[illegible] Bullion - Continued

Messrs. [illegible] McKenna and G. A. Burt were consulted regarding liquidation of metal balances between the two companies. Both were in agreement that cash settlements should be made in the near future as it seemed unlikely that payments in kind could be made. A suggestion was made that such differences as existed on April 30, 1959 be liquidated to coincide with the expected taking of a certified inventory at that time. Mr. McKenna stated that he would consult with Mr. Hugo Johnson of the U. S. Company regarding payments for these metals.

At March 31, 1959 the balances were:

Owed by U. S. Company to International	-	Bismuth	-	11,201	pounds
	-	Silver	-	170,973.84	ounces
Owed by International to U. S. Company	-	Gold	-	913.691	ounces
	-	Lead	-	410,980	pounds

There will apparently be no difficulty for International to return any lead it may owe to the U. S. Company in subsequent months but repayment in kind by either company in respect to other metals is less certain or improbable.

On April 23, 1959 Mr. McKenna conferred with Mr. Hugo Johnson regarding cash settlements for metal owed by one company to the other. Mr. McKenna informed the Auditor that Mr. Johnson agreed that cash liquidations should be made soon, preferably after the taking of the expected certified inventory on May 1, 1959. Allowing time for the computation of revised allocations due to use of a certified inventory such cash adjustment should be made the latter part of May 1959.

Audit of lead bullion shipments was made only on shipments for account of the U. S. Company. All data were in good order and were properly recorded in "Lead Bullion Production Statement - U. S. Company Portion".

Copper Matte and Speiss

Copper matte and speiss are Smelting Plant products shipped to the Anaconda Reduction Works. Settlements are prepared at Anaconda with entry crediting International. At Tooele proper sales entries are made for each product. The Statement of Combined Operations, Blast Furnace Smelting section provides an allocation of these products to U. S. Company and International. This allocation provides a basis for computing settlements for U. S. Company's share of each product. The journal contains an entry charging sales for the U. S. Company portion and crediting that company.

Audit disclosed that proper settlement terms were used in computing the U. S. Company portion of sales according to the contract which provides that when one set of terms is used for entire shipment International is to compute the share of the U. S. Company and tender payment for same.

Deleaded Zinc Fume Sales

Deleaded zinc fume sales were made to American Zinc Company, National Zinc Company and The Anaconda Company. Thi fume is stored as produced and maintained as an identifiable finished inventory on plant reports. In this respect it is different than copper matte and speiss which is not carried on plant inventories as finished products, but which are considered as such only when shipped. Consequently these copper products are carried on the Statement of Combined Operations as production items and as such are allocated to the combined companies ar the entire amount due the U. S. Company is settled for. Deleaded zinc fume is produced in greater quantity tha is sold which requires that a first-in first-out method be applied in apportioning the sale between the compan The sale made in February 1959 was accounted for by stock remaining from December 1958 production and a portio January 1959 production. Each company's proportionate amount of production for these months is therefore dedu from prior inventory belonging to each to arrive at quantity remaining for sale. Bookkeeping entry is then ma crediting the U. S. Company for its share and charging Deleaded Zinc Fume Sales.

The local managements have agreed that International may claim 100% of sales to American Zinc Company (toll basi and shipments to The Anaconda Company, terms for sale to these companies being confidential. Weight and quanti ties of these two sales are therefore deducted from appropriate months production belonging to Anaconda when proration is made to the combined companies.

The records showing the distribution of the sale and the apportionment of the revenue were found to be in order.

Leaded Zinc Oxide Sales

Leaded zinc oxide, similar to deleaded zinc fume is sold from inventory on a first-in first-out basis relative allocation to the combined companies. During February 1959 a sale of 3,000 pounds was made. The sale was allocated to the two companies on the basis of each one's proportionate share of September 1958 production. A portion of that month's production still remained on hand at February 28, 1959.

N10036

PNYC00000122

Continued

Zinc Oxide Sales - Continued

This material is sold on the basis of $10.00 per cwt, F.O.B., destination, from consignment stock. Freight commissions and discounts are deducted. A statement is submitted to the U. S. Company showing full detail. Inasmuch as it is sold on cwt basis, regardless of metal content, the net return is merely prorated on a dry weight basis to determine each company's portion. A detailed record is maintained, however, of metal content remaining in inventory. If sales were made on any other basis than per cwt, the information would still be available.

All records pertaining to sale of leaded zinc oxide were found to be correct, and entry crediting the U. S. account was verified.

Zinc Fume

This fume is removed from the system prior to the deleading process. No inventory of this material is regularly carried, however, an order was recieved from the American Zinc Company of Illinois for shipment to Halliburton Oil Well Cementing Company, Duncan, Oklahoma. The material was sold at 7.32¢ per pound and was shipped collect. Similar to procedure on leaded zinc oxide sale, the net return was prorated to each company on a tonnage basis, although a net distribution is available.

The net amount due the U. S. Company for this material was noted on the same statement submitted for deleaded zinc oxide. The entry to journal was verified by the Auditor.

...TION OF FLUXING AND DILUENT COSTS

...and Silica

The computation of lime fluxing cost and allocation of same is reported on page 11 of the February 1959 Cost Statements. The method as herein used differs from that as illustrated in Exhibit C of the contract. Briefly the method illustrated in the exhibit takes into account the deficiency of either party's CaO content in producing a required slag grade. This deficiency is then multiplied by a cost per unit of CaO, the unit cost being the delivered cost of lime flux, the cost of sinter and cottrell and 80% of blast furnace cost, all divided by the excess units of CaO (CaO less Insol.). The method as used accounts for the smelting cost of the lime material used on a per ton basis, added to the actual purchase cost per ton.

The Auditor was advised that the managements of the U. S. Company and International agreed upon the method presently being used.

The computation of Insol., deficiency was made according to the method illustrated in Exhibit C. It was noted that the estimated cost of a unit of silica as used in the exhibit was 22¢. The same estimated cost was used in computing the February 1959 charge. Incidentally, for that month International was charged only $32.78 for its insol. deficiency and U. S. Company was credited with the same amount.

After allowing for proper charges for lime flux, the balance of the blast furnace cost was allocated to the companies on a tonnage treated basis and the total cost for each company, adjusted by the insol. charge or credit was entered on the blast furnace cost statement as the official cost to each company.

Messrs. W. J. McKenna and G. A. Burt were consulted regarding use of 22¢ per unit estimated silica credit. Mr. Burt stated that this price was as accurate as any available and that it would continue to be used as final until a more accurate one would become available.

...ter

The computation of the apportionment of the Sintering Plant cost based 50% on sulphur content of material treated and 50% based on total tonnage of material treated was in accordance with contract provisions as summarized in this audit. All data were checked and the cost allocation was traced to the Sintering Plant cost statement.

Lead Diluent

During February 1959 the combined sinter feed averaged 34.362%, lead of U. S. Company averaging 39.215% and International 25.427%, all excluding lead diluent added. Including some Murray slag added as diluent the respective percentages were 34.138%, 38.820% and 25.427%. It is apparent that the diluent was necessary to reduce the high lead percentage caused by treatment of U. S. materials. A settlement was prepared showing the entire value of this slag used by the U. S. Company. A portion was treated at the Blast Furnace and was included as a portion of its treatment tonnage at that plant. The portion treated at the Sintering Plant was labeled as such on the Statement of Combined Operations, indicating its use as a diluent.