial statements were prepared from the books and records of the NRC in conformance with generally accepted accounting principles (GAAP) of the United States and

the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Circular No. A-136, "Financial Reporting Requirements." GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is the official body for setting the accounting standards of the U.S. Government. These statements are, therefore, different from the financial reports, also prepared by the NRC pursuant to OMB directives, which are used to monitor and control the NRC's use of budgetary resources.

The NRC has not presented a Statement of Custodial Activity because the amounts involved are immaterial and incidental to its operations and mission.


C. Budgets and Budgetary Accounting

Budgetary accounting measures appropriation and consumption of budget spending authority or other budgetary resources and facilitates compliance with legal constraints and controls over the use of Federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of purchase. Assets and liabilities, which do not consume current budgetary resources, are not reported, and only those liabilities for which valid obligations have been established are considered to consume budgetary resources.

For the past 37 years, Congress has enacted no-year appropriations, which are available for obligation by the NRC until expended. The *Department of Defense and Full-Year Continuing Appropriations Act, 2011* requires the NRC to recover approximately 90 percent of its new budget authority by assessing fees for licensing and inspection activities.

D. Basis of Accounting

These financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred,



without regard to receipt or payment of cash. Budgetary accounting is also used to record the obligation of funds prior to the accrual-based transaction. The Statement of Budgetary Resources presents budgetary resources available to the NRC and changes in obligations during the year. Interest on borrowings of the U.S. Department of the Treasury (Treasury) is not included as a cost to NRC programs and is not included in the accompanying financial statements.

E. Revenues and Other Financing Sources

The NRC is required to offset its appropriations by revenue received during the fiscal year from the assessment of fees. The NRC assesses two types of fees to recover its budget authority: (1) fees assessed under Title 10 of the *Code of Federal Regulations* (10 CFR) Part 170, "Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services under the *Atomic Energy Act of 1954*, as Amended," for licensing, inspection, and other services under the authority of the *Independent Offices Appropriation Act of 1952* to recover the NRC's costs of providing individually identifiable services to specific applicants and licensees; and (2) annual fees assessed for nuclear facilities and materials licensees under 10 CFR Part 171, "Annual Fees for Reactor Licenses and Fuel Cycle Licenses and Material Licenses." Licensing revenues are recognized on a straight-line basis over the licensing period. The annual licensing period for reactor and materials fees begins October 1 and ends September 30. Annual fees for reactors are invoiced in four quarterly installments, before the end of each quarter. The materials annual fee is invoiced in the month the license was originally issued. Inspection fees are recorded as revenues when the services are performed.

For accounting purposes, appropriations are recognized as financing sources (appropriations used) at the time goods and services are received. At the end of the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the

extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations. Appropriations expended for property and equipment are recognized as expenses when the asset is consumed in operations as reflected by depreciation and amortization expense.

F. Fund Balance with Treasury

The NRC's cash receipts and disbursements are processed by the Treasury. The Fund Balance with Treasury is primarily appropriated funds that are available to pay current liabilities and to finance authorized purchase commitments. Fund Balance with Treasury represents the NRC's right to draw on the Treasury for allowable expenditures.

G. Accounts Receivable


Accounts receivable consist of amounts owed to the NRC by other Federal agencies and the public. Amounts due from the public are presented net of an allowance for uncollectible accounts. The allowance is determined based on the age of the receivable and allowance rates established from historical experience. Receivables from Federal agencies are expected to be collected; therefore, there is no allowance for uncollectible accounts for Federal agencies.

H. Non-Entity Assets

Non-entity assets consist of miscellaneous penalties and interest due from the public, which, when collected, must be transferred to the Treasury.

I. Property and Equipment

Property and equipment consist primarily of typical office furnishings, leasehold improvements, nuclear reactor simulators, and computer hardware and software. The costs of internal use software include the full cost of salaries and benefits for agency personnel involved in software development. The NRC has no real property.



The land and buildings in which the NRC operates are provided by the General Services Administration (GSA), which charges the NRC rent that approximates the commercial rental rates for similar properties.

Property with a cost of \$50 thousand or more per unit and a useful life of two years or more is capitalized at cost and depreciated using the straight-line method over the useful life. Other property items are expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

J. Accounts Payable

The NRC uses an estimation methodology to calculate the accounts payable balance which represents costs for billed and unbilled goods and services received (prior to year end) that are unpaid. The NRC had previously used an estimation methodology to calculate the accounts payable balance based on a review of the sample obligations from the total open obligations balances. For Fiscal Year 2011, the NRC calculates the accounts payable amount using an average based on historical trend of validated accruals. The estimation methodology is validated quarterly.

K. Liabilities Not Covered by Budgetary Resources

Liabilities represent the amount of monies or other resources that are likely to be paid by the NRC as the result of a transaction or event that has already occurred. No liability can be paid by the NRC absent an appropriation. Liabilities for which an appropriation has not been enacted are classified as "Liabilities Not Covered by Budgetary Resources." Also, the NRC liabilities arising from sources other than contracts can be abrogated by the Government acting in its sovereign capacity.

Intragovernmental

The NRC records a liability to the U.S. Department of Labor (DOL) for *Federal Employees Compensation Act* (FECA) benefits paid by DOL on behalf of the NRC.

Federal Employee Benefits

Federal employee benefits represent the actuarial liability for estimated future FECA disability benefits. The future workers' compensation estimate was generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is calculated using historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These projected annual benefit payments are discounted to present value. The interest rate assumptions utilized for discounting benefits are 3.54 percent and 4.03 percent for FY 2011 and 3.65 percent and 4.22 percent for FY 2010.

Other

Accrued annual leave represents the amount of annual leave earned by NRC employees but not yet taken.

L. Contingencies

Contingent liabilities are those for which the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The NRC is a party to various administrative proceedings, legal actions, environmental suits, and claims brought by or against it. Based on the advice of legal counsel concerning contingencies, it is the opinion of management that the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the agency's financial statements. As of September 30, 2011, NRC was a party to one case where an adverse outcome was reasonably possible. The upper range of the loss on this potential liability is \$150 thousand. As of September 30, 2010, the NRC was a party to one case where an adverse outcome was probable (\$11.8 million) and one case where an adverse outcome was reasonably possible (upper range of \$150 thousand). Treasury's Judgment Fund paid out on the \$11.8 million FY 2010 contingent liability in FY 2011.

M. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent that current or prior year funding is not available to cover annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

N. Retirement Plans

The NRC employees belong to either the Federal Employees Retirement System (FERS) or the Civil Service Retirement System (CSRS). For FY 2011 and FY 2010, for employees belonging to FERS, the NRC withheld 0.8 percent of base pay earnings, in addition to *Federal Insurance Contributions Act* (FICA) withholdings, and matched the withholdings with an 11.5 percent contribution. The sum is transferred to the Federal Employees Retirement Fund. For employees covered by CSRS, the NRC withholds 7 percent of base pay earnings. The NRC matched this withholding with a 7 percent contribution in FY 2011 and FY 2010.

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for employees belonging to either FERS or CSRS. The maximum percentage of base pay that an employee participating in FERS or CSRS may contribute is unlimited, subject to the maximum contribution of \$16.5 thousand in 2011 and \$16.5 thousand in 2010. For employees participating in FERS, the NRC automatically contributes one percent of base pay to their account and matches contributions up to an additional 4 percent. For employees participating in CSRS, there is no NRC matching of the contribution. The sum of the employees' and NRC's contributions are transferred to the Federal Retirement Thrift Investment Board.

The NRC does not report on its financial statements FERS and CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the U.S. Office of Personnel Management. The portion of the current and estimated future outlays for CSRS not paid by the NRC is included in NRC's financial statements as an imputed financing source in NRC's Statement of Changes in Net Position and as program costs on the Statement of Net Cost.


O. Leases

The NRC's capital leases are for personal property consisting of reproduction equipment which is installed at NRC headquarters. For FY 2011, there are six capital leases with terms of five years, consisting of two capital leases added in FY 2011 with an interest rate of 1.26 percent, two capital leases added in FY 2008 with an interest rate of 3.99 percent, and two capital leases that were added in FY 2007 with an interest rate of 4.58 percent. The reproduction equipment is depreciated over five years using the straight-line method with no salvage value.

Operating leases consist of real property leases with GSA. The leases are for NRC's headquarters and regional offices. The GSA charges the NRC lease rates which approximate commercial rates for comparable space.

P. Pricing Policy

The NRC provides nuclear reactor and materials licensing and inspection services to the public and other Government entities. In accordance with OMB Circular No. A-25, "User Charges," and the *Independent Offices Appropriation Act of 1952*, the NRC assesses fees under 10 CFR Part 170 for licensing and inspection activities to recover the full cost of providing individually identifiable services.



The NRC's policy is to recover the full cost of goods and services provided to other Government entities where the services performed are not part of its statutory mission and the NRC has not received appropriations for those services. Fees for reimbursable work are assessed at the 10 CFR Part 170 rate with minor exceptions for programs that are nominal activities of the NRC.

Q. Net Position

The NRC's net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent appropriated spending authority that is unobligated and has not been withdrawn by the Treasury and obligations that have not been paid. Cumulative results of operations represent the excess of financing sources over expenses since inception.

R. Use of Management Estimates

The preparation of the accompanying financial statements in accordance with Generally Accepted Accounting Principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

S. Appropriation Transfers

The NRC is a party to allocation transfers with the USAID as a receiving (child) entity. These transfers are for the international development of nuclear safety and regulatory authorities in Russia, Ukraine, Kazakhstan, Georgia, and Armenia for the startup, operation, shutdown, and decommissioning of Soviet-designed nuclear power plants; the safe and secure use of radioactive materials; and the accounting for and protection of nuclear materials. Allocation transfers are legal delegations by one agency of its authority to obligate budget authority and outlay funds to another agency. All financial activity

related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations, and budget apportionments are derived. The NRC receives allocation transfers, as the child, from USAID.

T. Statement of Net Cost

The programs as presented on the Statement of Net Cost are based on the annual performance budget and are described as follows:

The Nuclear Reactor Safety and Security Program encompasses all of the NRC efforts to ensure that civilian nuclear power reactor facilities and research and test reactors are licensed and operated in a manner that adequately protects the public health and safety, and the environment, and protects against radiological sabotage and theft or diversion of special nuclear materials. The Nuclear Reactor Safety and Security program contains the following activities: operating reactors and new reactors.

The Nuclear Materials and Waste Safety and Security program encompasses all NRC efforts to protect the public health and safety and the environment and ensures the secure use and management of radioactive materials. The Nuclear Materials and Waste Safety and Security program contains the following activities: fuel facilities, nuclear materials users, decommissioning and low-level waste, spent fuel storage and transportation, and high-level waste repository.

For intragovernmental gross costs, the buyers and sellers are both Federal entities. For earned revenues from the public, the buyers of the goods or services are non-Federal entities.

Note 2. **FUND BALANCE WITH TREASURY**

	2011	2010
Fund Balances		
Appropriated funds	\$ 379,586	\$ 400,435
Nuclear Waste Fund	15,098	19,645
Other fund types	(104)	-
Total	\$ 394,580	\$ 420,080
Status of Fund Balance with Treasury		
Unobligated balance		
Available		
Appropriated funds	\$ 38,745	\$ 36,823
Unavailable	9,765	7,876
Obligated balance not yet disbursed	346,069	375,381
Non-budgetary funds with Treasury	1	-
Total	\$ 394,580	\$ 420,080

The Fund Balance with Treasury consists of unobligated and obligated balance budgetary accounts. It includes Nuclear Waste Fund activity. The Nuclear Waste Fund unobligated balance is \$9.9 million and \$7.1 million as of September 30, 2011, and 2010, respectively.

Note 3. **ACCOUNTS RECEIVABLE**

	2011	2010
Intragovernmental		
Fee receivables and reimbursements	\$ 8,287	\$ 7,674
Receivables with the Public		
Materials and facilities fees-billed	\$ 13,107	\$ 2,611
Materials and facilities fees-unbilled	83,189	123,416
Other	180	77
Total Receivables with the Public	96,476	126,104
Less: Allowance for uncollectible accounts	(4,467)	(2,862)
Total Receivables with the Public, Net	\$ 92,009	\$ 123,242
Total Accounts Receivable	\$ 104,763	\$ 133,778
Less: Allowance for uncollectible accounts	(4,467)	(2,862)
Total Accounts Receivable, Net	\$ 100,296	\$ 130,916

Note 4. **PROPERTY AND EQUIPMENT, NET**

Fixed Assets Class	Service Years	Acquisition Value	Accumulated Depreciation and Amortization	2011 Net Book Value	2010 Net Book Value
Equipment	5-8	\$ 12,942	\$ (11,329)	\$ 1,613	\$ 1,941
Leased equipment	5-8	1,806	(1,157)	649	558
IT software	5	52,855	(42,798)	10,057	8,067
IT software under development	5	4,104	-	4,104	5,153
Leasehold improvements	20	44,437	(29,309)	15,128	14,040
Leasehold improvements in progress	-	14,991	-	14,991	6,472
Total		\$ 131,135	\$ (84,593)	\$ 46,542	\$ 36,231

Note 5. **OTHER LIABILITIES**

	2011	2010
Intragovernmental		
Liability to offset miscellaneous accounts receivable	\$ 60	\$ 6
Liability for advances from other agencies	81	82
Accrued workers' compensation	1,753	1,719
Accrued unemployment compensation	37	31
Employee benefit contributions	2,079	4,148
Total Intragovernmental Other Liabilities	\$ 4,010	\$ 5,986
Other Liabilities		
Accrued annual leave	\$ 49,918	\$ 50,413
Accrued salaries and benefits	9,138	26,621
Contract holdbacks, advances, capital lease liability, and other	5,344	7,391
Contingent liabilities	-	11,750
Grants payable	10,758	9,866
Total Other Liabilities	\$ 75,158	\$ 106,041
Total Intragovernmental and Other Liabilities	\$ 79,168	\$ 112,027

Other liabilities are current except for capital lease liability (Note 7).

Note 6. **LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

	2011	2010
Intragovernmental		
FECA paid by DOL	\$ 1,753	\$ 1,719
Accrued unemployment compensation	37	31
Federal Employee Benefits		
Future FECA	7,245	7,575
Other		
Accrued annual leave	49,918	50,413
Contingent liabilities	-	11,750
Total Liabilities not Covered by Budgetary Resources	58,953	71,488
Total Liabilities Covered by Budgetary Resources	70,662	88,656
Total Liabilities	\$ 129,615	\$ 160,144

Liabilities not Covered by Budgetary Resources represents the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 2011, and 2010. These liabilities are not funded from current or prior-year appropriations and assessments, but rather should be funded from future appropriations and assessments. Accordingly, future funding requirements have been recognized for the expenses that will be paid from future appropriations.

Note 7. **LEASES**

	2011	2010
Assets under capital leases:		
Copiers and booklet maker	\$ 1,806	\$ 1,712
Accumulated depreciation	(1,157)	(1,154)
Net assets under capital leases	\$ 649	\$ 558
	2011	2010
Future Lease Payments Due:		
Fiscal Year		
2011	\$ -	\$ 31,647
2012	393	29,852
2013	105	24,754
2014	92	10,546
2015	93	7,603
2016 and thereafter	-	31,595
Total Lease Liability	683	135,997
Add: Imputed Interest	17	27
Total Future Lease Payments	\$ 700	\$ 136,024

The Capital Lease Liability of \$683 thousand is included in Other Liabilities (Note 5).

Note 8. **CUMULATIVE RESULTS OF OPERATIONS**

	2011	2010
Liabilities not covered by budgetary resources (Note 6)	\$ (58,953)	\$ (71,488)
Investment in property and equipment, net (Note 4)	46,542	36,231
Contributions from foreign cooperative research agreements	3,997	3,632
Nuclear Waste Fund	15,024	19,592
Accounts receivable - fees	98,660	130,300
Fee collection revenue not transferred	(104)	-
Other	27	45
Cumulative Results of Operations	\$ 105,193	\$ 118,312

Note 9. **STATEMENT OF NET COST**

For the years ended September 30,	2011	2010
Nuclear Reactor Safety and Security		
Intragovernmental gross costs	\$ 257,924	\$ 272,871
Less: Intragovernmental earned revenue	(59,332)	(54,270)
Intragovernmental net costs	198,592	218,601
Gross costs with the public	599,644	609,720
Less: Earned revenues from the public	(727,408)	(782,033)
Net costs with the public	(127,764)	(172,313)
Total Net Cost of Nuclear Reactor Safety and Security	\$ 70,828	\$ 46,288
Nuclear Materials and Waste Safety and Security		
Intragovernmental gross costs	\$ 71,987	\$ 64,260
Less: Intragovernmental earned revenue	(7,686)	(7,314)
Intragovernmental net costs	64,301	56,946
Gross costs with the public	167,363	193,602
Less: Earned revenues from the public	(94,233)	(79,864)
Net costs with the public	73,130	113,738
Total Net Cost of Nuclear Materials and Waste Safety and Security	\$ 137,431	\$ 170,684

Note 10. **EXCHANGE REVENUES**

	2011	2010
Fees for licensing, inspection, and other services	\$ 879,208	\$ 912,794
Revenue from reimbursable work	9,452	10,687
Total Exchange Revenues	\$ 888,660	\$ 923,481

Note 11. **FINANCING SOURCES OTHER THAN EXCHANGE REVENUE**

	2011	2010
Appropriations Used		
Collections were used to reduce the fiscal year's appropriations recognized:		
Funds consumed	\$ 1,060,178	\$ 1,079,739
Less: Collection from fees assessed	(911,004)	(909,514)
Less: Nuclear Waste Funding expense	(14,548)	(33,112)
Total Appropriations Used	\$ 134,626	\$ 137,113

Funds consumed include \$44.7 million and \$81.1 million through September 30, 2011, and 2010 respectively, of available funds from prior years.

	2011	2010
Non-Exchange Revenue		
Civil penalties	\$ 98	\$ 590
Miscellaneous receipts	172	879
Contra-Revenue	(270)	(1,469)
Total Non-Exchange Revenue	\$ -	\$ -

	2011	2010
Imputed Financing		
Civil Service Retirement System	\$ 16,541	\$ 19,895
Federal Employee Health Benefit	21,245	20,825
Federal Employee Group Life Insurance	92	92
Judgments/Awards	12,656	-
Total Imputed Financing	\$ 50,534	\$ 40,812

Note 12. **TOTAL OBLIGATIONS INCURRED**

	2011	2010
Direct Obligations		
Category A	\$ 1,071,326	\$ 1,079,158
Exempt from Apportionment	7,341	29,790
Total Direct Obligations	1,078,667	1,108,948
Reimbursable Obligations	4,818	10,137
Total Obligations Incurred	\$ 1,083,485	\$ 1,119,085

Obligations exempt from apportionment are the result of funds derived from the Nuclear Waste Fund. Category A Obligations consist of NRC appropriations only. Undelivered orders for the Nuclear Waste Fund are \$5.0 million and \$12.5 million, Salaries and Expenses \$289.7 million and \$288.1 million, and the Office of the Inspector General \$2.2 million and \$1.2 million through September 30, 2011, and 2010, respectively.

Note 13. **NUCLEAR WASTE FUND**

Included in NRC's budget for FY 2011 and 2010 are \$9.9 million and \$29.0 million, respectively, provided from the NWF. The Statement of Federal Financial Accounting Standards (SFFAS) No. 27, "Identifying and Reporting Earmarked Funds," lists three defining criteria for an earmarked fund. Generally, an earmarked fund is established by law to use specifically identified financing sources only for designated activities, and the statute provides explicit authority to retain current, unused revenues for future use. Also, the law includes a requirement to account for and report on the receipt and use of the financing sources as distinguished from general revenues.

Congress passed the *Nuclear Waste Policy Act of 1982* (Public Law 97-425) establishing the NWF to be administered by the DOE (42 U.S.C. 10222). Given the terms of the statute, the NWF clearly meets the definition of an earmarked fund from DOE's perspective, and DOE does indeed report the NWF as an earmarked fund in its Agency Financial Report.

For the NRC, the NWF transfer is a source of financing; its receipt of NWF funds is a use of NWF resources. The NRC collects no revenue on behalf of the NWF and has no administrative control over it. Furthermore, the Treasury has no separate fund symbol for the NWF under the NRC's agency location code. The receipt and expenditure of NWF money is reported to Treasury under the NRC's primary Salaries and Expenses fund (X0200).

Based on these facts, the NWF is not an earmarked fund from the NRC's perspective. In order to provide additional information to the users of these financial statements, enhanced disclosure of the fund is presented below.

The funding provided to the NRC in FY 2011 and FY 2010 was for the purpose of performing activities associated with DOE's application for a high-level waste repository at Yucca Mountain, NV. These activities included review of the application, conduct of thorough safety and security evaluations, preparation of the safety evaluation report, initiation of the inspection program, ensuring that the regulation process was made available to stakeholders and the general public, and providing legal advice and representation for staff reviews and Commission actions.

The NWF amounts received, expended, obligated, and unobligated balances as of September 30, 2011, and 2010 are shown in the following:

	2011	2010
Appropriations received	\$ 9,980	\$ 29,000
Expended appropriations	\$ 14,601	\$ 34,308
Obligations incurred	\$ 7,341	\$ 29,790
Unobligated balances	\$ 9,996	\$ 7,079

Note 14. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

The Statement of Federal Financial Accounting Standards (SFFAS) No. 7, "Accounting for Revenue and Other Financing Sources," requires the NRC to reconcile the budgetary resources reported on the Statement of Budgetary Resources to the prior fiscal year actual budgetary resources presented in the Budget of the U.S. Government and explain any material differences. The NRC does not have any material differences between the Statement of Budgetary Resources and the Budget of the U.S. Government.

Note 15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGETARY RESOURCES

For the years ended September 30,	2011	2010
Budgetary Resources Obligated		
Obligations incurred (Note 12)	\$ 1,083,485	\$ 1,119,085
Less: Spending authority from offsetting collections and recoveries	(33,334)	(33,799)
Less: Distributed offsetting receipts	(910,901)	(909,514)
Net Obligations	139,250	175,772
Other Resources		
Imputed financing from costs absorbed by others	50,534	40,812
Net Other Resources Used to Finance Activities	50,534	40,812
Total Resources Used to Finance Activities	189,784	216,584
Resources Used to Finance Items not Part of the Net Cost of Operations	(14,846)	(19,668)
Total Resources Used to Finance the Net Cost of Operations	174,938	196,916
Components of the Net Cost of Operations that will not require or generate resources in the current period	33,321	20,056
Net Cost of Operations	\$ 208,259	\$ 216,972

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Budgetary Resources (In Thousands)

For the fiscal year ended September 30, 2011	Salaries and Expenses	Office of Inspector General	Nuclear Facility Fees	Total
	X0200	X0300	X5280	
Budgetary Resources				
Unobligated balances, brought forward, October 1	\$ 42,812	\$ 1,887	\$ -	\$ 44,699
Recoveries of prior year obligations				
Actual	18,411	430	-	18,841
Budget authority				
Appropriation	1,043,463	10,860	(104)	1,054,219
Spending authority from offsetting collections				
Reimbursements earned-collected	12,400	39	-	12,439
Reimbursements earned-change in receivables	946	-	-	946
Change in unfilled customer orders-advance received	(3,506)	-	-	(3,506)
Change in unfilled customer orders-without advance	4,614	-	-	4,614
Subtotal-spending authority from offsetting collections	14,454	39	-	14,493
Permanently not available	(255)	(2)	-	(257)
Total Budgetary Resources	\$ 1,118,885	\$ 13,214	\$ (104)	\$ 1,131,995
Status of Budgetary Resources				
Obligations incurred (Note 12)				
Direct	\$ 1,066,465	\$ 12,202	\$ -	\$ 1,078,667
Reimbursable	4,818	-	-	4,818
Subtotal	1,071,283	12,202	-	1,083,485
Unobligated balance				
Apportioned	28,197	656	-	28,853
Exempt from apportionment	9,996	-	(104)	9,892
Subtotal	38,193	656	(104)	38,745
Unobligated balance, not available	9,409	356	-	9,765
Total Status of Budgetary Resources	\$ 1,118,885	\$ 13,214	\$ (104)	\$ 1,131,995
Change in Obligated Balance				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	\$ 374,425	\$ 956	\$ -	\$ 375,381
Obligations incurred, net	1,071,283	12,202	-	1,083,485
Gross outlays	(1,076,362)	(12,034)	-	(1,088,396)
Recoveries of prior year obligations, actual	(18,411)	(430)	-	(18,841)
Change in uncollected customer payments, from Federal sources	(5,560)	-	-	(5,560)
Obligated balance, net, end of period				
Unpaid obligations	358,708	694	-	359,402
Uncollected customer payments, from Federal sources	(13,333)	-	-	(13,333)
Total unpaid obligated balance, net, end of period	\$ 345,375	\$ 694	\$ -	\$ 346,069
Net outlays				
Gross outlays	\$ 1,076,362	\$ 12,034	\$ -	\$ 1,088,396
Offsetting collections	(8,894)	(39)	-	(8,933)
Distributed offsetting receipts	-	-	(910,901)	(910,901)
Net Outlays	\$ 1,067,468	\$ 11,995	\$ (910,901)	\$ 168,562

SCHEDULE OF SPENDING (UNAUDITED)

(In Thousands)

For the fiscal year ended September 30, 2011		FY 2011
What money is available to spend?		
Total Resources	\$	1,131,995
Less Amount Not Agreed to be Spent		(38,745)
Less Amount Not Available to be Spent		(9,765)
Total Amounts Agreed to be Spent	\$	1,083,485
How was the money spent?		
Nuclear Reactor Safety and Security		
Payroll	\$	503,200
Contracts		225,120
Travel		21,642
Rent, Communication and Utilities		34,614
Structures and Equipment		18,241
Other		48,309
Total Spending of Nuclear Reactor Safety and Security	\$	851,126
Nuclear Materials and Waste Safety and Security		
Payroll	\$	140,278
Contracts		62,757
Travel		6,033
Rent, Communication and Utilities		9,650
Structures and Equipment		5,079
Other		13,473
Total Spending of Nuclear Materials and Waste Safety and Security	\$	237,270
Total Spending	\$	1,088,396
Spending Related to Prior Year Amounts Agreed to be Spent		(4,911)
Total Amount Agreed to be Spent	\$	1,083,485