Updated illustrations of departures from the auditor's standard report: a survey of the application of statement on auditing standards no. 2 as amended; Financial report survey, 29

Hortense Goodman
Leonard Lorensen

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Updated Illustrations of Departures from the Auditor’s Standard Report

A survey of the application of Statement on Auditing Standards No. 2, as amended

By Hortense Goodman, CPA
and
Leonard Lorensen, CPA

American Institute of Certified Public Accountants
FINANCIAL REPORT SURVEYS

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   A survey of applications of APB Opinion No. 22

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   A survey of reporting under APB Opinion No. 20

   A survey of applications of APB Opinion No. 30

   A survey of applications of APB Opinion Nos. 11, 23, 24, 25 and SEC Release No. 149

   A survey of reporting under APB Opinion No. 19

6. Illustrations of the Summary of Operations and Related Management Discussion and Analysis (1975)
   A survey of the application of Rules 14a-3 and 14c-3 of the Securities Exchange Act of 1934 in annual reports to shareholders

7. Illustrations of Departures from the Auditor’s Standard Report (1975)
   A survey of the application of Statement on Auditing Standards No. 2


   A survey of the application of Section 560 of Statement on Auditing Standards No. 1

10. Illustrations of Accounting for Contingencies (1976)
    A survey of the application of FASB Statements Nos. 5 & 11

    A survey of the application of certain sections of APB Opinion Nos. 15, 16, and 20, and SAS No. 1

12. Illustrations of Accounting for Marketable Equity Securities (1977)
    A survey of the application of FASB Statement No. 12

(continued on inside back cover)

*OUT OF PRINT
Updated Illustrations of Departures From the Auditor's Standard Report

A survey of the application of Statement on Auditing Standards No. 2, as amended
Updated Illustrations of Departures From the Auditor’s Standard Report

A survey of the application of Statement on Auditing Standards No. 2, as amended

by Hortense Goodman, CPA and Leonard Lorensen, CPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
NOTICE TO READERS

This is a publication of the staff of the American Institute of Certified Public Accountants and is not to be regarded as an official pronouncement of the Institute.
PREFACE

This publication is the twenty-ninth in a series produced by the Institute's staff through use of the Institute's National Automated Accounting Research System (NAARS). Earlier publications in the series are listed on the inside cover of this publication.

The purpose of the series is to provide interested readers with examples of the application of technical pronouncements. It is believed that those who are confronted with problems in the application of pronouncements can benefit from seeing how others apply them in practice.

It is the intention to publish periodically similar compilations of information of current interest dealing with aspects of financial reporting.

The examples presented were selected from over twenty thousand annual reports stored in the NAARS computer data base.

This compilation presents only a limited number of examples and is not intended to encompass all aspects of the application of the pronouncements covered in this survey. Individuals with special application problems not illustrated in the survey may arrange for special computer searches of the NAARS data banks by contacting the Institute.

The views expressed are solely those of the staff.

George Dick
Director, Technical Information Division
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SCOPE AND PURPOSE OF THE SURVEY

DISCUSSION OF DEPARTURES IN SAS NO. 2

Business enterprises regularly issue financial statements that are intended to present financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles. The independent auditor's "standard report" on an examination of financial statements of that type consists of two paragraphs. In the first ("scope") paragraph the auditor states that the examination was made in accordance with generally accepted auditing standards. In the second ("opinion") paragraph the auditor expresses his opinion that the financial statements present fairly the financial position of the enterprise at the balance sheet date and the results of operations and changes in financial position for the period ending on the balance sheet date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period. The financial statements examined may pertain to one or more years.

Statement on Auditing Standards No. 2 (SAS No. 2), "Reports on Audited Financial Statements," names seven circumstances that may call for a departure from the standard report:

1. The scope of the auditor's examination is affected by conditions that preclude the application of one or more auditing procedures he considers necessary in the circumstances.
2. The auditor's opinion is based in part on the report of another auditor.
3. The financial statements are affected by a departure from a generally accepted accounting principle.
4. The financial statements are affected by a departure from an accounting principle promulgated by the body designated by the AICPA Council to establish such principles.
5. Accounting principles have not been applied consistently.
6. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report.
7. The auditor wishes to emphasize a matter regarding the financial statements.

SAS No. 2 discusses the type of report that is appropriate in each of those circumstances. SAS No. 2 has been amended by the following Statements on Auditing Standards:

- SAS No. 21, Segment Information, issued in December 1977.
- SAS No. 43, Omnibus Statement on Auditing Standards, August 1982.
SAS No. 2, as amended, appears as Section 509 of “Codification of Statements on Auditing Standards—Numbers 1 to 47,” which was published by the AICPA in 1984. SAS No. 2, as amended, is reproduced as Appendix A of this survey.

SAS No. 2, before it was amended, referred to several other pronouncements on auditing standards that discussed departures from the auditor's standard report. Those pronouncements have been amended and included as sections in the Codification described above, and SAS No. 2, as amended, refers to those sections. Section 340 discusses departures that may be called for because an entity's continued existence is uncertain. Section 431 discusses departures that may be called for because of a departure from generally accepted accounting principles because of inadequate disclosure. Section 543 discusses departures that may be called for because the auditor's opinion is based in part on the report of another auditor. Section 545.01-545.05 discusses departures that may be called for because a statement of changes in financial position is omitted. Section 546 discusses departures that may be called for because accounting principles are inconsistently applied. Those sections of the Codification are reproduced as Appendix B of this survey.

**SOURCE OF ILLUSTRATIONS**

The determination of the need for a departure from the auditor's standard report and the selection of appropriate modifying language in accordance with SAS No. 2, as amended, require considerable judgment. An auditor who is confronted with problems in applying the Statement can benefit from learning how other auditors are applying it in practice. Accordingly, this publication presents 117 auditors' reports on recently published financial statements that illustrate its application.

The AICPA National Automated Accounting Research System (NAARS) was used to compile the information. The reports presented were selected from more than 20,000 reports stored in the computer data base.

A similar survey of the application of SAS No. 2 was published by the AICPA in 1975, shortly after the Statement was initially issued. Since then, departures from the auditor's standard report have changed because

- SAS No. 2 has been amended,
- the pronouncements referred to in SAS No. 2 have been amended, and
- new types of events have been experienced by business enterprises that provide reasons for departure from the standard report.

Because of those changes, a new survey of the application of SAS No. 2 is needed.
REPORT OF ANOTHER AUDITOR

SAS No. 2, as amended, states that a departure from the standard report may be called for if the auditor's opinion is based in part on the report of another auditor. If the auditor decides not to assume responsibility for the work of the other auditor, his report is to indicate clearly, in both the scope and opinion paragraphs, the division of responsibility as between that portion of the financial statements covered by his own examination and that covered by the examination of the other auditor. The report is to disclose the magnitude of the portion of the financial statements examined by the other auditor.

Twenty-eight auditors' reports are presented below in which a departure was made because the auditor's opinion was based in part on the report of another auditor. The reports are classified according to whether the report of the other auditor applies to a consolidated subsidiary, an investment accounted for by the equity method, or both a consolidated subsidiary and an equity method investment. Some of the reports for which the report of the other auditor applies to an equity method investment do not disclose the magnitude of the portion of the financial statements examined by the other auditor, probably because the magnitude is disclosed in the consolidated financial statements.

SAS No. 2, as amended, also discusses referring to the report of another auditor in another connection. Financial statements may be presented for prior years that are restated to combine the financial statements of two or more enterprises, including the reporting enterprise, that engaged in a pooling of interests, and the statements of one or more of those enterprises may have been examined by another auditor or other auditors. The auditor is permitted to express an opinion simply on the combination of the statements if reference is made to the other auditor or auditors, as discussed in AU 543.16. Four additional reports are presented below in which such reference is made.
CONSOLIDATED SUBSIDIARY

Auditors' Report

To the Board of Directors and Shareholders of
Adams-Russell Co., Inc.

We have examined the consolidated balance sheets of Adams-Russell Co., Inc. and subsidiaries as at September 30, 1983 and 1982, and the related consolidated statements of income, shareholders' equity, and changes in financial position for each of the three years in the period ended September 30, 1983. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the 1981 financial statements of two consolidated subsidiaries whose net sales represent 25% of consolidated net sales for 1981. These statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for those subsidiaries, is based solely upon the reports of other auditors.

In our opinion, based on our examinations and, for 1981, the reports of the other auditors, the aforementioned financial statements present fairly the consolidated financial position of Adams-Russell Co., Inc. and subsidiaries at September 30, 1983 and 1982, and the consolidated results of their operations and the changes in their consolidated financial position for each of the three years in the period ended September 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
November 4, 1983

Auditor's Opinion

Trustee and Shareholders
American Realty Trust and Subsidiaries

We have examined the consolidated balance sheets of American Realty Trust and Subsidiaries as of September 30, 1983 and 1982 and the related statements of operations and accumulated deficit and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of ART-Bakewell Associates, a consolidated subsidiary which statements reflect total assets of 5% and 12% at September 30, 1983 and 1982, respectively, and total revenues of 3% for the years ended September 30, 1983 and 1982. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for ART-Bakewell Associates, is based solely upon the report of the other auditors. Furthermore, the consolidated financial statements of American Realty Trust and Subsidiaries for the year ended September 31, 1981 [sic] were examined by other auditors whose report thereon, dated December 4, 1981, expressed an unqualified opinion on those statements.

In our opinion, based upon our examinations and the report of other auditors, the financial statements referred to above present fairly the financial position of American Realty Trust and Subsidiaries as of September 30, 1983 and 1982 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

We have also examined the schedules listed in the accompanying Index to Consolidated Financial Statements. In our opinion, these schedules present fairly the information required to be set forth therein.

Dallas, Texas
December 13, 1983
Auditors' Report

To the Shareholders and Board of Directors of
ARA Services, Inc.:

We have examined the consolidated balance sheets of ARA Services, Inc. (a Delaware corporation) and subsidiaries as of September 30, 1983 and October 1, 1982 and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three fiscal years in the period ended September 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the Canadian subsidiary, which statements reflect assets representing 3.6% and 3.5% of consolidated assets at September 30, 1983 and October 1, 1982, respectively, and revenues representing 5.4%, 5.1% and 4.3% of consolidated revenues for the fiscal years 1983, 1982 and 1981, respectively. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for this subsidiary, is based solely upon the report of other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the financial statements referred to above present fairly the financial position of ARA Services, Inc. and subsidiaries as of September 30, 1983 and October 1, 1982, and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended September 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Philadelphia, Pennsylvania
November 10, 1983

Report of Independent Auditors

To the Shareholders and Board of Directors
The Barden Corporation
Danbury, Connecticut

We have examined the consolidated balance sheet of The Barden Corporation and subsidiaries as of October 30, 1983 and October 31, 1982, and the related consolidated statements of earnings, shareholders' equity and changes in financial position for each of the three fiscal years in the period ended October 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of The Barden Corporation (U.K.) Limited, a consolidated subsidiary, which statements reflect total assets constituting 11.2% in 1983 and 13.2% in 1982, and net sales constituting 14.0% in 1983 and 13.9% in 1982 of the related consolidated totals. These statements were examined by other auditors (name omitted) whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for The Barden Corporation (U.K.) Limited, is based solely on the reports of the other auditors.

In our opinion, based upon our examinations and the aforementioned reports of other auditors, the financial statements referred to above present fairly the consolidated financial position of The Barden Corporation and subsidiaries at October 30, 1983 and October 31, 1982, and the consolidated results of their operations and changes in their financial position for each of the three fiscal years in the period ended October 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York
December 16, 1983
Auditor's Opinion

Stockholders and Board of Directors
Commerce Clearing House, Inc.
Chicago, Illinois

We have examined the consolidated balance sheets of Commerce Clearing House, Inc. and subsidiaries as of December 31, 1983 and 1982, and the related statements of earnings, stockholders’ investment, and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of CT Corporation System, a consolidated subsidiary, for any of the years ended December 31, 1983, 1982 or 1981, which statements reflect 18.1% and 16.0% of total consolidated assets and 36.5%, 26.5% and 25.1%, of consolidated net earnings for the respective years. These statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion herein, insofar as it relates to the amounts included for CT Corporation System, is based solely upon the reports of the other auditors.

In our opinion, based on our examinations and the reports of other auditors referred to above, the consolidated financial statements referred to above present fairly the financial position of Commerce Clearing House, Inc. and subsidiaries as of December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Chicago, Illinois
February 16, 1984

Report of Auditors

To the Shareholders and Board of Directors of
Dresser Industries, Inc.:  

We have examined the consolidated balance sheets of Dresser Industries, Inc. (a Delaware corporation) and subsidiaries as of October 31, 1983, 1982 and 1981, and the related consolidated statements of earnings, shareholders’ investment and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain foreign subsidiaries whose assets represent approximately 17% of consolidated assets in 1983 and 1982 and 18% of consolidated assets in 1981, and whose net sales and service revenues represent approximately 22% of consolidated net sales and service revenues in 1983 and 18% of consolidated net sales and service revenues in 1982 and 1981. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for those foreign subsidiaries, is based solely upon the reports of other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the consolidated financial statements referred to above present fairly the financial position of Dresser Industries, Inc. and subsidiaries as of October 31, 1983, 1982 and 1981, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles, which, except for the change (with which we concur) made as of November 1, 1981 in the method of accounting for foreign currency translation as explained in Note N, have been applied on a consistent basis.

Dallas, Texas
December 12, 1983.
Report of Independent Accountants

To the Board of Directors and Shareholders
Kulicke and Soffa Industries, Inc.

We have examined the consolidated balance sheet of Kulicke and Soffa Industries, Inc. and its subsidiaries at September 30, 1983, 1982 and 1981, and the related consolidated statements of income, of retained earnings and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Kulso Limited, a consolidated subsidiary, which statements reflect total assets constituting 9%, 17%, and 14% of consolidated total assets at September 30, 1983, 1982, and 1981, and net sales constituting 5%, 12%, and 12% of consolidated net sales for the years ended September 30, 1983, 1982, and 1981, respectively. These statements were examined by other independent accountants whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Kulso Limited, is based solely upon the reports of the other independent accountants.

In our opinion, based upon our examinations and the reports of other independent accountants, the accompanying consolidated financial statements present fairly the financial position of Kulicke and Soffa Industries, Inc. and its subsidiaries at September 30, 1983, 1982 and 1981, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles, consistently applied during the period except for the change effective October 1, 1982, with which we concur, in the method of accounting for foreign currency translation as described in the Summary of Significant Accounting Policies.

Philadelphia, Pennsylvania
December 5, 1983

Report of Independent Auditors

Shareholders and Board of Directors
PNC Financial Corp.
Pittsburgh, Pennsylvania

We have examined the consolidated balance sheet of PNC Financial Corp and subsidiaries as of December 31, 1983 and 1982, and the related consolidated statements of income, shareholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the 1982 and 1981 consolidated financial statements of Provident National Corporation and subsidiaries, consolidated into PNC Financial Corp in a pooling of interest transaction, which statements reflect total assets and revenues constituting approximately 33% of the related financial statement totals. These statements were examined by other auditors, whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the 1982 and 1981 amounts included for Provident National Corporation and subsidiaries, is based solely on the report of the other auditors.

In our opinion, based on our examinations and, for 1982 and 1981, the aforementioned report of other auditors, the financial statements referred to above present fairly the consolidated financial position of PNC Financial Corp and subsidiaries at December 31, 1983 and 1982 and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Pittsburgh, Pennsylvania
January 25, 1984
Report of Independent Auditors

Shareholders and Board of Directors
RSI Corporation and Subsidiaries
Greenville, South Carolina

We have examined the consolidated balance sheets of RSI Corporation and subsidiaries as of August 31, 1983 and 1982, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended August 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Porter Brothers, Inc., a wholly-owned consolidated subsidiary, which statements reflect total assets constituting 33% (1983) and 29% (1982) and total revenues constituting 49% (1983), 44% (1982) and 38% (1981) of the related consolidated totals for both continuing and discontinued operations. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Porter Brothers, Inc., is based solely on the reports of the other auditors.

In our opinion, based upon our examinations and the report of other auditors referred to above, the financial statements referred to above present fairly the consolidated financial position of RSI Corporation and subsidiaries at August 31, 1983 and 1982, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended August 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Greenville, South Carolina
November 10, 1983

Auditors' Report

To the Stockholders and Board of Directors of
Stewart Information Services Corporation

We have examined the consolidated balance sheets of Stewart Information Services Corporation and its subsidiaries as of December 31, 1983 and 1982 and the related consolidated statements of income and retained earnings and changes in financial position for each of the years in the three year period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We did not examine the financial statements of certain subsidiaries and a majority of the escrow funds referred to in Note 1. The assets of these subsidiaries constituted 4% and 5% of the consolidated assets at December 31, 1983 and 1982, respectively. The revenues of these subsidiaries constituted 9%, 8% and 10% of consolidated revenues for each of the years in the three year period ended December 31, 1983. These statements were examined by other auditors whose reports thereon have been furnished to us. Our opinion expressed herein, insofar as it relates to the escrow funds and the amounts included for the subsidiaries, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors, the aforementioned consolidated financial statements present fairly the financial position of Stewart Information Services Corporation and its subsidiaries at December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the years in the three year period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

3000 RepublicBank Center
Houston, Texas 77002
February 13, 1984
Report of Independent Certified Public Accountants

The Board of Directors and Stockholders
Systems Engineering and Manufacturing Corp.
Stoughton, Massachusetts

We have examined the consolidated balance sheets of Systems Engineering and Manufacturing Corp. as of September 30, 1983 and 1982 and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for each of the three years in the period ended September 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiaries, which statements reflect total assets constituting 16% and 12% of the consolidated totals as of September 30, 1983 and 1982 and net sales constituting 2%, 1% and 1% of the consolidated totals for the years ended September 30, 1983, 1982 and 1981, respectively. These statements were examined by other auditors whose reports thereon were furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for such subsidiaries, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and upon the reports of the other auditors referred to above, the aforementioned consolidated financial statements present fairly the consolidated financial position of Systems Engineering and Manufacturing Corp. as of September 30, 1983 and 1982 and the consolidated results of its operations and changes in its stockholders' equity and financial position for each of the three years in the period ended September 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
December 1, 1983

Auditors' Opinion

Union Pacific Corporation,
its Directors and Stockholders:

We have examined the statements of consolidated financial position of Union Pacific Corporation and subsidiary companies as of December 31, 1983 and 1982 and the related statements of consolidated income, consolidated changes in common stockholders' equity, and consolidated changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the statements of consolidated financial position of Missouri Pacific Corporation and of The Western Pacific Railroad Company as of December 31, 1982, which became consolidated subsidiaries as of that date and which statements reflect assets constituting 27% of the related consolidated total. These statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Missouri Pacific Corporation and The Western Pacific Railroad Company as of December 31, 1982, is based solely upon the reports of such other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, such consolidated financial statements present fairly the financial position of Union Pacific Corporation and subsidiary companies at December 31, 1983 and 1982 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change, with which we concur, in the method of accounting for railroad track structure as described in Note 2 to the consolidated financial statements.

New York, New York
January 25, 1984
EQUITY METHOD INVESTMENT

Report of Independent Auditors

To the Board of Directors and Shareholders
American General Corporation,
Houston, Texas

We have examined the consolidated balance sheet of American General Corporation and subsidiaries as of December 31, 1983 and 1982, and the related consolidated statements of income, shareholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Creditthrift Financial, Inc., used as the basis for recording American General's equity in earnings of Creditthrift Financial, Inc. ($38.8 million in 1983 and $27.0 million in 1982), were examined by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the equity in earnings of Creditthrift Financial, Inc., is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and the report of other auditors, the financial statements referred to above (pages 26-41) present fairly the consolidated financial position of American General Corporation and subsidiaries as of December 31, 1983 and 1982, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Houston, Texas
February 24, 1984

Auditors' Report

To the Stockholders and the Board of Directors of
American Natural Resources Company:

We have examined the statements of consolidated financial position of American Natural Resources Company (a Delaware corporation) and its subsidiaries as of December 31, 1983 and 1982, and the related statements of consolidated income, common stockholders' equity, and source of funds for capital and other expenditures for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Great Lakes Gas Transmission Company, the investment in which is reflected in the accompanying consolidated financial statements using the equity method of accounting. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Great Lakes Gas Transmission Company, is based solely upon the report of the other auditors.

In our opinion, based on our examinations and the reports of other auditors referred to above, the accompanying financial statements present fairly the consolidated financial position of American Natural Resources Company and its subsidiaries as of December 31, 1983 and 1982, and the results of their operations and source of funds for capital and other expenditures for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis, subsequent to the change (with which we concur) made as of January 1, 1981 in the method of accounting for depletion of Exploration and Production properties as described in note 1d.

Detroit, Michigan,
February 13, 1984.
Auditors' Report

To the Stockholders and the Board of Directors,
Ameron, Inc.:

We have examined the consolidated balance sheets of Ameron, Inc. (a California corporation) and subsidiaries as of November 30, 1983 and 1982, and the related consolidated statements of income, common stockholders' equity, and changes in financial position for the years ended November 30, 1983, 1982 and 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Gifford-Hill-American, Inc., the investment in which is recorded in the accompanying financial statements using the equity method of accounting (see Note 3). The investment in this company represents 6 percent and 5 percent of consolidated assets as of November 30, 1983 and 1982, and the equity in its earnings represents 27, 2, and 20 percent of consolidated net income in 1983, 1982 and 1981, respectively. These statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for this company, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the consolidated financial statements referred to above present fairly the financial position of Ameron, Inc. and subsidiaries as of November 30, 1983 and 1982, and the results of their operations and the changes in their financial position for the years ended November 30, 1983, 1982 and 1981 in conformity with generally accepted accounting principles applied on a consistent basis.

Los Angeles, California,

Auditors' Report

To the Board of Directors,
Eaton Vance Corp.:

We have examined the consolidated balance sheets of Eaton Vance Corp. as at October 31, 1983 and 1982, and the related consolidated statements of income, changes in shareholders' equity, and changes in financial position for each of the three years in the period ended October 31, 1983. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Serio Exploration Company or Investors Bank & Trust Company, unconsolidated subsidiaries. The Company's investments in Serio Exploration Company and Investors Bank & Trust Company aggregated $3,293,688 and $3,246,044 at October 31, 1983 and 1982, respectively, and its equity in the earnings of such companies amounted to $176,126, $202,770, and $383,273 for the years ended October 31, 1983, 1982, and 1981, respectively. The financial statements of such companies were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such companies, is based solely upon such reports.

In our opinion, based upon our examinations and the reports of the other auditors referred to above, the aforementioned financial statements present fairly the consolidated financial position of Eaton Vance Corp. at October 31, 1983 and 1982, and the consolidated results of its operations and the changes in its consolidated financial position for each of the three years in the period ended October 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
December 16, 1983
Report of Independent Auditors

To the Board of Directors and Stockholders of
Funtime, Inc.,
Aurora, Ohio

We have examined the consolidated balance sheets of Funtime, Inc. and subsidiaries as of October 31, 1983 and 1982, and the related consolidated statements of earnings, stockholders' equity and changes in financial position for each of the three years in the period ended October 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of an associated company, Darien Lake Fun Country, Inc., used as the basis for recording the Company's equity in net earnings of that corporation, were examined by other auditors whose reports thereon have been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts of earnings included for Darien Lake Fun Country, Inc., is based solely on the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors, the consolidated financial statements referred to above present fairly the consolidated financial position of Funtime, Inc. and subsidiaries at October 31, 1983 and 1982, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended October 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Akron, Ohio

December 9, 1983, except for Note B as to which the date is February 11, 1984

Report of Independent Public Accountants

To Intercole Inc.:

We have examined the consolidated balance sheets of INTERCOLE INC. (a California corporation) and subsidiaries as of July 31, 1983 and 1982, and the related consolidated statements of income, stockholders' investment, and changes in financial position for the years ended July 31, 1983, 1982 and 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Seaview Petroleum Company and Mantua Oil Company, the investment in which is reflected in the accompanying financial statements using the equity method of accounting (see Note 2). The investment in these companies represents 14 percent, 8 percent and 8 percent of consolidated assets, and the equity in its net income represents 81 percent, 26 percent and 11 percent of consolidated income before provision for income taxes in 1983, 1982 and 1981, respectively. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these companies, is based solely upon the report of the other auditors.

In our opinion, based upon our examination and the report of other auditors referred to above, the consolidated financial statements referred to above present fairly the consolidated financial position of Intercole Inc. and subsidiaries as of July 31, 1983 and 1982, and the consolidated results of their operations and the changes in their financial position for the years ended July 31, 1983, 1982 and 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Los Angeles, California,

October 21, 1983.
Independent Auditors' Opinion

Kimberly-Clark Corporation,
Its Directors and Stockholders:

We have examined the consolidated balance sheets of Kimberly-Clark Corporation and Subsidiaries as of December 31, 1983 and 1982 and the related statements of consolidated income and retained earnings and of changes in consolidated financial position for the years ended December 31, 1983, 1982, and 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain equity companies. The Corporation had equity in the net income of such companies of $20.3 million, $19.6 million, and $42.5 million in 1983, 1982, and 1981, respectively. These statements were examined by other independent auditors whose reports thereon have been furnished us and our opinion expressed below, insofar as it relates to amounts included for these companies, is based solely upon the reports of other auditors.

In our opinion, based upon our examinations and in part upon the reports of other auditors, the accompanying consolidated financial statements of Kimberly-Clark Corporation and Subsidiaries (pages 12 through 24) present fairly the financial position of the companies at December 31, 1983 and 1982 and the results of their operations and the changes in their financial position for the years ended December 31, 1983, 1982, and 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Chicago, Illinois
February 1, 1984

Auditors' Report

To the Shareholders and Board of Directors of
Oakbrook Consolidated, Inc.

We have examined the consolidated balance sheets of OAKBROOK CONSOLIDATED, INC. (a Delaware corporation) AND SUBSIDIARIES as of September 30, 1983, and September 24, 1982, and the related consolidated statements of operations and retained earnings and changes in financial position for each of the three fiscal years in the period ended September 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as explained in the following paragraph.

We did not examine the financial statements of Chemical Leaman Corporation, the investment in which is reflected in the accompanying consolidated financial statements using the equity method of accounting. The investment in Chemical Leaman Corporation represents 35% and 42% of consolidated assets as of September 30, 1983, and September 24, 1982, respectively, and the equity in its net earnings (loss), represents 49%, (133%) and (151%) of consolidated net earnings from continuing operations for each of the three fiscal years in the period ended September 30, 1983. The December 31, 1983, 1982 and 1981, consolidated financial statements of Chemical Leaman Corporation, were examined by other auditors, whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Chemical Leaman Corporation for 1983, 1982 and 1981, is based solely on the reports of the other auditors.

In our opinion, based on our examinations and the reports of other auditors as indicated in the preceding paragraph, the consolidated financial statements referred to above present fairly the financial position of Oakbrook Consolidated, Inc. and Subsidiaries as of September 30, 1983, and September 24, 1982, and the results of their operations and changes in their financial position for each of the three fiscal years in the period ended September 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change in accounting for compensated absences by Chemical Leaman Corporation with which the other auditors have expressed their concurrence, as explained in Note 4 to the financial statements.

Chicago, Illinois,
February 13, 1984.
Report of Independent Accountants

To the Stockholders and Board of Directors of
Pier 1. Imports, Inc.

In our opinion, based upon our examinations and the report of other independent accountants referred to below, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity and of changes in financial position present fairly the financial position of Pier 1. Imports, Inc. and subsidiaries at August 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended August 31, 1983, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of CMEI, Inc. (CMEI), a wholly owned subsidiary, reported in the accompanying financial statements using the equity method of accounting (Note 1). These statements were examined by other independent accountants whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for CMEI, is based solely upon the report of the other independent accountants.

Fort Worth, Texas
October 21, 1983

Report of Independent Accountants

Board of Directors and Shareholders
Ransburg Corporation
Indianapolis, Indiana

We have examined the consolidated financial statements and related schedules of Ransburg Corporation and subsidiaries listed in the index on this page of the Annual Report on Form 10-K of Ransburg Corporation for the year ended November 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The 1983 and 1982 financial statements of Cybotech Corporation, used as the basis for recording the Company's equity in the 1983 and 1982 losses of that Corporation, were examined by other auditors whose reports were furnished to us. Our opinion expressed herein, insofar as it relates to the Company's equity in the 1983 and 1982 losses of Cybotech Corporation, is based solely on the reports of the other auditors.

In our opinion, based upon our examinations and, for 1983 and 1982, the aforementioned reports of other auditors, the financial statements referred to above present fairly the consolidated financial position of Ransburg Corporation and subsidiaries at November 30, 1983 and 1982, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended November 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion that the schedules referred to above present fairly the information set forth therein in compliance with the applicable accounting regulation of the Securities and Exchange Commission.

Indianapolis, Indiana
January 4, 1984
Accountants' Report

Board of Directors and Stockholders
S-G Metals Industries, Inc.
Kansas City, Kansas

We have examined the balance sheets of S-G Metals Industries, Inc. as of October 31, 1983 and 1982, and the related statements of operations, retained earnings and changes in financial position for each of the three years in the period ended October 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of National Compressed Steel Corporation, a 50%-owned affiliate accounted for under the equity method. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the investment in and earnings of National Compressed Steel Corporation, is based solely upon the report of the other auditors.

In our opinion, based upon our examination and the report of other auditors referred to above, the financial statements referred to above present fairly the financial position of S-G Metals Industries, Inc. at October 31, 1983 and 1982, and the results of its operations and the changes in its financial position for each of the three years in the period ended October 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

December 20, 1983
Kansas City, Missouri

CONSOLIDATED SUBSIDIARY AND EQUITY METHOD INVESTMENT

Report of Certified Public Accountants

The Board of Directors and Stockholders
Jonathan Logan, Inc.

We have examined the accompanying consolidated balance sheet of Jonathan Logan, Inc. and subsidiary companies at December 31, 1983 and 1982 and the consolidated statements of operations, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of foreign subsidiaries or affiliated companies, which statements reflect (i) net income for the years ended December 31, 1983, 1982 and 1981 of $1,751,000, $1,965,000 and $1,350,000, respectively, and (ii) total assets constituting 25% of consolidated assets at December 31, 1983 and 1982, respectively. Such statements were examined by other independent auditors whose reports thereon were furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for foreign subsidiaries and affiliated companies, is based solely upon the reports of the other independent auditors.

In our report dated February 16, 1983, our opinion on the 1982 and 1981 financial statements was qualified with regard to an uncertainty that existed in connection with the Internal Revenue Service examination of certain of the federal income tax returns of Villager Industries, Inc. As more fully described in Note 6, this matter has been resolved. Accordingly, our present opinion on the 1982 and 1981 consolidated financial statements, as presented herein, does not include this qualification.

In our opinion, based upon our examinations and the reports of the other independent auditors referred to above, the financial statements mentioned above present fairly the consolidated financial position of Jonathan Logan, Inc. and subsidiary companies at December 31, 1983 and 1982 and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

February 13, 1984, except as to Note 13, as to which the date is March 8, 1984, and Note 14, as to which the date is March 20, 1984

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Auditors' Report

To the Shareholders of
NL Industries, Inc.

We have examined the consolidated balance sheets of NL Industries, Inc. and its Consolidated Subsidiaries as of December 31, 1983 and December 31, 1982 and the related consolidated statements of income and retained earnings and of changes in financial position for each of the three years in the period ended December 31, 1983 (pages 18 to 30, inclusive). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiaries in 1983, 1982 and 1981 whose total assets and total sales constituted immaterial percentages in relation to the corresponding consolidated totals. In addition, we did not examine the financial statements of certain partially-owned companies, for which the Company's equity in the earnings is substantially included in the income statement caption "Equity in partially-owned companies," which statements, as adjusted, reflect net income of $4,392,000, $20,335,000 and $41,296,000 for 1983, 1982 and 1981, respectively, applicable to the Company. All of these statements were examined by other public accountants whose reports thereon were furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries and partially-owned companies, is based solely upon such reports.

In our opinion, based upon our examinations and the reports of other public accountants, the financial statements referred to above present fairly the consolidated financial position of NL Industries, Inc. and its Consolidated Subsidiaries at December 31, 1983 and 1982, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983 in conformity with generally accepted accounting principles consistently applied during the period except for the change in 1982, with which we concur, in the method of accounting for foreign currency translation as described in Note 3 to the consolidated financial statements.

New York, February 10, 1984

Report of Independent Public Accountants

To the Shareholders and Board of Directors of
Teledyne, Inc.:

We have examined the consolidated balance sheets of Teledyne, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1983, and 1982, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years ended December 31, 1983, 1982 and 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements of Unicor Corporation and subsidiaries (Note 5) were examined by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for Unicor Corporation and subsidiaries, is based solely upon the report of other auditors. Teledyne's investment in Unicor was 23 percent in 1983 and 20 percent in 1982 of consolidated assets and its equity in Unicor's net income was 17 percent in 1983, 5 percent in 1982 and 10 percent in 1981 of consolidated net income. Additionally, our opinion expressed herein, insofar as it relates to certain amounts included for equity in net income of investees (Notes 1 and 6), is based upon the reports of other auditors. Teledyne's equity in the net income of these investees, after taxes, was 19 percent in 1983, 26 percent in 1982 and 21 percent in 1981 of consolidated net income.

In our opinion, based upon our examinations and the reports of other auditors, the financial statements referred to above present fairly the consolidated financial position of Teledyne, Inc. and subsidiaries as of December 31, 1983, and 1982, and the results of their operations and changes in their financial position for the years ended December 31, 1983, 1982 and 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Los Angeles, California,
Auditor's Opinion

To the Stockholders and Board of Directors,
Tenneco Inc.:

We have examined the balance sheet of Tenneco Inc. (a Delaware corporation) and consolidated subsidiaries as of December 31, 1983 and 1982, and the related statements of income, changes in common and other stockholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the 1983, 1982 and 1981 financial statements of certain consolidated subsidiaries and certain other subsidiaries reflected in the accompanying consolidated financial statements utilizing the equity method of accounting. Earnings of such subsidiaries comprise approximately 15%, 8% and 6% of consolidated net income for the years ended December 31, 1983, 1982 and 1981, respectively. The financial statements of such subsidiaries were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the aforementioned financial statements present fairly the financial position of Tenneco Inc. and consolidated subsidiaries as of December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Houston, Texas
February 13, 1984

Auditors' Opinion

To the Directors and Shareowners of
United Artists Communications, Inc.:

We have examined the consolidated balance sheets of United Artists Communications, Inc. and subsidiaries as of August 31, 1983 and 1982 and the related consolidated statements of income, shareowners' equity and changes in financial position for each of the three years in the period ended August 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the August 31, 1983 balance sheet of United Artists Cablevision Corporation (UACC, a consolidated subsidiary) or the financial statements of Rogers UA Cablevision, Inc. (RUAC, an equity method affiliate) for the year ended August 31, 1983 or the eleven months ended August 31, 1982. Such UACC balance sheet includes assets constituting 35% of consolidated total assets at August 31, 1983. Also, the Company's investment of $56,944,000 in RUAC at August 31, 1982 and equity of $3,696,000 and $10,493,000 in RUAC's net income for the above-mentioned RUAC periods are included in the accompanying consolidated financial statements. The above-mentioned financial statements of UACC and RUAC were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for those companies for such dates and periods, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the accompanying consolidated financial statements present fairly the financial position of United Artists Communications, Inc. and subsidiaries at August 31, 1983 and 1982 and the results of their operations and the changes in their financial position for each of the three years in the period ended August 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

San Francisco, California
November 11, 1983
Report of Independent Certified Public Accountants

Board of Directors and Stockholders of
Computer Products, Inc.
Fort Lauderdale, Florida

We have examined the consolidated balance sheets of Computer Products, Inc. and subsidiaries as of December 30, 1983, and December 31, 1982 and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements of Computer Products, Inc. and subsidiaries for the year ended January 1, 1982 were examined by other auditors whose report thereon dated February 15, 1982 express an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly the financial position of Computer Products, Inc. and subsidiaries at December 30, 1983 and December 31, 1982, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

We have reviewed the pooling of interests accounting for the business combinations consummated in 1983, as described in Note 2 to the consolidated financial statements. In our opinion, except for the effects on net income per share, adjustments necessary to restate the consolidated financial statements for the year ended January 1, 1982 for the aforementioned poolings of interests would not result in financial statements that would differ materially from the unrestated consolidated financial statements examined by other auditors. We have reviewed the adjustments to the previously reported net income per share and, in our opinion, such adjustments have been appropriately applied to give retroactive effect to the aforementioned poolings of interests.

Fort Lauderdale, Florida
February 14, 1984

Report of Independent Accountants

To the Stockholders and Board of Directors of
CTS Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, stockholders' equity and changes in financial position present fairly the financial position of CTS Corporation and its subsidiaries at January 1, 1984 and January 2, 1983, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated statements of earnings, stockholders' equity and changes in financial position of CTS Corporation, prior to their restatement for the 1983 pooling of interests, for the year ended January 3, 1982 and of Micro Peripherals, Inc., prior to their restatement for the 1983 pooling of interests, for the years ended April 30, 1982 and May 1, 1981, were examined by other independent accountants, whose reports, dated February 12, 1982 and September 10, 1982, expressed unqualified opinions on those statements.

We have applied procedures to the combination of the accompanying consolidated statements of earnings, stockholders' equity and changes in financial position for the year ended January 3, 1982, after restatement for the 1983 pooling of interests; in our opinion such consolidated statements have been properly combined on the basis described in Note B of notes to consolidated financial statements.

South Bend, Indiana
February 20, 1984
Reports of Independent Accountants

To the Shareholders and the Board of Directors of
United Missouri Bancshares, Inc.:

We have examined the consolidated statements of condition of United Missouri Bancshares, Inc. (a Missouri corporation) and members as of December 31, 1983 and 1982, and the related statements of income, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We also reviewed the adjustments for the 1982 pooling-of-interests, described in the Acquisitions footnote, that were applied to restate the 1981 financial statements. In our opinion, such adjustments are appropriate and have been properly applied to the 1981 financial statements.

In our opinion, the 1983 and 1982 financial statements referred to above present fairly the financial position of United Missouri Bancshares, Inc. and members as of December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Kansas City, Missouri
January 19, 1984

The predecessor auditor's report is shown below.

To the Shareholders and the Board of Directors of
United Missouri Bancshares, Inc.:

We have examined the consolidated statement of condition of UNITED MISSOURI BANC SHARES, INC. (a Missouri corporation) and members as of December 31, 1981, and the related statements of income, shareholders' equity and changes in financial position for the year then ended. The financial statements referred to in the preceding sentence are not separately presented herein and do not reflect the pooling-of-interests business combination with City Bank and Trust Company and its parent in August 1982. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements, prior to the restatement to reflect the pooling-of-interests business combination referred to above, present fairly the financial position of United Missouri Bancshares, Inc. and members as of December 31, 1981, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change (with which we concur) in the method of accounting for compensated absences.

Kansas City, Missouri
January 20, 1982

Accountant's Report

The Board of Directors and Shareholders
Pennbancorp:

We have examined the consolidated balance sheet of Pennbancorp and subsidiaries as of December 31, 1983 and the related consolidated statements of income, changes in shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Pennbancorp and subsidiaries as of December 31, 1983 and the consolidated results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

We previously examined and reported upon the consolidated balance sheet of Pennbancorp and subsidiaries as of December 31, 1982 and the related consolidated statements of income, changes in shareholders' equity and changes in financial position for each of the two years in the period ended December 31, 1982, prior to their restatement for the 1983 pooling of interests described in Note 2 of Notes to Consolidated Financial Statements. The assets of Pennbancorp and subsidiaries represented 51 percent of the restated total assets as of December 31, 1982, and their contribution to restated net income represented 56 percent and 60 percent, respectively, for each of the two years in the period ended December 31, 1982. Separate financial statements of First Seneca Corporation and subsidiaries included in the restated consolidated balance sheet as of December 31, 1982 and the restated consolidated statements of income, changes in shareholders' equity and changes in financial position for each of the two years in the period ended December 31, 1982 were examined and reported upon separately by other auditors.

We also have applied procedures to the combination of the accompanying consolidated balance sheet as of December 31, 1982 and the related consolidated statements of income, changes in shareholders' equity and changes in financial position for each of the two years in the period ended December 31, 1982, after restatement for the 1983 pooling of interests; in our opinion, such consolidated statements have been properly combined on the basis described in Note 2 of Notes to Consolidated Financial Statements.

Pittsburgh, Pennsylvania
January 26, 1984
INCONSISTENT APPLICATION OF PRINCIPLES

SAS No. 2, as amended, states that a departure from the standard report may be called for if accounting principles have not been applied consistently. If a material change is made in the application of accounting principles, the auditor is to state that the change is one "with which we concur" unless he takes exception to the change in expressing his opinion as to fair presentation of the financial statements in conformity with generally accepted accounting principles. If the auditor concurs with the change, the manner in which it is to be treated in the auditor's report depends on whether the financial statements of prior years are restated for the change.

Twenty-one auditors' reports are presented below in which a departure was made because accounting principles were not consistently applied, and the auditor concurred with the departure. The reports are classified according to whether the financial statements of prior years are restated for the change.

RESTATED FINANCIAL STATEMENTS

Auditors' Report

To the Stockholders and Board of Directors of Compugraphic Corporation:

We have examined the consolidated balance sheet of Compugraphic Corporation (a Massachusetts corporation) and subsidiaries as of October 1, 1983 and October 2, 1982, and the consolidated statements of operations, stockholders' investment, and changes in financial position for each of the three years in the period ended October 1, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Compugraphic Corporation and subsidiaries as of October 1, 1983 and October 2, 1982, and the results of their operations and changes in their financial position for each of the three years in the period ended October 1, 1983, in conformity with generally accepted accounting principles which, except for the change (with which we concur) in the method of accounting for foreign currency translation as
explained in Note 1 to the financial statements, have been applied on a consistent basis, after restatement (with which we concur) for the consolidation of Graphic Credit Corporation, a wholly owned financing subsidiary that was previously accounted for using the equity method as explained in Note 1 to the financial statements.

Boston, Massachusetts
October 28, 1983

Accountants’ Report
The Board of Directors
Conner Homes Corporation

We have examined the consolidated balance sheets of Conner Homes Corporation and subsidiaries as of August 28, 1983 and August 29, 1982 and the related consolidated statements of earnings and retained earnings and changes in financial position for each of the years in the three-year period ended August 28, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Conner Homes Corporation and subsidiaries at August 28, 1983 and August 29, 1982 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended August 28, 1983, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for a finance subsidiary as described in note 2 to the consolidated financial statements.

Raleigh, North Carolina
October 14, 1983

Opinion of Independent Accountants
To the Stockholders of
Foster Wheeler Corporation:

We have examined the consolidated statements of financial condition of Foster Wheeler Corporation and Subsidiaries as of December 31, 1983 and 1982 and the related consolidated statements of earnings, changes in stockholders’ equity, and changes in financial position for each of the years ended December 31, 1983, 1982 and 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Foster Wheeler Corporation and Subsidiaries at December 31, 1983 and 1982 and the consolidated results of their operations and the consolidated changes in their financial position for each of the years ended December 31, 1983, 1982 and 1981, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of reflecting the financial results of certain of its subsidiaries in the consolidated financial statements, and except for the change in 1982, with which we concur, in the method of accounting for foreign currency translation; as described in Notes 1 and 11, respectively.

New York, New York
February 15, 1984
Report of Independent Certified Public Accountants

To the Board of Directors and Shareholders of
New England Electric System:

We have examined the consolidated balance sheets and the consolidated statements of capitalization of New England Electric System and subsidiaries as of December 31, 1983 and 1982 and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of New England Electric System and subsidiaries as of December 31, 1983 and 1982, and the consolidated results of their operations and changes in their consolidated financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change in the method of accounting, with which we concur, to consolidate New England Energy Incorporated, as described in Note A to the financial statements.

Boston, Massachusetts
January 19, 1984

Accountants' Report

The Stockholders and Board of Directors
Norfolk Southern Corporation:

We have examined the consolidated balance sheets of Norfolk Southern Corporation and consolidated subsidiaries as of December 31, 1983 and 1982, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for each of the years in the three-year period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of the Southern Railway Company and consolidated subsidiaries (Southern) for 1981, which are included therein and which reflect total assets and total operating revenues constituting approximately fifty percent of the related consolidated totals. Such consolidated financial statements of Southern, before giving effect to the restatement for the change in accounting for track structure as described in note 3, were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Southern, before giving effect to the restatement for the change in accounting for track structure, is based solely on the report of the other auditors.

In our opinion, based upon our examination and the report of other auditors, the aforementioned consolidated financial statements present fairly the financial position of Norfolk Southern Corporation and consolidated subsidiaries at December 31, 1983 and December 31, 1982, and the results of their operations and the changes in financial position for each of the years in the three-year period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for track structure as described in note 3 to the financial statements.

Norfolk, Virginia
January 24, 1984
Auditor's Opinion

Board of Directors and Stockholders
Optical Coating Laboratory, Inc.
Santa Rosa, California

We have examined the consolidated balance sheets of Optical Coating Laboratory, Inc. and Subsidiaries as of October 31, 1983 and 1982, and the related consolidated statements of earnings, stockholders' equity and changes in financial position for each of the three years in the period ended October 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Optical Coating Laboratory, Inc. and Subsidiaries as of October 31, 1983 and 1982, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended October 31, 1983, in conformity with generally accepted accounting principles consistently applied during the periods after the restatement for the change, with which we concur, in the consolidation policy described in Note 2 to the consolidated financial statements.

Our examinations also comprehended the schedules listed in the Index at Item 14(a)(2). In our opinion, such schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

San Francisco, California
December 14, 1983

Report of Independent Certified Public Accountants:

To the Board of Directors and Stockholders of
Philip Morris Incorporated:

We have examined the consolidated balance sheets of PHILIP MORRIS INCORPORATED and Consolidated Subsidiaries as of December 31, 1983 and 1982, and the related consolidated statements of earnings, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements mentioned above present fairly the financial position of Philip Morris Incorporated and consolidated subsidiaries at December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for real estate operations as discussed in the notes to consolidated financial statements.

New York, New York
January 24, 1984
Auditor's Opinion

October 14, 1983

Board of Directors and Stockholders
S.S. Pierce Company, Inc.
Dundee, New York 14837

We have examined the consolidated balance sheets of S.S. Pierce Company, Inc. and subsidiaries as of July 31, 1983 and 1982, and the related consolidated statements of net earnings, redeemable preferred stock and stockholder's equity and changes in financial position for each of the three years in the period ended July 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of S.S. Pierce Company, Inc. and subsidiaries at July 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended July 31, 1983, in conformity with generally accepted accounting principles which after restatement for the change in 1982, with which we concur, in accounting for compensated absences have been applied on a consistent basis, except for the change in 1982, with which we also concur, in the method of accounting for inventories from the first-in, first-out method (FIFO) to the last-in, last-out [sic] method (LIFO).

Auditors' Report

The Board of Directors and Stockholders of Southwestern Public Service Company:

We have examined the balance sheets and statements of capitalization of Southwestern Public Service Company as of August 31, 1983 and 1982, and the related statements of earnings, common stockholders' equity and sources of funds for plant additions for each of the years in the three-year period ended August 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Southwestern Public Service Company at August 31, 1983 and 1982, and the results of its operations and sources of funds for plant additions for each of the years in the three-year period ended August 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis after restatement, with which we concur, to give retroactive effect to the rate order as described in note 2 to the financial statements.

We have also examined the balance sheets and statements of capitalization as of August 31, 1981, 1980 and 1979, and the statements of earnings, common stockholders' equity and sources of funds for plant additions for the years ended August 31, 1980 and 1979 (none of which are presented herein). The selected financial data for each of the years in the five-year period ended August 31, 1983, appearing on page 17 were derived from the financial statements that we examined.

Amarillo, Texas
October 6, 1983
Report of Independent Public Accountants

To the Board of Directors and Shareholders of
TraveLodge International, Inc.

We have examined the consolidated balance sheets of TraveLodge International, Inc. as of October 31, 1983 and October 31, 1982, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended October 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of TraveLodge International, Inc. at October 31, 1983 and October 31, 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended October 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the changes, with which we concur, in the method of accounting for foreign currency conversion and compensated absences as described in Note 5 to the financial statements.

San Diego, California
December 8, 1983

UNRESTATED FINANCIAL STATEMENTS

Accountants' Report

The Board of Directors and Shareholders
American Broadcasting Companies, Inc.:

We have examined the consolidated balance sheets of American Broadcasting Companies, Inc. and subsidiaries as of December 31, 1983, January 1, 1983 and January 2, 1982 and the related statements of consolidated earnings, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of American Broadcasting Companies, Inc. and subsidiaries at December 31, 1983, January 1, 1983 and January 2, 1982, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles which, other than for the change in 1982 in recording program rights (note L), have been applied on a consistent basis.

New York, New York
February 13, 1984

Auditors' Report

The Board of Directors and Stockholders
S.M. Flickinger Co., Inc.
Buffalo, New York

We have examined the consolidated balance sheets of S.M. Flickinger Co., Inc. and subsidiaries as of July 30, 1983 and July 31, 1982, and the related statements of earnings, stockholders' equity and changes in financial position for each of the three years (52-53 weeks) in the period ended July 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
In our opinion, the consolidated financial statements referred to above present fairly the financial position of S.M. Flickinger Co., Inc. and subsidiaries as of July 30, 1983 and July 31, 1982, and the results of their operations and the changes in their financial position for each of the three years (52-53 weeks) in the period ended July 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis except for the change in 1982, with which we concur, in the method of accounting for inventories as described in Note A to the financial statements.

Buffalo, New York
September 2, 1983

Report of Independent Certified Public Accountants

To the Board of Directors of
Global Marine Inc.

We have examined the consolidated balance sheet of Global Marine Inc. and Subsidiaries as of December 31, 1983 and 1982, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Global Marine Inc. and Subsidiaries as of December 31, 1983 and 1982, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of computing depreciation as described in Note 2 to the consolidated financial statements.

Houston, Texas
February 20, 1984

Auditors' Report

To the Shareholders and Board of Directors of
Granger Associates:

We have examined the consolidated balance sheets of Granger Associates and subsidiaries as of August 31, 1983 and 1982 and the related consolidated statements of income, shareholders' equity, and changes in financial position for each of the three years in the period ended August 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of Granger Associates and subsidiaries as of August 31, 1983 and 1982 and the results of their operations and the changes in their financial position for each of the three years in the period ended August 31, 1983, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in 1982 in the method of translating foreign currency transactions and financial statements as described in Note 2 to the consolidated financial statements.

San Jose, California
September 26, 1983
Report of Independent Accountants

To the Board of Directors and Shareholders of Insilco Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, of changes in financial position and of changes in shareholders' equity present fairly the financial position of Insilco Corporation and subsidiary companies at December 31, 1983 and 1982, the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of accounting for the sale of stock by a subsidiary as described in Note 10 to the consolidated financial statements. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Hartford, CT 06103
February 9, 1984

Auditor's Opinion

The Board of Directors and Stockholders Kinder-Care Learning Centers, Inc.:

We have examined the consolidated balance sheets of Kinder-Care Learning Centers, Inc. and subsidiaries as of September 2, 1983 and September 3, 1982, and the related consolidated statements of earnings, stockholders' equity, and changes in financial position for each of the years in the two-year period ended September 2, 1983, the thirteen week period ended August 28, 1981 and the year ended May 29, 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Kinder-Care Learning Centers, Inc. and subsidiaries as of September 2, 1983 and September 3, 1982, and the results of their operations and the changes in their financial position for each of the years in the two-year period ended September 2, 1983, the thirteen week period ended August 28, 1981 and the year ended May 29, 1981, in conformity with generally accepted accounting principles consistently applied during the period except for the changes, with which we concur, in the methods of accounting for pre-operating costs and auxiliary equipment described in note 2 to the financial statements.

Birmingham, Alabama
October 4, 1983

Auditor's Opinion

To the Board of Directors and Shareholders of Longview Fibre Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, earnings reinvested in the business and changes in financial position present fairly the financial position of Longview Fibre Company and its subsidiary at October 31, 1983, 1982 and 1981, and the results of their operations and the changes in their financial position for each of the three years in the period ended October 31, 1983, in conformity with generally accepted accounting
principles consistently applied during the period except for the changes, with which we concur, in the method of accounting for investment tax credits and depreciation as described in Note 2 to the financial statements. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Portland, Oregon
December 7, 1983

Accountants' Opinion

The Stockholders and Board of Directors of
Mobile Gas Service Corporation

We have examined the consolidated balance sheet of Mobile Gas Service Corporation and Subsidiary as of September 30, 1983, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Mobile Gas Service Corporation for the years ended September 30, 1982 and 1981, were examined by other auditors whose report thereon dated October 21, 1982, expressed an opinion modified for the change with which they concurred, in the method of accounting for the commodity cost of gas purchased as described in Note 2 to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Mobile Gas Service Corporation and Subsidiary at September 30, 1983, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of accounting for income taxes as described in Note 2 to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year.

Mobile, Alabama
October 21, 1983

Report of Certified Public Accountants

The Board of Directors and Shareholders
Owens-Illinois, Inc.

We have examined the accompanying consolidated balance sheet of Owens-Illinois, Inc. at December 31, 1983 and 1982, and the related consolidated statements of earnings, capital in excess of stated value, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Owens-Illinois, Inc. at December 31, 1983 and 1982, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis during the period, except for the change in 1983, with which we concur, in the method of accounting for foreign currency translation and the changes, in 1982, with which we concur, in the methods of accounting for glass melting furnace rebuilding costs and for mold costs, all as described on page 29.

Toledo, Ohio
January 28, 1984
Report of Certified Public Accountants

To the Board of Directors of
TECO Energy, Inc.:

We have examined the consolidated balance sheets of TECO Energy, Inc. and subsidiaries as of December 31, 1983 and 1982 and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1983 and the consolidated statement of capitalization as of December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of TECO Energy, Inc. and subsidiaries as of December 31, 1983 and 1982, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of recording revenues as described in Note A to the financial statements.

Tampa, Florida
February 2, 1984

Auditors' Report

To the shareholders of
Weyerhaeuser Company:

We have examined the consolidated balance sheet of Weyerhaeuser Company (a Washington corporation) and subsidiaries as of December 25, 1983, and December 26, 1982, and the related statements of consolidated earnings, shareholders' interest and changes in financial position for each of the three years in the period ended December 25, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Weyerhaeuser Company and subsidiaries as of December 25, 1983, and December 26, 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 25, 1983, in conformity with generally accepted accounting principles, which, except for the change in 1982 (with which we concur) in the method of accounting for the net proceeds from the sale of depreciation tax benefits as explained in Note 1 to the financial statements, have been applied on a consistent basis.

Seattle, Washington,
February 6, 1984.
UNCERTAINTIES

SAS No. 2, as amended, states that a departure from the standard report may be called for if the financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report. If the statements are affected by a material uncertainty, the auditor is to qualify or disclaim an opinion. The uncertainty is to be described in an explanatory paragraph (or in a note to the statements referred to in the auditor's report) and referred to in the opinion paragraph.

Fifty-three auditors' reports are presented below, of which two contain a disclaimer of opinion and fifty-one contain a qualified opinion because of an uncertainty of the type described above. The reports containing disclaimers of opinion are presented first. The reports containing qualified opinions are presented second, classified according to the nature of the uncertainty.

DISCLAIMER

Report of Independent Public Accountants

To Datametrics Corporation:

We have examined the consolidated balance sheets of DATAMETRICS CORPORATION (a California corporation) and subsidiaries as of October 31, 1981 and 1982, and the related consolidated statements of operations, capital deficiency and changes in financial position for each of the two years in the period ended October 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As reflected in the accompanying consolidated financial statements, the companies incurred net losses of $5,162,266 and $1,885,905 for the years ended October 31, 1981 and 1982, respectively. At October 31, 1981 and 1982, the accompanying consolidated balance sheets reflected net deficits of $2,349,151 and $3,497,701, respectively, in capital deficiency and working capital deficiencies of $1,849,238 and $2,487,576, respectively. Accounts payable were substantially past due at October 31, 1981 and 1982, and numerous vendors had filed court actions for payment (see Notes 1 and 11 to the consolidated financial statements). The Company is in default under the terms of its long-term bank agreement for loans of $450,000 and $437,500 at October 31, 1981 and 1982, respectively (see Note 8 to the consolidated financial statements); however, as of February 2, 1983, the bank has not exercised its option to demand immediate payment. Also, as discussed in Note 5, the Company is in default under the terms of its long-term convertible subordinated debentures at October 31, 1982. The events of default under loan agreements could cause the debenture holders to exercise their remedies under the loan agreements, including acceleration of maturities on all such debt. Should any holder or trustee exercise its remedies, such indebtedness would become a current liability immediately due and payable.

The factors discussed in the preceding paragraph indicate that the companies may be unable to continue in existence. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts or the recorded amounts and
classifications of liabilities that might be necessary should the companies be unable to continue in existence. If the companies were required to liquidate their assets, it is possible that they would not be able to realize their investments in accounts receivable, inventories, prepaid expenses, property and equipment, and other assets.

In our previous report dated February 2, 1983, we also included a paragraph in our report referring to a Securities and Exchange Commission private order of investigation issued to the Company and its officers and directors. This matter was settled on September 12, 1983 without any adjustments to the financial statements, as discussed in Note 12 of notes to the financial statements.

In view of the significance of the possible losses in realization of the investment in substantially all of the companies' assets and the classification of debentures, as noted in the preceding paragraphs, we are unable to express, and we do not express, an opinion on the consolidated balance sheets of Datametrics Corporation and subsidiaries as of October 31, 1981 and 1982, or on the related consolidated statements of operations, capital deficiency and changes in financial position for the two years in the period ended October 31, 1982.

Los Angeles, California,
February 2, 1983 (except with respect to the matter discussed in Note 12, as to which the date is September 12, 1983).

Auditor's Opinion

Board of Directors
Struthers Oil & Gas Corp.
Tulsa, Oklahoma

We have examined the consolidated balance sheets of Struthers Oil & Gas Corp., a majority owned subsidiary of Southland Energy Corp. (Southland) as of October 31, 1983 and November 30, 1982, the related statements of operations, stockholders' equity (deficiency in assets) and changes in financial position for the eleven months ended October 31, 1983 and for the two years in the period ended November 30, 1982 and the schedules listed in the Index at Item 13(a)(2). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The consolidated financial statements referred to above have been prepared using generally accepted accounting principles applicable to a going concern which contemplate the realization of assets and the liquidation of liabilities in the normal course of business. However, the Company had sustained operating losses in each of the three years in the period ended November 30, 1982, and at November 30, 1982, the continuation of the Company as a going concern, and, accordingly, the ultimate realization of the carrying amounts of a substantial portion of its assets was dependent upon future profitable operations and the obtaining of additional financing.

As discussed in Note A, the Company sustained an additional $5,945,903 loss from operations during the eleven months ended October 31, 1983 and its financial condition significantly deteriorated. At October 31, 1983, the Company has material deficiencies in working capital and net assets, is in default under its bank lines of credit and is guarantor of certain of its partnerships' bank debt which is also in default. In addition, Southland has announced its intention to dispose of the Company and intends to make no additional advances to it in the future.

As a result of the significant deterioration in the Company's financial condition discussed in the preceding paragraph, our present opinion on the consolidated financial statements at November 30, 1982 and for the two years then ended is different from that expressed in our previous report.

Because of the material uncertainties relating to the Company's continuance of operations, we are unable to and do not express an opinion on the accompanying consolidated financial statements or on the schedules listed in the Index at Item 13(a)(2).

Tulsa, Oklahoma
January 17, 1984
CONTINUATION AS A GOING CONCERN

Report of Independent Accountants

The Board of Directors and Stockholders
Alfacell Corporation

We have examined the balance sheet of Alfacell Corporation (a Development Stage Company) as of July 31, 1983 and 1982 and the related statements of operations, stockholders' equity and changes in financial position for the year ended July 31, 1983 and for the period from inception August 24, 1981 to July 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated September 28, 1982, our opinion on the July 31, 1982 financial statements was qualified as being subject to the company's ability to continue as a going concern which was dependent upon a successful public stock offering and the Company attaining profitable operations. As explained in Note 5, the Company has successfully completed its public stock offering, however, it has not attained profitable operations. Consequently, the continuation of the Company as a going concern is still uncertain.

In our opinion, subject to the effects of the adjustments, if any, that might have been required had the ultimate outcome of the uncertainty about the Company's ability to continue as a going concern been known, the financial statements referred to above present fairly the financial position of Alfacell Corporation as of July 31, 1983 and 1982 and the results of its operations and the changes in its financial position for the year ended July 31, 1983 and from August 24, 1981 to July 31, 1982 in conformity with generally accepted accounting principles applied on a consistent basis.

Cranford, New Jersey
August 19, 1983 except as to Note 9 which is September 19, 1983

Independent Auditor's Report

To the Stockholders of
Barber-Greene Company

We have examined the consolidated balance sheets of Barber-Greene Company and Subsidiaries as of September 3, 1983 and August 28, 1982, and the related consolidated statements of earnings, changes in stockholders' equity and changes in financial position for each of the three years in the period ended September 3, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Notes 6 and 7 to the consolidated financial statements, the Company is in default on certain covenants of its domestic loan agreements at September 3, 1983, primarily as a result of a net loss of $34,948,000 incurred in fiscal 1983. The lenders may demand repayment of the loans. No such demand has been made. Negotiations are presently underway to obtain revised loan agreements in order to permit the realization of assets and the liquidation of liabilities in the ordinary course of business. The Company cannot predict what the outcome of the negotiations will be.

As discussed in Note 17 to the consolidated financial statements, Barber-Greene England Limited (BGE) has refinanced its bank borrowings and has had net losses for several years. The continued existence of BGE is dependent upon its continuing to receive financial support from its banks and a return to profitable operations in order to meet its obligations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and the classification and liquidation of liabilities that might be necessary should BGE be unable to continue in existence. Also, as discussed in Note 17, BGE is a defendant in two lawsuits relating to the sale and subsequent performance of a machine. Management is unable to determine the ultimate
outcome of these lawsuits and no provision for any liability that may result has been recorded in the 1983 consolidated financial statements.

In our opinion, subject to the effects on the 1983 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties as to (1) the Company's realization of its assets and the liquidation of its liabilities in the ordinary course of business which is dependent upon the satisfactory completion of negotiations with its domestic lenders and (2) BGE's continuing in existence and related recoverability and classification of its recorded assets and the classification and liquidation of liabilities which is dependent upon the continued financial support from its banks and the return to profitable operations and the outcome of the lawsuits relating to a machine known, the financial statements referred to above present fairly the consolidated financial position of Barber-Greene Company and Subsidiaries at September 3, 1983 and August 28, 1982, and the consolidated results of their operations and the changes in their consolidated financial position for each of the three years in the period ended September 3, 1983, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the consolidation policy with respect to the Brazilian subsidiary as described in Note 15 to the consolidated financial statements, and except for the change, with which we concur, in the method of accounting for foreign currency translation made in 1982, as described in Note 9 to the consolidated financial statements.

Aurora, Illinois
October 26, 1983 except as to Notes 6 and 7 as to which the date is December 2, 1983 as to the fact that the domestic lenders have not demanded payment under the loan agreements.

Auditor's Opinion

To Cambex Corporation:

We have examined the balance sheets of CAMBEX CORPORATION (a Massachusetts corporation) as of August 31, 1983 and 1982, and the related statements of operations, stockholders' investment and changes in financial position for each of the three years in the period ended August 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As set forth more fully in Note 2 to the accompanying financial statements, realization of the recorded asset amounts included in the August 31, 1983 balance sheet and the related classification of assets and liabilities are subject to the success of future operations.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, relating to realization of recorded asset amounts and classification of assets and liabilities referred to in the preceding paragraph, the financial statements referred to above present fairly the financial position of Cambex Corporation as of August 31, 1983 and 1982, and the results of its operations and the changes in its financial position for each of the three years in the period ended August 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the index of financial statements are presented for purposes of complying with the Securities and Exchange Commission's rules and regulations under the Securities Exchange Act of 1934 and are not otherwise a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Boston, Massachusetts
December 1, 1983.
Report of Certified Public Accountants

The Stockholders and Board of Directors
Flame Industries, Inc.

We have examined the consolidated balance sheets of Flame Industries, Inc. and subsidiaries as of August 31, 1983 and 1982, and the related consolidated statements of operations and retained earnings (deficit), and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

On May 27, 1983, the Company filed a voluntary petition for protection under Chapter 11 of Title 11, United States Bankruptcy Code. The Company has experienced substantially reduced sales due to reduced activity in the oil and gas drilling industry. As a result, the Company is experiencing significant cash shortages.

The accompanying financial statements do not give effect to possible adjustments (not presently determinable): (1) to be determined in the future as a result of court-approval actions of the Company as to the nature and extent of its operations; (2) which would be part of a plant or reorganization; or (3) which would result from a sale of all or part of the Company's properties. Such adjustments may effect the recoverability and classification of recorded asset amounts and the amount and classification of liabilities.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty about the recoverability and classification of recorded asset amounts and the amount and classification of liabilities referred to in the preceding paragraph been known, such financial statements present fairly the financial position of Flame Industries, Inc. and subsidiaries at August 31, 1983 and 1982, and the results of its operations and retained earnings (deficit), and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Minneapolis, Minnesota
December 22, 1983

Report of Independent Accountants

Shareholders and Board of Directors
Hiller Aviation, Inc.
Porterville, California

We have examined the consolidated financial statements and related schedules of Hiller Aviation, Inc. and subsidiaries listed on page F-1 of the annual report on Form 10-K of Hiller Aviation, Inc. for the year ended August 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company has incurred substantial losses in recent years, and its continuation as a going concern is dependent on its ability to achieve a profitable level of operations, obtain financing or refinancing as may be required and on its ability to maintain the confidence of its creditors. As discussed in Note 2, actions have been taken that are intended to obtain such financing or refinancing and to improve operating results. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty about the recoverability and classifica-
tion of recorded asset amounts and the amounts and classification of liabilities referred to in the preceding paragraph been known, the financial statements referred to above present fairly the consolidated financial position of Hiller Aviation, Inc. and subsidiaries at August 31, 1983 and 1982 and the consolidated results of their operations and the changes in their financial position for each of three years in the period ended August 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion that the schedules referred to above present fairly the information set forth therein in compliance with the applicable accounting regulation of the Securities and Exchange Commission.

Fresno, California
October 25, 1983

Auditors' Opinion

International Harvester Company,
Its Directors and Stockholders:

We have examined the statements of consolidated financial condition of International Harvester Company and subsidiaries as of October 31, 1983 and 1982 and the related statements of consolidated income (loss), of changes in consolidated financial position, and of consolidated non-redeemable preferred, preference, and common stockholders' equity for each of the three years in the period ended October 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 1, under the operational restructuring plan instituted in 1982 and continuing in 1983, the carrying values of certain assets being disposed of in other than the normal course of business are based on estimates that may not materialize as presented due to the uncertainty of future events. Further, as discussed in Note 1, the Company's continuation as a going concern may be dependent upon successful completion of the operational restructuring and upon the Company's ability after such restructuring to operate in accordance with the operating plan and ultimately to return to successful operation. The consolidated financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

As discussed in Note 19, the Company is a defendant in several legal actions or claims. The ultimate outcome of these legal proceedings cannot be determined. Because of the uncertainties arising from these proceedings and the impact an adverse outcome could have on the Company's liquidity, the Company believes that any resulting liability from such legal proceedings, if significant, could materially affect its financial condition. No provision for any liability that may result has been made in the consolidated financial statements.

In our opinion, subject to the effects on the above mentioned consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the second and third paragraphs been known, the accompanying consolidated financial statements present fairly the financial position of International Harvester Company and subsidiaries at October 31, 1983 and 1982 and the results of their operations and the changes in their financial position for each of the three years in the period ended October 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of determining cost of inventories as described in Note 1 to the Company financial statements.

Chicago, Illinois
January 12, 1984
Auditor's Opinion

To the Board of Directors
Keldon Oil Company
Bismarck, North Dakota

We have examined the balance sheets of KELDON OIL COMPANY as of July 31, 1983 and 1982 and the related statements of operations, stockholders' equity (deficit) and changes in financial position for each of the three years in the period ended July 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As shown in the financial statements, the Company has incurred net losses of $1,177,174, $1,621,533, and $2,241,973 during the years ended July 31, 1983, 1982 and 1981, respectively. As of July 31, 1983, its current liabilities exceeded current assets by $5,922,854 and total liabilities exceeded total assets by $4,773,059. In addition, as discussed in Note 5 to the financial statements, the Company is in default under the terms of its loan and credit agreements. The bank has indicated it will not undertake proceedings to enforce collection of the loan prior to March 31, 1984, provided certain conditions are met. There is no assurance that the bank will not undertake collection proceedings subsequent to March 31, 1984 (or prior thereto if the Company does not comply with the terms of the deferred action agreement). Since substantially all the Company's assets and producing properties are pledged as collateral for these loans, the Company may not be able to continue in operation if foreclosure proceedings were instituted. Furthermore, the Company's ability to continue as a going concern is contingent upon the Company's ability to reschedule its debt obligation and to attain profitable operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts which might result from the resolution of the above-mentioned matters.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of matters referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of Keldon Oil Company as of July 31, 1983 and 1982 and the results of its operations and changes in its financial position for each of the three years in the period ended July 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis except for the change during 1981, with which we concur, in the method of accounting for interest costs as described in Note 2 to the financial statements.

St. Paul, Minnesota
September 16, 1983

Report of Independent Accountants

To the Board of Directors and Shareholders of
J.W. Mays, Inc.:

We have examined the consolidated balance sheet of J.W. Mays, Inc. and subsidiaries as of July 31, 1983 and 1982 and the related consolidated statements of operations and retained earnings and of changes in financial position for each of the years in the three year period ended July 31, 1983. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note 2, the Company and its subsidiaries filed a petition in the U.S. Bankruptcy Court for the Southern District of New York under Chapter 11 of the Federal Bankruptcy Code and has ceased operations in certain of its stores. The ability of the Company and its subsidiaries
to continue as a going concern is dependent upon a successful arrangement with creditors in the bankruptcy proceedings, the attaining of sufficiently profitable operations and the availability of bank and trade credit.

In our opinion, subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of the matters discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of J.W. Mays, Inc. and subsidiaries at July 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the years in the three-year period ended July 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York
October 18, 1983

Accountants' Report

The Board of Directors
North Carolina Federal Savings and Loan Association:

We have examined the consolidated statements of financial condition of North Carolina Federal Savings and Loan Association and subsidiary as of September 30, 1983 and 1982, and the related consolidated statements of loss, stockholders' equity and changes in financial position for each of the years in the three-year period ended September 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in note 18, a number of legal actions were filed against North Carolina Federal subsequent to the date of our report on the 1982 consolidated financial statements. Because the final outcome of these matters is not presently determinable and no provision has been made in the consolidated financial statements for the effect, if any, of such litigation, our present opinion on the 1982 and 1981 consolidated financial statements, as presented herein, is different from that expressed in our previous report.

As discussed more fully in note 17 to the consolidated financial statements, North Carolina Federal experienced adverse operating conditions during the three-year period ended September 30, 1983. North Carolina Federal incurred net losses of $4,266,990, $3,936,112 and $2,271,809 for the years ended September 30, 1983, 1982 and 1981, respectively, and corresponding reductions in net worth. North Carolina Federal failed to meet the minimum net worth requirements of the Federal Savings and Loan Insurance Corporation as of September 30, 1983 and is therefore subject to sanctions or administrative actions of the Federal Savings and Loan Insurance Corporation and the Federal Home Loan Bank Board. The accompanying consolidated financial statements were prepared in accordance with accounting principles which assume continuance of North Carolina Federal as a going concern. Accordingly, under that assumption, the accompanying consolidated financial statements do not reflect adjustments that would be necessary should North Carolina Federal be unable to continue operations and, therefore, be required to convert noncash assets to cash at amounts substantially less than those presented in the accompanying 1983 statement of financial condition. Continuation as a going concern is dependent upon achieving a profitable level of operations and obtaining regulatory forbearance as necessary.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the ultimate outcome of the matter discussed in the preceding paragraph been known, and subject to the effects on the 1983 consolidated financial statements concerning the ability of North Carolina Federal to continue as a going concern as discussed in the preceding paragraph, the accompanying consolidated financial statements present fairly the financial position of North Carolina Federal Savings and Loan Association at September 30, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the years in the three-year period ended September 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Charlotte, North Carolina
December 16, 1983 except as to note 18(b), which is as of January 6, 1984
Report of Independent Auditors

The Board of Directors and Shareholders,
Ohio Ferro-Alloys Corporation,
Canton, Ohio

We have examined the balance sheets of Ohio Ferro-Alloys Corporation as of December 31, 1983, and 1982, and the related statements of operations, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As shown in the financial statements and described more fully in the Continuing Operations note, the Corporation incurred net losses of $12,646,000 and $20,277,000 during the years ended December 31, 1983 and 1982, respectively and as of December 31, 1983 the Corporation had a working capital deficiency of $11,933,000. As a result, the Corporation is not in compliance with certain covenants made in a lease and the trustee has given its 60-day written notice of non-compliance (see Long-Term Debt note). During 1983 and 1982, the Corporation obtained deferrals of various expenses and did not pay certain employee benefits when due (see Continuing Operations note). The lines of credit continue to be secured by inventory and accounts receivable (see Short-Term Borrowings note). Accordingly, continuation of the Corporation is dependent upon obtaining additional capital and/or its ability to attain sufficiently profitable operations in order to meet its obligations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Corporation be unable to continue in its present form.

In our opinion, subject to the effect of such adjustments, if any, to the financial statements as would have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of Ohio Ferro-Alloys Corporation as of December 31, 1983 and 1982, and the results of its operations, changes in its shareholders' equity and the changes in its financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

January 27, 1984, except for Short-Term Borrowings note, as to which the date is February 10, 1984.

Auditor's Opinion

To the Stockholders and Board of Directors
Pengo Industries, Inc.
Fort Worth, Texas

We have examined the consolidated balance sheets of Pengo Industries, Inc. and its subsidiaries as of September 30, 1983 and 1982 and the related consolidated statements of operations, stockholders' equity (deficiency) and changes in financial position for the two years ended September 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements of Pengo Industries, Inc. and subsidiaries for the year ended September 30, 1981 were examined by other auditors whose report dated November 18, 1981 (December 3, 1982 as to Note 3), expressed an unqualified opinion on those statements.

As discussed in Note 2, there are conditions which may indicate that the Company will be unable to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

In our opinion, subject to the effects on the 1983 and 1982 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to
in the preceding paragraph been known, the above-mentioned consolidated financial statements pre-

sent fairly the financial position of Pengo Industries, Inc. and its subsidiaries at September 30, 1983
and 1982 and the results of their operations and the changes in their financial position for the years
then ended, in conformity with generally accepted accounting principles applied on a consistent basis
during the two year period ended September 30, 1983 and on a basis consistent with that of the
preceding year.

Fort Worth, Texas
December 22, 1983

Report of Independent Certified Public Accountants

Board of Directors
Penn-Pacific Corp.
Tustin, California

We have examined the consolidated balance sheet of Penn-Pacific Corp. and subsidiaries (Com-
pany) as at September 30, 1983, and the related consolidated statements of operations, stockholders' equity and changes in financial position, and the financial statement schedules listed under Item 14(a)(2) on the preceding page, for the year ended September 30, 1983. Our examination was made in accord-
ance with generally accepted auditing standards and, accordingly, included such tests of the account-
ing records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements and supporting schedules of Penn-Pacific Corp. and subsidiaries for the years ended September 30, 1982 and 1981, were examined by other auditors whose opinion, dated December 23, 1982, on those consolidated financial statements and supporting schedules was qualified as being subject to the effects on the 1982 and 1981 consolidated financial statements and supporting schedules of such adjustments, if any, as might have been required had the outcome of uncertainties about the sale and litigation discussed in Notes 2 and 9 to such consolidated financial statements been known, and had the recoverability and classification of recorded asset amounts and the amounts and classification of liabilities discussed in the fifth paragraph of the auditors' report and in Notes 2, 3, 4, and 9 to such consolidated financial statements been known.

As described in Note 3 to the consolidated financial statements, the Company has entered into an agreement to sell certain of its oil and gas and related properties to American Energy Corporation (AEC) and has recorded accounts and notes receivable from AEC aggregating $4,009,675. The sales agreement has not been executed and the final terms of the sale are in dispute. The Company has initiated a lawsuit to recover the amounts due and punitive damages and AEC has filed a cross complaint alleging breach of contract and seeking punitive damages. Collection of the recorded receiv-
ables is contingent upon the outcome of the pending litigation regarding the final terms of sale and the perfection of a security interest in, and future production from, the oil and gas properties transferred to AEC. The ultimate outcome of the terms of the sale, the litigation, and the amount and timing of collection of the related recorded receivables is not determinable at this time.

As described in Note 11 to the consolidated financial statements, the Company is a defendant in several lawsuits. The ultimate outcome of the lawsuits cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

As shown in the consolidated financial statements, the Company incurred a net loss of $1,594,146 during the year ended September 30, 1983, and had a working capital deficit of $1,363,647 at Sep-
tember 30, 1983. These factors, among others, as discussed in Notes 4 and 5, indicate that the Company may be unable to continue in existence. The financial statements do not include any adjust-
ments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.
In our opinion, subject to the effects on the consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the second and third paragraphs and the recoverability and classification of recorded asset amounts and the amount and classification of liabilities referred to in the fourth paragraph been known, the financial statements referred to above present fairly the consolidated financial position of Penn-Pacific Corp. and subsidiaries at September 30, 1983, and the consolidated results of their operations and the changes in their financial position for the year ended September 30, 1983, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. In addition, subject to the effects on the financial statement schedules referred to above of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the second and third paragraphs and the recoverability and classification of recorded asset amounts and the amounts and classification of liabilities referred to in the fourth paragraph been known, the financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein.

Newport Beach, California,
December 23, 1983, except for Notes 2, 4, and 15 as to which the date is February 27, 1984.

Auditors' Report

Stockholders and Board of Directors
Republic Airlines, Inc.

We have examined the consolidated balance sheets of Republic Airlines, Inc. (a Wisconsin corporation) and its subsidiary as of December 31, 1983 and 1982, and the consolidated statements of operations, changes in stockholders' equity (deficit) and changes in financial position for the years ended December 31, 1983, 1982 and 1981. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The accompanying consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, as described in Note B, significant uncertainties, which include the obtaining of employee wage and other concessions, could cause the company to be unable to continue in business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of a major portion of recorded asset amounts or the amount and classification of liabilities that might be necessary should the company be unable to continue in the normal course of business.

In our opinion, subject to the effects on the 1983 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the consolidated financial statements referred to above present fairly the financial position of Republic Airlines, Inc., and its subsidiary at December 31, 1983 and 1982, and the results of their operations and changes in their financial position for the years ended December 31, 1983, 1982 and 1981 in conformity with generally accepted accounting principles applied on a consistent basis.

Minneapolis, Minnesota
February 3, 1984
Report of Independent Certified Public Accountants

The Shareholders and Board of Directors
Rio Verde Energy Corp.

We have examined the consolidated balance sheet of Rio Verde Energy Corp. and subsidiaries as of July 31, 1983, and the related consolidated statements of operations, shareholders' equity, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As shown in the financial statements, the Company incurred a net loss of $5,832,156 during the year ended July 31, 1983. Included in that net loss is a provision for impairment, expiration and abandonment of leases of oil and gas operating rights of $3,344,071 which did not require the use of working capital. Further, the Company's current liabilities exceeded its current assets by $4,165,161 as of July 31, 1983. These factors, among others, as discussed in Note 20, will require adequate funds from operations and other sources for the Company to continue in existence. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

The realization of leases of oil and gas operating rights, as more fully described in Note 18, are dependent upon the future development of commercial production methods as well as the Company's ability to obtain adequate funds to maintain these properties.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the ultimate resolution of the matters discussed in the preceding paragraphs been known, such financial statements present fairly the financial position of Rio Verde Energy Corp. and subsidiaries at July 31, 1983 and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination, referred to above, also included the financial schedules listed in answer to Item 14(a)(2). In our opinion, such financial schedules present fairly the information required to be set forth therein.

Cincinnati, Ohio
November 14, 1983

Report of Certified Public Accountants

The Board of Directors and Shareholders
Tomlinson Oil Co., Inc.

We have examined the accompanying consolidated balance sheet of Tomlinson Oil Co., Inc. at August 31, 1983, and the related consolidated statements of operations, shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Notes 1 and 3 to the consolidated financial statements, Tomlinson Oil Co., Inc. has incurred significant net losses of $5,387,000, $7,782,000 and $19,387,000 during each of the three years in the period ended August 31, 1983 causing a significant adverse effect on the Company's liquidity position. Also, during 1983 the Company was in default of various covenants under its bank financing agreements for which waivers were obtained through December 15, 1983. Realization of the Company's assets is dependent on future developments, including (a) the bank continuing to waive all loan covenant defaults and not accelerating payment of the $8,126,000 borrowed under the financing agreement (b) obtaining extensions on certain debt installments (c) disposing of the discontinued operations and (d) the ability of the Company to generate sufficient future profitability to repay the Company's indebtedness. The consolidated financial statements do not include any adjustments relating to recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

As explained in Notes 1 and 2 to the consolidated financial statements, deteriorating business conditions in oil refining and land development has resulted in a discontinuance of the Company's
refinery facilities and residential land development operations and the plans to sell the assets related to both operations. The estimated net realizable values of these assets, as reflected in the accompanying consolidated financial statements, are based upon estimates of the amounts to be realized from disposal of the assets. The net amounts ultimately realized from the disposition of these assets could differ significantly from the estimated realizable values recorded at August 31, 1983.

As explained in Note 7 to the consolidated financial statements, Tomlinson Oil Co., Inc. is involved in various contingencies and a special investigation being conducted by the Company's audit committee. The ultimate result from such actions is not presently determinable and no provision for any liability that might result has been made in the financial statements.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding three paragraphs been known, the statements mentioned above present fairly the consolidated financial position of Tomlinson Oil Co., Inc. at August 31, 1983, and the consolidated results of operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

San Antonio, Texas
December 15, 1983

Report of Independent Accountants

Board of Directors and Shareholders
Wilson Foods Corporation
Oklahoma City, Oklahoma

We have examined the consolidated financial statements and related schedules of Wilson Foods Corporation and subsidiaries listed in the Item 14(a)(1) and (2) of the annual report on Form 10-K of Wilson Foods Corporation for the fiscal year ended July 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1, on April 22 and 24, 1983, Wilson Foods Corporation and certain of its wholly-owned subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the Federal Bankruptcy Code and were authorized to continue managing and operating their businesses as debtors in possession subject to the control and supervision of the Bankruptcy Court. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern and do not include any adjustments either relating to realization of assets and amounts and classification of liabilities that might be needed should the Company be unable to continue as a going concern or, the adjustments that might arise in connection with a plan of reorganization. The outcome of these uncertainties is presently unknown.

As described in Note 15, there are proceedings and legal actions which arose in connection with the Company's filing of petitions for Chapter 11 reorganization, including legal actions for rejection of certain collective bargaining agreements and proceedings pending before the National Labor Relations Board. The outcome of these matters is not presently determinable.

In our opinion, subject to the effects on the 1983 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the two preceding paragraphs been known, the consolidated financial statements referred to above present fairly the consolidated financial position of Wilson Foods Corporation and subsidiaries at July 30, 1983 and July 31, 1982, and the consolidated results of their operations and changes in their financial position for each of the three fiscal years in the period ended July 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion, subject to the effects on the 1983 schedules of the adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the two preceding paragraphs been known, the schedules referred to above present fairly the information set forth therein in compliance with the applicable accounting regulation of the Securities and Exchange Commission.

Oklahoma City, Oklahoma
October 6, 1983
LAWSUIT AGAINST THE ENTERPRISE FOR DAMAGES

Auditors' Report

To the Stockholders and the Board of Directors of the Alpha Portland Industries, Inc.

We have examined the consolidated balance sheets of Alpha Portland Industries, Inc. and subsidiaries as of December 31, 1983, 1982, and 1981, and the related statements of consolidated operations, consolidated stockholders' equity, and changes in consolidated financial position for the years ended December 31, 1983, 1982, and 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the 1983, 1982 and 1981 financial statements of certain joint ventures in which the Company participates, which statements reflect net assets and revenues of which the Company's proportionate share constitutes 7% and 14%, respectively, of the 1983 consolidated assets and revenues, and 2% and 5%, respectively, of the 1982 and 1981 consolidated assets and revenues. These statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such joint ventures, is based solely upon the reports of other auditors.

As discussed in Note 7 to the consolidated financial statements, the Company has been named as a defendant in actions alleging a national conspiracy to fix, maintain and stabilize prices for cement and ready-mixed concrete, and in two actions alleging the Company wrongfully terminated medical and life insurance benefits for retired employees. It is not possible at present for the Company to predict the outcome or the range of potential loss, if any, which might result from these actions, and no provision for any liability that may result has been made in the consolidated financial statements.

In our opinion, subject to the effects on the 1983, 1982 and 1981 consolidated financial statements (1983 and 1982 with respect to the insurance benefits litigation) of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, based upon our examinations and the reports of other auditors, the consolidated financial statements referred to above present fairly the financial position of Alpha Portland Industries, Inc. and subsidiaries at December 31, 1983, 1982 and 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York
February 10, 1984

Report of Independent Accountants

To the Shareholders and Board of Directors of Binney & Smith Inc.

We have examined the consolidated statements of financial position of Binney & Smith Inc. and its subsidiaries as of December 31, 1983 and 1982, and the related consolidated statements of earnings, changes in shareholders’ equity and of changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note 6, the Company had been named as a defendant in various actions alleging possible violations of the antitrust laws. The ultimate outcome of the alleged possible violations is uncertain at this time.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraphs been known, the consolidated financial statements examined by us present fairly the financial position of Binney & Smith Inc. and its
subsidiaries at December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles consistently applied.

Morristown, New Jersey 07960
February 15, 1984

Report of Certified Public Accountants

The Board of Directors and Stockholders
Chem-tronics, Inc.

We have examined the accompanying consolidated statements of financial position of Chem-tronics, Inc., at September 30, 1983 and 1982, and the related consolidated statements of income, stockholders' equity and changes in financial position, for each of the three years in the period ended September 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 5 to the consolidated financial statements, the Company is a defendant in actions related to a registration statement filed by the Company and in 1983 became a defendant in a patent infringement suit on a process the Company is currently developing. The ultimate outcome of these matters are not presently determinable and no related provision has been made in the financial statements.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the financial statements referred to above present fairly the consolidated financial position of Chem-tronics, Inc., at September 30, 1983 and 1982, and the consolidated results of operations and changes in financial position for each of the three years in the period ended September 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

San Diego, California
November 16, 1983

Report of Independent Auditors

The Board of Directors and Stockholders
Chock Full o'Nuts Corporation

We have examined the consolidated balance sheets of Chock Full o'Nuts Corporation and subsidiaries as of July 31, 1983 and 1982, and the related consolidated statements of income, stockholders' equity, and changes in financial position for each of the three years in the period ended July 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note 4, actions have been brought against the Company in connection with pension plan and insurance matters principally attributable to its previously discontinued brewery operations; the Company has asserted counterclaims with respect to the insurance matter. In addition, with respect to another pension plan applicable to discontinued brewery operations, pension assets in excess of the value of such plan's pension liabilities for vested benefits may be obtained.

San Diego, California
November 16, 1983
In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the consolidated financial statements referred to above present fairly the consolidated financial position of Check Full o'Nuts Corporation and subsidiaries at July 31, 1983 and 1982, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended July 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York
September 16, 1983

Accountants' Report

The Board of Directors
Eagle-Picher Industries, Inc.

We have examined the balance sheet of Eagle-Picher Industries, Inc. and subsidiaries as of November 30, 1983 and 1982 and the related statements of income, shareholders' equity, and changes in financial position for each of the years in the three-year period ended November 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in note H of the notes to financial statements, the Company's liability resulting from asbestos litigation cannot presently be reasonable estimated; and, the amounts of insurance recoveries ultimately collectible from two of the Company's carriers, estimated to be $16,000,000 at November 30, 1983, cannot be assured until agreements with them have been finalized.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the aforementioned financial statements present fairly the financial position of Eagle-Picher Industries, Inc. and subsidiaries at November 30, 1983 and 1982 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended November 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Cincinnati, Ohio
January 13, 1984

Report of Independent Certified Public Accountants

To the Board of Directors and Stockholders of
Flanigan's Enterprises, Inc.:

We have examined the consolidated balance sheets of Flanigan's Enterprises, Inc. (a Florida Corporation) and subsidiaries as of October 2, 1982 and October 1, 1983, and the related consolidated statements of income (loss), stockholders' investment and changes in financial position for each of the three years in the period ended October 1, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
As discussed further in Note 10, there are presently a number of actions which have been brought against Flanigan's Enterprises, Inc. (the Company) which management and their legal counsel believe could result in material losses. These potential losses would ordinarily be covered by the liability insurer; however, subsequent to October 1, 1983, the Company was notified that its former liability insurer is experiencing financial difficulty and may not be able to pay claims that may be assessed against the Company. The inability of the liability insurer to absorb these potential losses could have a material adverse effect on the financial statements; however, the outcome of the above litigation and the ability of the Company's liability insurer to pay any claims which may be assessed are presently uncertain.

In our opinion, subject to the effect of any adjustments that might have been required had the outcome of the matters mentioned in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of Flanigan's Enterprises, Inc. and subsidiaries as of October 2, 1982 and October 1, 1983, and the results of their operations and changes in their financial position for each of the three years in the period ended October 1, 1983, all in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the index to financial statements are presented for purposes of complying with the Securities and Exchange Commission's rules and regulations under the Securities Exchange Act of 1934 and are not otherwise a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Miami, Florida,
December 27, 1983.

Report of Independent Accountants

To the Board of Directors and Shareholders
General Devices, Inc.

We have examined the consolidated balance sheet of General Devices, Inc. and subsidiaries at December 31, 1983, and the related consolidated statements of operations, shareholders' equity and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of General Devices, Inc. and subsidiaries for the years ended December 31, 1982 and 1981 were examined by other independent accountants, whose report dated March 11, 1983 expressed an unqualified opinion on those statements.

As further described in Note 7B, the United States Environmental Protection Agency claimed substantial damages from the Company with respect to a parcel of land which it owns. Because of the uncertainty of the law in this matter, the Company is unable to predict the ultimate outcome.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the consolidated financial statements examined by us present fairly the financial position of General Devices, Inc. and its subsidiaries at December 31, 1983, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles consistently applied.

Philadelphia, Pennsylvania
March 6, 1984, except for Note 7B, as to which the date is March 15, 1984
Auditors' Opinion

Interstate Power Company:

We have examined the consolidated balance sheets and statements of capitalization of Interstate Power Company and subsidiary as of December 31, 1983 and 1982 and the related consolidated statements of income and retained earnings and of changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 5 to the financial statements, the Company has been named as a defendant in litigation involving a coal transloading facility; the Company and its counsel are unable to assess the possibility of material adjustments, if any, that may be required as an outcome of such litigation.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, such consolidated financial statements present fairly the financial position of the companies at December 31, 1983 and 1982 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Chicago, Illinois
January 31, 1984

Accountants' Report

The Board of Directors and Stockholders
Murphy Oil Corporation:

We have examined the consolidated balance sheets of Murphy Oil Corporation and Consolidated Subsidiaries as of December 31, 1983 and 1982 and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the years in the three year period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note N to the consolidated financial statements, on February 15, 1982 the drilling barge "Ocean Ranger" sank off the eastern coast of Canada during a severe storm. As a result of the sinking of the barge, a consolidated subsidiary of the Company is defendant in lawsuits for which the final outcome is not presently determinable.

In our opinion, subject to the effects on the 1983 and 1982 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty discussed in the preceding paragraph been known, the aforementioned consolidated financial statements present fairly the financial position of Murphy Oil Corporation and Consolidated Subsidiaries at December 31, 1983 and 1982 and results of their operations and the changes in their financial position for each of the years in the three year period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Shreveport, Louisiana
March 5, 1984

Auditors' Report

To the Stockholders and Directors,
NICOR Inc.:

We have examined the consolidated balance sheet and statement of capitalization of NICOR Inc. (an Illinois corporation) and subsidiary companies as of December 31, 1983 and 1982, and the related
consolidated statements of income, retained earnings, paid-in capital and changes in financial position for each of the years in the three-year period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed further in "Commitments and contingencies" in the notes to consolidated financial statements, in November 1982, a Circuit Court jury awarded a verdict of $305.5 million to the plaintiff in a suit arising from Northern Illinois Gas Company's termination of purchases of naphtha feedstock. The Company believes the verdict will not be sustained on appeal and that the amount, if any, ultimately paid in this matter would be recovered in its rates for gas utility service, but the ultimate outcome of the matter is uncertain at this time.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of NICOR Inc. and subsidiary companies as of December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the years in the three-year period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Chicago, Illinois
February 1, 1984

Report of Certified Public Accountants

The Board of Directors and Shareholders
Spectra-Physics, Inc.

We have examined the accompanying consolidated balance sheets of Spectra-Physics, Inc. at September 30, 1983 and 1982 and the related consolidated statements of operations, shareholders' equity and changes in financial position for each of the three years in the period ended September 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in the Financial Review of the consolidated financial statements, in 1983 the Company became a defendant in a lawsuit alleging claims under state and federal securities laws, arising from losses incurred in 1983 as a result of unauthorized foreign exchange transactions entered into by an employee. The Company believes that it is more likely than not that plaintiffs can establish liability under this claim, but at this time the Company cannot determine the extent of the plaintiffs' damages, if any. The Company has also filed a lawsuit against the employee for recovery of losses sustained as a result of the unauthorized foreign exchange transactions. The employee, in turn, has presented the claim to the Company's insurance carrier and has demanded that the carrier settle on his behalf. Management and counsel believe that the Company has a reasonable possibility of partially or substantially recovering its losses on the insurance claim. Because the ultimate outcome of these matters cannot presently be determined, no provision for any liability or recovery that may result has been made in the consolidated financial statements.

In our opinion, subject to the effects on the 1983 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the statements mentioned above present fairly the consolidated financial position of Spectra-Physics, Inc. at September 30, 1983 and 1982, and the consolidated results of operations and changes in financial position for each of the three years in the period ended September 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis during the period, except for the change with which we concur, in the method of accounting for foreign currency translation as described in the Financial Review of the consolidated financial statements.

San Jose, California
October 29, 1983
Auditors' Report

To the Shareholders and Board of Directors,
UAL, Inc.:

We have examined the statements of consolidated financial position of UAL, Inc. (a Delaware corporation) and subsidiary companies as of December 31, 1983 and 1982, and the related statements of consolidated operations, changes in consolidated financial position and consolidated nonredeemable preferred stock, common stock and other shareholders' equity for each of the years in the three-year period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed further in "Contingencies and Commitments" in the notes to consolidated financial statements, United Air Lines, Inc. ("United") is liable in a class action suit for discrimination resulting from application of a "no-marriage rule" to stewardesses. At this time it is not possible to estimate the potential amount or range of loss to which United may be subject as a result of the suit.

In our opinion, subject to the effects of such adjustments as would have been required had the outcome of the litigation mentioned in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of UAL, Inc. and subsidiary companies as of December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the years in the three-year period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Chicago, Illinois
February 9, 1984

Report of Certified Public Accountants

The Board of Directors and Stockholders
Van Schaack & Company

We have examined the accompanying consolidated balance sheets of Van Schaack & Company at December 31, 1983 and 1982, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 8 to the consolidated financial statements, the Company is the defendant in a lawsuit filed by a former client of the mortgage banking division. Management is unable to predict the probable outcome of this litigation.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the statements mentioned above present fairly the consolidated financial position of Van Schaack & Company at December 31, 1983 and 1982, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Denver, Colorado
January 25, 1984
RECOVERABILITY OF ASSET CARRYING AMOUNT

Auditors' Report

To the Stockholders and Board of Directors of Bangor Hydro-Electric Company:

We have examined the balance sheets and statements of capitalization of BANGOR HYDRO-ELECTRIC COMPANY (a Maine corporation) as of December 31, 1983 and 1982, and the statements of income, retained earnings and sources of funds for plant additions for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed more fully in Notes 9 and 10, the status of Seabrook Unit 2 in which the Company has an ownership interest has become increasingly uncertain as a result of escalating cost estimates and increased opposition to its construction. Recovery by the Company of its investment in Unit 2 of approximately $16,900,000 (including allowance for funds of approximately $4,100,000) if it were to be cancelled would be dependent upon regulatory approval. It is not possible to estimate what portion, if any, of this investment may not be recovered.

In our opinion, subject to the recovery of the Company's investment in the Unit discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of Bangor Hydro-Electric Company as of December 31, 1983 and 1982, and the results of its operations and its sources of funds for plant additions for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts, January 24, 1984, except for Notes 9 and 10 as to which the date is March 1, 1984.

Auditors' Opinion

To the Board of Directors and Shareholders of Callahan Mining Corporation

We have examined the consolidated balance sheets of Callahan Mining Corporation and Subsidiaries as of December 31, 1983 and 1982, and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 4 to the consolidated financial statements, the recovery of the Company's investment in the Caladay project, which is carried at cost, is subject to the success of the project and cannot be forecast at this time.

In our opinion, subject to the effects on the consolidated financial statements of such adjustment, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the aforementioned consolidated financial statements present fairly the financial position of Callahan Mining Corporation and Subsidiaries at December 31, 1983 and 1982, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Phoenix, Arizona February 17, 1984; with respect to Note 12, February 23, 1984
Auditors' Opinion

To the Board of Directors and Shareholders of Carolina Power & Light Company:

We have examined the balance sheets and schedules of capitalization of Carolina Power & Light Company as of December 31, 1983 and 1982 and the related statements of income, retained earnings and source and use of financial resources for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 6, the Company has canceled plans for construction of a nuclear generating unit and intends to request permission in each of its regulatory jurisdictions to recover its costs related to such unit. The final outcome of this matter cannot presently be determined. In our previous report dated February 11, 1983, our opinion on the above-mentioned 1982 and 1981 financial statements was unqualified; however, in view of the uncertainty referred to above, our present opinion on such financial statements, as expressed herein, is different from that expressed in our previous report.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of the Company at December 31, 1983 and 1982 and the results of its operations and the source and use of its financial resources for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Raleigh, North Carolina
February 15, 1984

Report of Independent Certified Public Accountants

To the Stockholders and Board of Directors of Dominion Resources, Inc.:

We have examined the consolidated balance sheets of Dominion Resources, Inc. and Subsidiaries (see Note A to Consolidated Financial Statements) as of December 31, 1983 and 1982, the related consolidated statements of income and retained earnings and consolidated statements of changes in financial position for each of the three years in the period ended December 31, 1983, and the consolidated statements of capitalization as of December 31, 1983 and 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note D to Consolidated Financial Statements, the Company's subsidiary, Virginia Electric and Power Company, has canceled plans to construct North Anna Unit 3. At this time, it is uncertain how much of the amount deferred relating to the cancellation will be recoverable.

In our opinion, subject to the effects on the 1983 and 1982 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the consolidated financial statements referred to above present fairly the consolidated financial position of Dominion Resources, Inc. and Subsidiaries as of December 31, 1983 and 1982, and the consolidated results of their operations and the consolidated changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York
February 8, 1984
Accountants' Report

Board of Directors and Stockholders
Kaiser Cement Corporation
Oakland, California

We have examined the consolidated balance sheets of Kaiser Cement Corporation and Subsidiaries as of December 31, 1983 and 1982, and the related statements of earnings, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note D to the consolidated financial statements, the financial prospects of China Cement Company (Hong Kong) Limited, a company in which the Corporation has a 36 percent beneficial interest, have become uncertain. Accordingly, the ability of the Corporation to realize the net carrying amount of its investment in China Cement at December 31, 1983, amounting to $46,320,000, is currently uncertain.

In our opinion, subject to the effects on the 1983 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the consolidated financial statements referred to above present fairly the financial position of Kaiser Cement Corporation and Subsidiaries as of December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles consistently applied during the period except for the changes, with which we concur, made as of January 1, 1982, in the method of accounting for capitalized interest costs on certain investments accounted for by the equity method and in the method of accounting for foreign currency translation made as of January 1, 1983, as described in Note A to the consolidated financial statements.

San Francisco, California
February 16, 1984

Auditors' Report

To the Shareholders of
Minstar, Inc.

We have examined the consolidated balance sheets of Minstar, Inc. (a Minnesota corporation, formerly Arctic Enterprises, Inc.) and Subsidiaries as of July 31, 1983 and 1982, and the related consolidated statements of operations and changes in financial position for the years ended July 31, 1983 and 1982, the four months ended July 31, 1981, and the year ended March 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 2 to the consolidated financial statements, the Company is to receive additional net proceeds generated from the sale or disposition of the remaining assets of its discontinued operations. The amount and timing of such net proceeds to be received by the Company cannot reasonably be predicted and, accordingly, no recognition has been given in the consolidated financial statements for such amounts to be received.

In our opinion, subject to the effects on the financial statements of such adjustments as would have been required had the amount of net proceeds to be received by the Company been determinable as described in the preceding paragraph, the consolidated financial statements referred to above present fairly the consolidated financial position of Minstar, Inc. and Subsidiaries as of July 31, 1983 and 1982, and the results of their operations and the changes in their financial position for the years ended July 31, 1983 and 1982, the four months ended July 31, 1981, and the year ended March 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Minneapolis, Minnesota,
September 30, 1983, except as to Notes 3 and 5 for which the date is October 17, 1983.
Auditor's Report

To the Shareholders of
Puget Sound Power & Light Company

We have examined the consolidated balance sheets and statements of capitalization of Puget Sound Power & Light Company as of December 31, 1983 and 1982, and the related consolidated statements of income, earnings reinvested in the business, and sources and uses of capital funds for the years ended December 31, 1983, 1982 and 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

At December 31, 1983, the Company has investments in two nuclear projects which have been terminated. The Company has been authorized by the Washington Utilities and Transportation Commission to recover its investment in the Pebble Springs Nuclear Project through rates to customers. In its most recent general rate filing, the Company has requested recovery of its investment in the Skagit/Hanford Nuclear Project through rates to customers. However, as discussed further in Note 9, because of legal challenges to the rate treatment for the Pebble Springs investment and uncertainty associated with the ultimate rate treatment for the Skagit/Hanford investment, the ultimate recoverability of these investments cannot presently be determined.

In our opinion, subject to the effects on the 1983 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the financial statements referred to above present fairly the consolidated financial position of Puget Sound Power & Light Company as of December 31, 1983 and 1982, and the consolidated results of its operations and sources and uses of capital funds for the years ended December 31, 1983, 1982 and 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Seattle, Washington
February 13, 1984 (Except for Note 15, paragraphs eight through fourteen, as to which the date is February 28, 1984.)

Independent Accountants' Report

Board of Directors and Stockholders
Tesoro Petroleum Corporation
San Antonio, Texas

We have examined the consolidated balance sheets of Tesoro Petroleum Corporation and subsidiaries as of September 30, 1983 and 1982 and the related statements of operations, nonredeemable preference shares, common shares and other stockholders' equity and changes in financial position for each of the three years in the period ended September 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed more fully in Note D, during 1982 the Company offered to sell, at fair market value, its 49.9% interest in Trinidad-Tesoro Petroleum Company Limited (Trinidad-Tesoro) to the 50.1% owner, the Government of Trinidad and Tobago (the Government). Ensuing negotiations to agree on a fair market value were unsuccessful and were terminated. Under the terms of the agreement between the Company and the Government, fair market value is now being independently determined; the Government may, but is not required to, buy the Company's investment in Trinidad-Tesoro at that price. Should the Government elect not to purchase, the Company may then pursue other means of disposition. The process for the independent determination of the fair market value has commenced but is not yet completed and therefore it is not possible to estimate the fair market value that could result therefrom or to conclude whether the investment would be retained, sold or disposed of other than by sale. The tax basis of the Company's investment in Trinidad-Tesoro is currently nominal and if disposed of the tax consequences could be significant. However, no tax provision can be determined at this time, since such determination depends upon the manner of disposition, the sale price if sold and the tax structuring alternatives that may be available.
In our opinion, subject to the possible effects on the 1983 and 1982 financial statements of such adjustments, if any, as might have been required had the outcome of the fair valuing process and other uncertainties discussed in the preceding paragraph been known, the consolidated financial statements referred to above present fairly the financial position of Tesoro Petroleum Corporation and subsidiaries at September 30, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended September 30, 1983 in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the changes, with which we concur, in the method of accounting for oil and gas properties and in the method of computing depreciation for substantially all oil field service equipment, as described in Note A to the consolidated financial statements.

San Antonio, Texas
December 1, 1983

Report of Independent Accountants

To the Stockholders and Board of Directors of
Tipperary Corporation

We have examined the consolidated financial statements of Tipperary Corporation and its subsidiaries listed in the accompanying index as of September 30, 1983 and 1982 and for each of the three years in the period ended September 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 10, the ultimate realization of the Company's investment in its refinery is dependent upon a favorable interrelationship between the availability and price of crude oil, the cost to the Company to refine crude oil and the price that can be obtained for refined products. The effect of present uncertainties on future refinery operations and the amount of ultimate adjustment to the net realizable value of the Company's investment in its refinery, if any, are not presently determinable.

In our opinion, subject to the effect of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the consolidated financial statements examined by us present fairly, after the restatement described in Note 2, the financial position of Tipperary Corporation and its subsidiaries at September 30, 1983 and 1982 and the results of their operations and the changes in their financial position for each of the three years in the period ended September 30, 1983 in conformity with generally accepted accounting principles consistently applied.

Midland, Texas
December 6, 1983

Opinion of Independent Certified Public Accountants

Toledo Mining Company:

We have examined the balance sheets of Toledo Mining Company as of September 30, 1983 and 1982, and the related statements of operations, stockholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company has recorded as an asset the cost of nonproducing mining properties amounting to $845,497 and $1,040,138 at September 30, 1983 and 1982, respectively. The realization of the cost of
these properties is dependent, in part, on the existence of commercially valuable mineral reserves and
the Company's ability to finance development or market the properties.

In our opinion, subject to the effects on the September 30, 1983 and 1982 financial statements of
such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in
the preceding paragraph been known, such financial statements present fairly the financial position of
Toledo Mining Company at September 30, 1983 and 1982, and the results of its operations and the
changes in its financial position for the years then ended, in conformity with generally accepted
accounting principles applied on a consistent basis.

Our examinations also comprehended the supplemental schedules listed in the Index to Financial
Statements and Supporting Schedules as of September 30, 1983 and 1982 and for the years then ended.
In our opinion, subject to the effects on the supplemental schedules of property, plant, and equipment
and of accumulated depreciation, depletion, and amortization of property, plant, and equipment at
September 30, 1983 and 1982 and for the years then ended of such adjustments, if any, as might have
been required had the outcome of the uncertainty referred to in the second preceding paragraph been
known, such supplemental schedules, when considered in relation to the basic financial statements,
present fairly in all material respects the information shown therein.

Salt Lake City, Utah
January 11, 1984

Auditor's Opinion

To the Shareholders and Trustees of
The Westport Company:

We have examined the consolidated balance sheet of The Westport Company (a Massachusetts
business trust) and subsidiaries as of October 31, 1982, and the related consolidated statements of
income, changes in financial position and shareholders' equity for each of the two years in the period
ended October 31, 1982. Our examinations were made in accordance with generally accepted auditing
standards and, accordingly, included such tests of the accounting records and such other auditing
procedures as we considered necessary in the circumstances. We did not audit the financial statements
of 996 Associates (the "Partnership") as of October 31, 1982, or for the year then ended, the investment
in which is reflected in the accompanying financial statements using the equity method of accounting.
The Partnership is on a December 31 financial reporting basis and its audited financial statements as of
December 31, 1982, were reported upon by other auditors. The loss of the Partnership for the ten month
period ended October 31, 1982, ($4,616,000) was determined by a ten month proration of the annual loss
and our opinion expressed herein, insofar as it relates to The Westport Company's share in the loss of
the Partnership, is based solely on the report of the other auditors.

The continuation of the Partnership in its present form is dependent on securing increased financing
and the significant sales of condominium units. Additionally, the Partnership is a defendant in lawsuits
alleging various lease violations and the breach of certain loan agreements. Although management of
the Partnership believes that the present financing and operating conditions are temporary, and that
the Partnership will successfully prevail in its lawsuits, the ultimate outcome cannot presently be
determined and no provision for any loss and liability that may result has been made in the financial
statements of the Partnership.

In our opinion, based on our examination and the report of other auditors referred to above, and
subject to the effects of such adjustments, if any, as might have been required had the outcome of the
matters mentioned in the preceding paragraph been known, the consolidated financial statements
referred to above present fairly the financial position of The Westport Company and subsidiaries as of
October 31, 1982, and the results of their operations and changes in their financial position for each of the
two years in the period ended October 31, 1982, in conformity with generally accepted accounting
principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements
taken as a whole. The supplemental schedules listed in the index of the financial statements, insofar as
they relate to the fiscal years through October 31, 1982, are presented for purposes of complying with
the Securities and Exchange Commission’s rules and regulations under the Securities Exchange Act of 1934 and are not otherwise a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

December 23, 1982 (Except with respect to the report of other auditors as to which the date is February 11, 1983)

Report of Independent Accountants

The Stockholders and the Board of Directors
Williams Electronics, Inc.

We have examined the consolidated balance sheet of Williams Electronics, Inc. and subsidiaries as of September 30, 1983 and 1982 and the related consolidated statements of income, changes in stockholders’ equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements as of September 30, 1981 and for the year then ended were examined by other auditors whose report dated November 25, 1981 expressed an unqualified opinion on those statements and also expressed an opinion that the pro forma adjustments explained in Note 16 have been properly applied on the basis described therein.

As discussed in Note 15 to the accompanying financial statements, the Company has been conducting discussions for the sale of its amusement game business. The effects, if any, of the disposition of the amusement game business on the ultimate realization of the assets used in that business cannot be reasonably determined at this time.

In our opinion, subject to the effects on the 1983 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the consolidated financial position of Williams Electronics, Inc. and subsidiaries at September 30, 1983 and 1982, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis and on a basis consistent with that of the preceding year.

Chicago, Illinois
December 2, 1983, except for Note 15, as to which the date is January 6, 1984

OTHER UNCERTAINTIES

Report of Independent Public Accountants

To the Shareholders of
Brunswick Corporation:

We have examined the consolidated balance sheets of Brunswick Corporation (a Delaware Corporation) and Subsidiaries as of December 31, 1983 and December 31, 1982, and the related consolidated statements of results of operations and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 4, the Company has treated the 1982 disposition of the domestic medical segment as a tax-free redemption of stock. In the opinion of legal counsel, the Company is likely to prevail in the event that the Internal Revenue Service asserts that the disposition is taxable, although
sustaining the nontaxability of the disposition is not certain. As a result, in accordance with generally accepted accounting principles, the Company has not provided Federal income taxes on the domestic gain on disposition recorded in the consolidated financial statements, as it is not likely that a tax liability has been incurred.

In our opinion, subject to the effects on the 1983 and 1982 financial statements of such adjustments, if any, that might have been required had the outcome of the matter referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of Brunswick Corporation and Subsidiaries as of December 31, 1983 and December 31, 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Chicago, Illinois,
February 14, 1984.

Report of Independent Public Accountants

To the Stockholders
Farah Manufacturing Company, Inc.:

We have examined the consolidated balance sheets of Farah Manufacturing Company, Inc. (a Texas corporation) and subsidiaries as of October 31, 1983 and 1982, and the related consolidated statements of operations, stockholders’ equity, and changes in financial position for each of the three years in the period ended October 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described further in note 8 to the consolidated financial statements, in early 1982, a jury verdict and final judgement were rendered in the Company’s favor for approximately $18.9 million, before related taxes, in the District Court of El Paso County, 171st Judicial District, El Paso, Texas, in conjunction with certain litigation. Since the verdict and judgment are in appeal, the Company has not recorded this contingent asset in its financial statements.

In our opinion, subject to the effect of the outcome of the matter referred to in the preceding paragraph, the financial statements referred to above present fairly the financial position of Farah Manufacturing Company, Inc. and subsidiaries as of October 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended October 31, 1983, in conformity with generally accepted accounting principles, which, subsequent to the change (with which we concur) made as of November 1, 1980, in the method of accounting for foreign currency translation as explained in note 1 to the consolidated financial statements, have been applied on a consistent basis.

Dallas, Texas,
December 16, 1983.

Report of Independent Auditors

Board of Directors
International Stretch Products, Inc.
New York, New York

We have examined the consolidated balance sheets of International Stretch Products, Inc. and subsidiaries as of August 31, 1983 and 1982, and the related consolidated statements of operations and deficit, and changes in financial position for each of the three years in the period ended August 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
The Internal Revenue Service has proposed a deficiency of $156,000 plus accrued interest of $130,000 for the 1975 and 1974 income tax returns of one of the Company's Puerto Rican subsidiaries (Note 5a). The Company does not agree with the Service's position and has petitioned the United States Tax Court for relief. The Company's ultimate liability, if any, is not determinable at this time and no provision has been made for this liability in the accompanying financial statements.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the matter referred to in the preceding paragraph been known, the financial statements mentioned present fairly the consolidated financial position of International Stretch Products, Inc. and subsidiaries at August 31, 1983 and 1982, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended August 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York
November 17, 1983

Report of Independent Public Accountants

To the Stockholders and Board of Directors of Louisiana-Pacific Corporation:

We have examined the consolidated balance sheets of Louisiana-Pacific Corporation (a Delaware corporation) and subsidiaries as of December 31, 1983, and 1982, and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed further in the notes to the accompanying financial statements, an action by Louisiana-Pacific Corporation to recover the value of property taken by the U.S. Government in March 1978 for expansion of Redwood National Park is pending. The Company has recorded $330 million which management considers a conservative measure of the value of the land and timber taken. While management believes that its calculation is a conservative measure for financial reporting purposes, it is not possible for us to form an opinion as to the amount which will be eventually recovered through this action.

In our opinion, subject to the effect of any adjustments that might have been required had the final outcome of the Company's action against the U.S. Government mentioned in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of Louisiana-Pacific Corporation and subsidiaries as of December 31, 1983, and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles which, except for the change made in 1982 (with which we concur) in the method of computing depreciation on certain assets as described in the notes to the accompanying financial statements, were applied on a consistent basis.

Portland, Oregon,
February 27, 1984.

Report of Independent Certified Public Accountants

To the Board of Directors and Shareholders of MECHANICAL TECHNOLOGY INCORPORATED:

We have examined the consolidated balance sheet of MECHANICAL TECHNOLOGY INCORPORATED and SUBSIDIARIES as of September 30, 1983 and 1982, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended September 30, 1983. Our examinations were made in accordance with generally
accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 7 to the consolidated financial statements, the Company is in default of substantially all of the financial covenants contained in its long-term debt agreement. The lender has granted a waiver through December 29, 1983. Upon expiration of the waiver, the lender may either grant additional waivers, cause the debt to become immediately due and payable or take no action. The classification of $7,061,000 of such debt as long-term is based on management's belief that the lender will not accelerate repayment or that in the event of such acceleration sufficient alternate financing could be arranged.

In our opinion, subject to the effects on the consolidated financial statements of such adjustment, if any, as might have been required had the outcome of the matter referred to in the preceding paragraph been known, the consolidated financial statements referred to above present fairly the financial position of Mechanical Technology Incorporated and Subsidiaries as of September 30, 1983 and 1982, and the consolidated results of operations and changes in shareholders' equity and financial position for each of the three years in the period ended September 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Albany, New York
December 15, 1983

Report of Certified Public Accountants

The Board of Directors and Stockholders
Narragansett Capital Corporation

We have examined the accompanying consolidated statements of financial position of Narragansett Capital Corporation at December 31, 1982 and 1982, the consolidated statement of investments at December 31, 1982, and the related consolidated statements of operations, and changes in net assets for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including examination or confirmation of notes receivable and stock owned by the Company at December 31, 1983 and 1982.

As discussed more fully in the notes to the consolidated statement of investments, investments amounting to approximately $79,478,000 (70% of the total assets) at December 31, 1983 and approximately $74,622,000 (71% of the total assets) at December 31, 1982 have been valued at fair value as determined by the Board of Directors on the basis of a number of factors. We have reviewed the procedures applied in valuing such investments and have inspected underlying documentation; while in the circumstances the procedures appear to be reasonable and the documentation appropriate, determination of these values involves subjective judgment which is not susceptible to substantiation by auditing procedures.

In our opinion, subject to the possible effect on the consolidated financial statements of the valuation of investments determined by the Board of Directors as described in the preceding paragraph, the statements mentioned above present fairly the consolidated financial position of Narragansett Capital Corporation at December 31, 1983 and 1982, and the consolidated results of operations and changes in net assets for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

We have performed similar examinations of the statements of financial position of Narragansett Venture Corporation at December 31, 1982 and 1982, and the related statements of operations and changes in net assets for the year ended December 31, 1983 and the nine months ended December 31, 1982. In our opinion, subject to the possible effect on the financial statements of the valuation of investments determined by the Board of Directors as described in the second preceding paragraph, these statements present fairly the financial position of Narragansett Venture Corporation at December 31, 1983 and 1982, and the results of operations and changes in net assets for the year ended December 31, 1983 and the nine months ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Providence, Rhode Island
February 15, 1984
Auditor's Report

To the Stockholders and the Board of Directors of
North Carolina Natural Gas Corporation:

We have examined the consolidated balance sheets and statements of capitalization of NORTH CAROLINA NATURAL GAS CORPORATION (a Delaware corporation) and subsidiaries as of September 30, 1983, and 1982, and the related consolidated statements of income, retained earnings and sources of funds used for construction for each of the three years in the period ended September 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed more fully in Note 3 to the consolidated financial statements, treatment of the Company's contract termination settlement with a former major industrial customer is pending before the North Carolina Utilities Commission in connection with the Company's recent request for increased revenues. The ultimate effect on the 1983 financial statements of the final outcome of this matter cannot presently be determined.

In our opinion, subject to the effect on the 1983 financial statements of the final outcome of the pending matter discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of North Carolina Natural Gas Corporation and subsidiaries as of September 30, 1983, and 1982, and the results of their operations and their sources of funds used for construction for each of the three years in the period ended September 30, 1983, in conformity with generally accepted accounting principles, which, except for the change (with which we concur) in the method of accounting for unbilled revenue and the cost of gas as indicated in Note 2 to the consolidated financial statements, have been applied on a basis consistent with that of prior years.

Atlanta, Georgia
November 4, 1983.

Report of Independent Certified Public Accountants

To the Shareholders and Board of Directors
Pauley Petroleum Inc.

We have examined the consolidated balance sheets of Pauley Petroleum Inc. and subsidiaries as of August 31, 1983 and 1982, and the related consolidated statements of operations, shareholders' equity, and changes in financial position for each of the three years in the period ended August 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As commented upon in Note 6 to the consolidated financial statements, the Company has significant uncertainties relating to contingent liabilities in its petroleum operations. The ultimate outcome of these uncertainties cannot be presently determined, and no provision for any liability that may result has been made in the financial statements.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the financial statements referred to above present fairly the consolidated financial position of Pauley Petroleum Inc. and subsidiaries as of August 31, 1983 and 1982, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended August 31, 1983 in conformity with generally accepted accounting principles applied on a consistent basis.

Los Angeles, California
November 23, 1983
Report of Independent Public Accountants

To the Shareholders and Board of Directors of Republic Resources Corporation:

We have examined the consolidated balance sheet of REPUBLIC RESOURCES CORPORATION AND SUBSIDIARY as of October 31, 1983, and the related consolidated statements of operations, shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 2 to the consolidated financial statements, the Company has recorded its investment in a wholly-owned subsidiary at cost due to concern as to the subsidiary's ability to continue in existence. The ultimate realization of this investment is uncertain and is dependent upon the subsidiary's ability to continue its existence which, in turn, is dependent upon the subsidiary's ability to satisfy its indebtedness, and regain successful operations.

Also as discussed in Note 2, the Company has recorded 2,577,800 shares of its common stock as treasury shares, at a cost of $258,000, which are subject to a security interest under debt owed personally by certain former shareholders of the wholly-owned subsidiary referred to in the preceding paragraph. It is uncertain whether these former shareholders will be able to satisfactorily arrange the liquidation of their indebtedness and obtain a release of the security interest in these shares. Should such a release not be obtained it is not known at this time what action the Company might take or what the outcome might be.

In our opinion, subject to the effects on the consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the previous paragraphs been known, the consolidated financial statements referred to above present fairly the consolidated financial position of Republic Resources Corporation and Subsidiary at October 31, 1983, and the consolidated results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the index to financial statements and schedules are presented for purposes of complying with the Securities and Exchange Commission's rules and regulations under the Securities and Exchange Act of 1934 and are not otherwise a required part of the basic financial statements. The supplemental schedules as of and for the year ended October 31, 1983, have been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Oklahoma City, Oklahoma,
January 24, 1984.

Report of Independent Accountants

To the Stockholders, Chairman and Board of Directors of Santa Fe Southern Pacific Corporation

We have examined (a) the consolidated balance sheet of Santa Fe Southern Pacific Corporation and subsidiary companies as of December 31, 1983 and 1982, and the related consolidated statements of income, stockholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1983 and (b) the consolidated statements of income for each of the two years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Southern Pacific Company, a consolidated subsidiary, for each of the three years in the period
ended December 31, 1981 which statements reflect total revenues constituting 50%, 47% and 48%, respectively, of the related consolidated totals. These statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Southern Pacific Company for those years, is based solely upon the reports of the other auditors.

As discussed in Note 2, the accompanying financial statements include the assets and operations of the trustee Southern Pacific Transportation Company. As further discussed therein, the accompanying financial statements do not include adjustments which may be necessary should the Interstate Commerce Commission require disposal of a portion of Santa Fe Southern Pacific Corporation’s railroad and trucking assets and operations.

In our opinion, (i) subject to the effects on the 1983 financial statements of such adjustments, if any, as might have been required had the outcome of the matter referred to in the preceding paragraph been known, (ii) based upon our examinations and the reports of other auditors, and (iii) after restatement for the change, with which we concur, in the method of accounting for railroad truck structure as described in Note 3 to the financial statements, the financial statements referred to above (a) present fairly the financial position of Santa Fe Southern Pacific Corporation and its subsidiary companies as of December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983 in conformity with generally accepted accounting principles consistently applied and (b) fairly state the consolidated income statement information for each of the two years in the period ended December 31, 1980 in all material respects in relation to the consolidated financial statements for each of those years.

Chicago, Illinois
February 15, 1984
OTHER DEPARTURES FROM THE STANDARD REPORT

Almost all the departures from the auditor's standard report occurring in the auditors' reports surveyed for this publication occurred because of the use of the report of another auditor, an inconsistent application of accounting principles, or an uncertainty affecting the financial statements. Departures from the standard report in a few auditors' reports that were surveyed occurred because of a scope limitation, emphasis of a matter or a deviation from generally accepted accounting principles. No departures were found that were caused by a deviation from accounting principles promulgated by the designated accounting body.

SCOPE LIMITATION

SAS No. 2, as amended, states that a departure from the standard report may be called for if the scope of the auditor's examination is affected by conditions that preclude the application of one or more auditing procedures he considers necessary in the circumstances. If a material limitation on the scope of the examination exists, the auditor is to qualify or disclaim an opinion. The limitation is to be described in an explanatory paragraph and referred to in both the scope and opinion paragraphs.

Three auditors' reports are presented below in which a departure from the standard report occurred because of a scope limitation.

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of AM International, Inc.:

We have examined the consolidated balance sheets of AM International, Inc. (a Delaware Corporation) and subsidiaries as of July 31, 1983 and 1982, and the related consolidated statements of operations, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as explained in the following paragraph.
We made our first examination of the consolidated financial statements of the Company and its subsidiaries for fiscal 1982. The scope of our 1982 engagement did not include sufficient procedures with respect to the consolidated financial statements for the preceding year to enable us to, and we do not, express an opinion on the consistency of application of accounting principles for fiscal 1982 with such prior year. However, as more fully explained in Note 1 to the consolidated financial statements, in fiscal 1982, the Company changed its methods of accounting for foreign currency translation and compensated absences, with which we concur.

As shown in the consolidated financial statements, as of July 31, 1983, liabilities exceed assets by $79.5 million. As more fully explained in Note 2 to the consolidated financial statements, AM International, Inc. filed a petition for reorganization under the United States bankruptcy laws on April 14, 1982. AM International, Inc. is presently operating its business as debtor-in-possession under Chapter 11 of the U.S. Bankruptcy Code and is subject to the jurisdiction of the U.S. federal court. In the chapter 11 proceeding, substantially all liabilities as of the date of the filing of the petition for reorganization are subject to settlement or adjustment under a plan of reorganization. Approval of such a plan requires the requisite vote of the company's creditors and shareholders and confirmation by the Court. The company continues to conduct its business under court supervision while this proceeding is pending. As more fully explained in Note 2, the company filed a proposed plan of reorganization with the U.S. Bankruptcy Court on September 29, 1983.

The accompanying consolidated financial statements have been prepared on the basis of principles of accounting applicable to a going concern which principles contemplate among other things, realization of assets and payment of liabilities in the normal course of business, except as otherwise disclosed. Those financial statements do not give effect to any adjustments relating to the realization and classification of recorded asset amounts, the amounts and classification of liabilities or the effects on existing shareholders' equity that may result from any plans, arrangements or other actions arising from the aforementioned reorganization proceeding because the eventual outcome of these matters referred to in the preceding paragraph is not presently determinable.

As more fully explained in Note 6 to the consolidated financial statements, substantial litigation and claims have been filed against the Company and others by alleged purchasers of the Company's publicly traded securities and by others. The eventual outcome of such matters is not presently determinable. Accordingly, no provision for any liability that may result therefrom has been recorded in the accompanying consolidated financial statements.

As more fully explained in Note 6 to the consolidated financial statements, the Company and its subsidiaries are in default under substantially all of their loan agreements. From the date of filing the petition for reorganization under the bankruptcy law, the Company has been protected from enforcement of default remedies under its various loan agreements.

In our opinion, subject to the effects on the consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding four paragraphs, all of which relate to the realization and classification of recorded asset amounts, the amounts and classification of liabilities and the effects on existing shareholders' equity, been known, the consolidated financial statements referred to above, as of July 31, 1983 and 1982, and for the years then ended, present fairly the financial position of AM International, Inc. and subsidiaries as of July 31, 1983 and 1982, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

In our auditors' report dated September 30, 1982 (except with respect to Note 2 as to which the date was October 12, 1982), our opinion on the July 31, 1982, financial statements was qualified as being subject to the effects on the consolidated financial statements of such adjustments if any as might have been required had the outcome of the Canadian reorganization proceeding and the Securities and Exchange Commission investigation of the Company been known. As explained in Note 2, the Canadian subsidiary has been fully released from its bankruptcy proceedings. As explained in Note 5, during 1983 the Company entered into a Consent Decree and Undertaking which resolved the issues related to the Company raised by the aforementioned investigation, and no adjustments to the Company's 1982 or 1983 consolidated financial statements were required as a result thereof. Accordingly, our present opinion on the July 31, 1982 consolidated financial statements, as presented herein, is different from that expressed in our previous report.

Since we did not examine the accompanying consolidated statements of operations, shareholders' equity and changes in financial position for the year ended July 31, 1981, we are unable to express, and do not express, an opinion on those financial statements.

Chicago, Illinois
September 19, 1983 (except with respect to Note 2 as to which the date is September 29, 1983).
Independent Accountants' Report

To the Stockholders and Board of Directors
Magnetic Technologies Corporation and Subsidiaries

We have examined the consolidated balance sheet of Magnetic Technologies Corporation and Subsidiaries as of July 31, 1983 and the related statements of income (loss), of changes in stockholders' equity (deficiency), and of changes in financial position for the year then ended. Except as explained in the following paragraph, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Magnetic Technologies Corporation and Subsidiaries for the year ended July 31, 1982 were examined by other auditors whose report, dated October 8, 1982 (except for the footnote—Contingencies as to which the date is September 29, 1983), was qualified as being subject to the Company's ability to operate on a going concern basis due to the substantial losses and retained deficits and subject to the effects on the 1982 and 1981 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties been known.

As discussed in the Notes to Consolidated Financial Statements, a subsidiary, Universal Silicon, Inc., has developed a Polysilicon Process Unit which is an unique and proprietary product and, accordingly, we were unable to determine its future economic use and related valuation.

As also discussed in the Notes to Consolidated Financial Statements, the Company is a defendant in various lawsuits alleging violation of certain securities laws. The ultimate outcome of the lawsuits is not presently determinable, and no provision for any liability that may result has been made in the accompanying financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the future economic use and valuation of the Universal Silicon, Inc. Polysilicon Process Unit, and subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to in the first paragraph present fairly the consolidated financial position of Magnetic Technologies Corporation and Subsidiaries as of July 31, 1983 and the results of operations and of changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Rochester, New York
September 29, 1983

Auditor's Opinion

The Board of Directors
Saxon Industries, Inc.

We have examined the consolidated balance sheet of Saxon Industries, Inc. (Debtor-in-Possession) and subsidiaries as of September 30, 1982. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As set forth in note 1 to the consolidated financial statements, the parent company, on April 15, 1982, filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The process of determining the amount of allowable pre-petition claims just began, and the ultimate settlement of these claims will be determined when a plan of reorganization has been agreed to with creditors and confirmed by the Bankruptcy Court.

As described in note 14, the Company is subject to a number of lawsuits and contingencies. Although some provision has been made for these matters the final outcome and its effect, if any, on the Company's consolidated balance sheet is not presently determinable.

As described in note 6, the Company has available net operating loss and investment tax credit carryforwards. Determination of the amounts of these carryforwards involve complex State and Federal tax issues and the operating loss carryforward may be contingent upon the resolution of which
year for tax purposes such losses were incurred and upon the terms of the plan of reorganization settling the bankruptcy proceedings.

The accompanying consolidated balance sheet has been prepared in conformity with principles of accounting applicable to a going-concern. Continuation of the company as a going-concern and realization of its assets and liquidation of its liabilities are dependant upon, among other things: (1) confirmation of a Plan of Reorganization (which will, among other things, result in significant adjustments and reclassifications in the amounts reflected as liabilities and shareholders' equity (deficit) in the accompanying consolidated balance sheet), and (2) the ability of the Company to maintain adequate financing, combined with the achievement of profitable continuing operations. The eventual outcome of these matters is not presently determinable. The consolidated balance sheet does not include any adjustment relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue its existence.

In our opinion, subject to the effect on the consolidated balance sheet of such adjustments, if any, as might have been required had the outcome of the matters discussed in the preceding four paragraphs been known, the aforementioned consolidated balance sheet presents fairly the financial position of Saxon Industries, Inc. (Debtor-in-Possession) and subsidiaries as of September 30, 1982, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have examined the consolidated statement of operations and accumulated deficit and the consolidated statement of changes in financial position of Saxon Industries, Inc. (Debtor-in-Possession) and subsidiaries for the nine months ended September 30, 1982. However, as described below, we were not able to perform certain procedures required under generally accepted auditing standards.

(1) The balance sheet of the Company as of December 31, 1981 was examined by other certified public accountants who were unable to express an opinion thereon and the Company did not consider it practical for us to extend our audit procedures to examine the January 1, 1982 balance sheet.

(2) The scope of our examination was limited in that we were instructed to exclude the operations of the Business Products Group and the Chukerman Division, both of which have been sold.

(3) We did not extend our procedures to investigate alleged irregularities in the Company's books and records as described in the Court-appointed Examiner's reports.

(4) Company management was not in a position to make certain representations to us as required by generally accepted auditing standards.

Accordingly, we express no opinion on the consolidated statement of operations and accumulated deficit and the consolidated statement of changes in financial position of Saxon Industries, Inc. (Debtor-in-Possession) and subsidiaries for the nine months ended September 30, 1982.

For reasons set forth in note 19, with which we concur, supplementary information on the effects of inflation in accordance with Financial Accounting Standards Board Opinion No. 33 is not presented.

New York, N.Y.
March 29, 1983

EMPHASIS OF A MATTER

SAS No. 2, as amended, states that a departure from the standard auditor's report may be called for to emphasize a matter regarding the financial statements.
Three auditor's reports are presented below in which a departure was made for that reason.

Report of Certified Public Accountants

The Board of Directors
American Express Credit Corporation

We have examined the accompanying consolidated balance sheet of American Express Credit Corporation at December 31, 1983 and 1982, and the consolidated statements of income and retained earnings, and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in the Summary of Significant Accounting Policies, American Express
Credit Corporation is a wholly owned subsidiary of American Express Travel Related Services Company, Inc. and purchases receivables from and conducts certain other business transactions with its parent and affiliates.

In our opinion the statements mentioned above present fairly the consolidated financial position of American Express Credit Corporation at December 31, 1983 and 1982, and the consolidated results of operations and changes in consolidated financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York
February 3, 1984

Auditors' Report

To the Board of Directors and Stockholders of
Manhattan National Corporation:

We have examined the consolidated balance sheets of Manhattan National Corporation and subsidiaries as of December 31, 1983 and 1982, and the related consolidated statements of income, surplus, and changes in financial position for the years ended December 31, 1983, 1982, and 1981. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note 4, no unqualified legal opinion can be rendered concerning the degree to which the policyholders and shareholders, respectively, of the Company's subsidiary, The Manhattan Life Insurance Company, would share in the total surplus account of that subsidiary.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Manhattan National Corporation and subsidiaries at December 31, 1983 and 1982, and the consolidated results of their operations and changes in their financial position for the years ended December 31, 1983, 1982, and 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York
March 6, 1984

Report of Independent Accountants

To the Board of Directors and Stockholders of
Western Harness Racing, Inc.

We have examined the balance sheet of Western Harness Racing, Inc. as of December 31, 1983 and 1982, and the related statements of income, changes in stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 2 to the financial statements, on December 20, 1983 the stockholders of Western Harness Racing, Inc. approved a plan of liquidation whereby the assets of Western Harness Racing, Inc. will be distributed to the stockholders or to a liquidating trust during 1984.
In our opinion, the financial statements examined by us present fairly the financial position of Western Harness Racing, Inc. at December 31, 1982 and 1981, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles consistently applied.

West Los Angeles, California
March 9, 1984

DEPARTURE FROM GAAP

SAS No. 2, as amended, states that a departure from the standard report may be called for if the financial statements are not prepared in conformity with generally accepted accounting principles. If the statements materially depart from GAAP, a qualified or adverse opinion is required. The departure is to be described in an explanatory paragraph and referred to in the opinion paragraph.

Five auditors' reports are presented below in which a departure from the standard report occurred because of a departure from GAAP.

Report of Independent Public Accountants

We have examined the consolidated balance sheet of California First Bank (a California chartered state bank, and a 76% owned subsidiary of The Bank of Tokyo, Ltd.) and subsidiaries as of December 31, 1983 and 1982, and the related consolidated statements of income, changes in shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 2 to the financial statements, the Bank has charged goodwill and certain other intangible assets included therein to income over future periods. Under generally accepted accounting principles, these intangibles should have been recorded as assets and amortized to income over future periods.

In our opinion, except for the effect of the accounting treatment for intangible assets on the financial statements, as discussed in the preceding paragraph and more fully in Note 2 to the financial statements, the financial statements referred to above present fairly the financial position of California First Bank and subsidiaries as of December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

January 27, 1984

Auditors' Report

To the Certificate Holders and Trustees of
North European Oil Royalty Trust:

We have examined the statements of assets, liabilities and trust corpus of North European Oil Royalty Trust as of October 31, 1983 and 1982, the related statements of income and expenses on a cash basis, undistributed earnings (excess distributions), trust corpus and changes in cash for each of the three years in the period ended October 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records
and such other auditing procedures as we considered necessary in the circumstances.

Since, as discussed in Note 1, the accounts of the Trust are maintained on the cash basis rather than on the accrual basis of accounting, the accompanying financial statements do not purport to present and, in our opinion, do not present financial position and results of operations in conformity with generally accepted accounting principles. On the cash basis, income is recorded only when collected instead of when earned, and expenses are recorded when paid instead of when incurred.

In our opinion, the financial statements referred to above present fairly the assets, liabilities and trust corpus of North European Oil Royalty Trust as of October 31, 1983 and 1982, and the income and expenses, undistributed earnings (excess distributions), trust corpus and changes in cash for each of the three years in the period ended October 31, 1983, all on the cash basis applied on a consistent basis.

Roseland, New Jersey
November 10, 1983

Report of Independent Public Accountants

The Board of Directors
Canon Inc.:

We have examined the consolidated balance sheets (expressed in yen) of Canon Inc. and consolidated subsidiaries as of December 31, 1983 and 1982 and the related consolidated statements of income, surplus and changes in financial position for each of the years in the three-year period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The segment information concerning the companies' operations in different industry segments and their foreign operations required to be disclosed in financial statements under United States generally accepted accounting principles is not presented in the accompanying consolidated financial statements. However, foreign issuers are presently exempted from such disclosure requirement in Securities Exchange Act filings with the United States Securities and Exchange Commission.

In our opinion, except for the omission of the segment information referred to in the preceding paragraph, the aforementioned consolidated financial statements present fairly the financial position of Canon Inc. and consolidated subsidiaries at December 31, 1983 and 1982 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended December 31, 1983, in conformity with United States generally accepted accounting principles applied on a consistent basis.

The accompanying consolidated financial statements expressed in United States dollars have been translated into dollars solely for the convenience of the reader. We have reviewed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis set forth in note 2 of the notes to consolidated financial statements.

Tokyo, Japan
February 28, 1984

Report of Independent Accountants

To the Board of Directors and Shareholders of
Pioneer Electronic Corporation

We have examined the consolidated balance sheets of Pioneer Electronic Corporation and its consolidated subsidiaries as of September 30, 1983 and 1982, and the related consolidated statements of income and retained earnings and of changes in financial position for each of the three years in the period
ended September 30, 1983, stated in yen. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The company has not presented segment information for each of the three years in the period ended September 30, 1983. In our opinion, presentation of segment information concerning the company's foreign operations and export sales is required by accounting principles generally accepted in the United States of America for a complete presentation of consolidated financial statements.

In our opinion, except for the omission of segment information as discussed in the preceding paragraph, the consolidated financial statements examined by us present fairly the financial position of Pioneer Electronic Corporation and its consolidated subsidiaries at September 30, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended September 30, 1983, in conformity with accounting principles generally accepted in the United States of America consistently applied except for the change, with which we concur, in the method of accounting for foreign currency translation as described in Note 1 to the financial statements.

Tokyo, Japan
November 18, 1983

Auditor's Opinion

The Board of Directors and Shareholders
Security Life Insurance Company of Georgia:

We have examined the consolidated statutory statements of admitted assets and liabilities of Security Life Insurance Company of Georgia and subsidiary as of December 31, 1983 and 1982, and the related consolidated statutory statements of earnings and surplus and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company presents its financial statements in conformity with accounting practices prescribed or permitted by the Insurance Departments of the domiciliary states. The variances between such practices and generally accepted accounting principles are described in the summary of significant accounting policies. The effects of such variances on the accompanying consolidated statutory financial statements have not been determined. Therefore, we do not express any opinion as to the fair presentation, in conformity with generally accepted accounting principles, of financial position, results of operations, or changes in financial position as presented in the aforementioned financial statements.

In our opinion, the aforementioned consolidated statutory financial statements present fairly the admitted assets, liabilities, capital, and surplus of Security Life Insurance Company of Georgia and subsidiary at December 31, 1983 and 1982, and their earnings and changes in their financial position on a statutory basis for the years then ended, in conformity with insurance accounting practices prescribed or permitted by the Insurance Departments of the domiciliary states, applied on a consistent basis.

Atlanta, Georgia
February 24, 1984
APPENDIX A
REPORTS ON AUDITED FINANCIAL STATEMENTS
AU Section 509
(Supersedes sections 510.01—515.10, 535.01—542.04, 544.01 and 547.01—547.04)
Effective for reports issued on financial statements for periods ending
on or after December 31, 1974, unless otherwise indicated

Introduction
.01 This section applies to auditors' reports issued in connection with examinations of financial statements that are intended to present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. It distinguishes the types of reports, describes the circumstances in which each is appropriate, and provides examples.

.02 This section does not apply to unaudited financial statements that an accountant has been engaged to prepare or assist in preparing (see section 504*), nor does it apply to reports on incomplete or capsule financial information or on other special presentations (see section 621**).

.03 Justification for the expression of the auditor's opinion rests on the conformity of his examination with generally accepted auditing standards and on his findings. Generally accepted auditing standards include four standards of reporting. (See section 150.02.) This section is concerned primarily with the relationship of the fourth reporting standard to the language of the auditor's report.

.04 The fourth standard of reporting is as follows:

The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefor should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut

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1 See paragraph .50.
[13] [Deleted.]
** Reference changed by issuance of Statement on Auditing Standards No. 14.

AU § 509.04
The objective of the fourth standard is to prevent misinterpretation of the degree of responsibility the auditor is assuming when his name is associated with financial statements. Reference in the fourth reporting standard to the financial statements “taken as a whole” applies equally to a complete set of financial statements and to an individual financial statement, for example, to a balance sheet. The auditor may express an unqualified opinion on one of the financial statements and express a qualified or adverse opinion or disclaim an opinion on another if the circumstances call for this treatment.

**Auditor’s Standard Report**

The auditor’s report customarily is used in connection with the basic financial statements—balance sheet, statement of income, statement of retained earnings and statement of changes in financial position. If these financial statements are accompanied by a separate statement of changes in stockholders’ equity accounts, it should be identified in the scope paragraph of the report but need not be reported on separately in the opinion paragraph since such changes are included in the presentation of results of operations and changes in financial position.

The auditor’s standard report consists of a statement describing the nature of the examination, usually in an opening or “scope” paragraph, and an expression of the auditor’s opinion, usually in a closing or “opinion” paragraph. The form of the standard report is as follows:

**(Scope paragraph)**

We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

**(Opinion paragraph)**

In our opinion, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19XX, 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 applied on a basis consistent with that of the preceding year.

The report may be addressed to the company whose financial statements are being examined or to its board of directors or stockholders. A report on the financial statements of an unincorporated entity should be addressed as circumstances dictate, for example, to the partners, to the general partner, or to the proprietor. Occasionally, an auditor is retained to examine the financial statements of a company that is not his client; in such a case,
case, the report customarily is addressed to the client and not to the directors or stockholders of the company whose financial statements are being examined.

**Circumstances Resulting in Departure From Auditor’s Standard Report**

.09 The circumstances that result in a departure from the auditor's standard report are as follows:

a. The scope of the auditor’s examination is affected by conditions that preclude the application of one or more auditing procedures he considers necessary in the circumstances.

b. The auditor’s opinion is based in part on the report of another auditor.

c. The financial statements are affected by a departure from a generally accepted accounting principle.

d. The financial statements are affected by a departure from an accounting principle promulgated by the body designated by the AICPA Council to establish such principles.

e. Accounting principles have not been applied consistently.

f. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor’s report.

g. The auditor wishes to emphasize a matter regarding the financial statements.

**Scope Limitation**

.10 The auditor can determine that he is able to express an unqualified opinion only if his examination has been conducted in accordance with generally accepted auditing standards and if he therefore has been able to apply all the procedures he considers necessary in the circumstances. Restrictions on the scope of his examination, whether imposed by the client or by circumstances such as the timing of his work, the inability to obtain sufficient competent evidential matter, or an inadequacy in the accounting records, may require him to qualify his opinion or to disclaim an opinion. In such instances, the reasons for the auditor’s qualification of opinion or disclaimer of opinion should be described in his report.

.11 The auditor’s decision to qualify his opinion or disclaim an opinion because of a scope limitation depends on his assessment of the importance of the omitted procedure(s) to his ability to form an opinion on the financial statements examined. This assessment will be affected by the nature and magnitude of the potential effects of the matters in question and by their significance to the financial statements. If the potential effects relate to many

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* As to circumstances in which the auditor is not independent, see section 504. [Reference changed by the issuance of Statement on Auditing Standards No. 26, Association with Financial Statements.]
financial statement items, this significance is likely to be greater than if only a limited number of items is involved.

.12 Common restrictions on the scope of the auditor's examination include those applying to the observation of physical inventories and the confirmation of accounts receivable by direct communication with debtors, but restrictions may concern other phases of the audit (for example, see section 542.06). Restrictions on the application of these or other audit procedures to important elements of the financial statements require the auditor to decide whether he has examined sufficient competent evidential matter to permit him to express an unqualified or qualified opinion, or whether he should disclaim an opinion. When restrictions that significantly limit the scope of the audit are imposed by the client, the auditor generally should disclaim an opinion on the financial statements.

.13 The auditor may be asked to report on one basic financial statement and not on the others. For example, he may be asked to report on the balance sheet and not on the statements of income, retained earnings or changes in financial position. These engagements do not involve scope limitations if the auditor's access to information underlying the basic financial statements is not limited and if he applies all the procedures he considers necessary in the circumstances; rather, such engagements involve limited reporting objectives.

Opinion Based in Part on Report of Another Auditor

.14 When the auditor decides to make reference to the report of another auditor as a basis, in part, for his opinion, he should disclose this fact in stating the scope of his examination and should refer to the report of the other auditor in expressing his opinion. These references indicate division of responsibility for performance of the examination. Although they are departures from the standard report language, they do not constitute a qualification of the auditor's opinion. (See section 543.)

Departure From a Generally Accepted Accounting Principle

.15 General. When financial statements are materially affected by a departure from generally accepted accounting principles and the auditor has examined the statements in accordance with generally accepted auditing standards, he should express a qualified or an adverse opinion (see paragraphs .29 and .41). The basis for such opinion should be stated in his report.

.16 In deciding whether the effects of a departure from generally accepted accounting principles are sufficiently material to require either a qualified or an adverse opinion, one factor to be considered is the dollar magnitude of the effects. However, materiality does not depend entirely on relative size: the concept involves qualitative as well as quantitative judgments. The

4 Circumstances such as the timing of his work may make it impracticable or impossible for the auditor to accomplish these procedures. In such case, if he is able to satisfy himself as to inventories or accounts receivable by applying alternative procedures, there is no significant limitation on the scope of his work, and his report need not include reference to the omission of the procedures or to the use of alternative procedures.
significance of an item to a particular entity (e.g., inventories to a manufacturing company), the pervasiveness of the misstatement (e.g., whether it affects the amounts and presentation of numerous financial statement items), and the impact of the misstatement on the financial statements taken as a whole are all factors to be considered in making a judgment regarding materiality.

.17 Inadequate disclosure. Information essential for a fair presentation in conformity with generally accepted accounting principles should be set forth in the financial statements. If the financial statements, including accompanying notes, fail to disclose information that is required by generally accepted accounting principles, the auditor should express a qualified or an adverse opinion because of the departure from those principles and should provide the information in his report, if practicable, unless its omission from the auditor's report is recognized as appropriate by a specific Statement on Auditing Standards. (See section 431* regarding the adequacy of informative disclosure, and section 545.04—.05 regarding the omission of a statement of changes in financial position.) [As amended December, 1977 by Statement on Auditing Standards No. 21.] (See section 435.)

Departure From a Promulgated Accounting Principle

.18 Rule 203 [ET section 203.01] of the AICPA Code of Professional Ethics\(^\text{5}\) states:

A member shall not express an opinion that financial statements are presented in conformity with generally accepted accounting principles if such statements contain any departure from an accounting principle promulgated by the body designated by Council to establish such principles which has a material effect on the statements taken as a whole, unless the member can demonstrate that due to unusual circumstances the financial statements would otherwise have been misleading. In such cases his report must describe the departure, the approximate effects thereof, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

.19 When the circumstances contemplated by Rule 203 [ET section 203.01] are present, the auditor's report should include, in a separate paragraph or paragraphs, the information required by the rule. In such a case, it is appropriate for him then to express an unqualified opinion with respect to the conformity of the financial statements with generally accepted accounting principles unless there are other reasons, not associated with the departure from a promulgated principle, to modify his report.

\(^*\) Reference changed by issuance of Statement on Auditing Standards No. 32.

\(^5\) This rule supersedes the Special Bulletin of the Council of the AICPA, issued in October 1964 and referred to in the text of sections 545.04 and 546.12. [As amended July, 1975, by Statement on Auditing Standards No. 5.] (See section 411.)

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Accounting Principles Not Consistently Applied

.20 When there has been a change in accounting principles, the auditor should modify his opinion as to consistency. Section 546, discusses variations in report language that are appropriate when accounting principles have not been applied consistently.

Uncertainties

.21 In preparing financial statements, management is expected to use its estimates of the outcome of future events. Estimates customarily are made in connection with matters such as the useful lives of depreciable assets, the collectibility of accounts receivable, the realizable value of inventory items, and the amount of a liability for product warranty. In most cases, the auditor is able to satisfy himself regarding the reasonableness of management's estimates by considering various types of audit evidence, including the historical experience of the entity, and the relevance of the evidence in estimating the effects of future events. Matters are not to be regarded as uncertainties for purposes of this section unless their outcome is not susceptible of reasonable estimation, as discussed in paragraph .22. If the auditor, on the basis of evidence available to him, disagrees with management's determination, and if the effects on the financial statements are material, he should express a qualified or an adverse opinion because of a departure from generally accepted accounting principles.

.22 In certain instances, the outcome of matters that may affect the financial statements or the disclosures required therein is not susceptible of reasonable estimation; such matters are to be regarded as uncertainties for purposes of this section. When such uncertainties exist, it cannot be determined whether the financial statements should be adjusted, or in what amount.

.23 There may be uncertainties with respect to specific matters whose possible effects on the financial statements can be isolated and therefore readily understood. Examples are the recoverability of a deferred cost or the likelihood that a material amount will become collectible or payable because of income tax adjustments or litigation. Also, there may be multiple uncertainties or uncertainties whose possible effects are complex and whose impact on the financial statements consequently is difficult for a reader to assess. Examples of conditions indicating the existence of uncertainties of the latter kind are recurring operating losses, serious deficiencies in working capital, an inability to obtain financing sufficient for continued business operations, and failure to comply with the terms of loan agreements. In some situations an adverse outcome of matters in either category could imperil the continued existence of the entity. In any event, if the effects of the matters

* In such circumstances, the auditor is concerned with the recoverability and classification of recorded asset amounts and with the amounts and classification of liabilities. [Editor's Note: See section 340.]

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on the financial statements could be material, their nature and their possible 
effects should be disclosed in the statements:

.24 Evidence as to the resolution of an uncertainty cannot be expected to 
exist at the time of the auditor's examination because the resolution, and 
therefore the evidence, is prospective. The auditor's function in forming an 
opinion on financial statements does not include estimating the outcome of 
future events if management is unable to do so. When there are material 
uncertainties, the outcome of which is not susceptible of reasonable 
estimation, the auditor should consider whether to express an unqualified 
opinion or to qualify his opinion as discussed in paragraph .25. The auditor 
need not modify his opinion because of the existence of an uncertainty when 
he concludes that there is only a minimal likelihood that resolution of the 
uncertainty will have a material effect on the financial statements.

.25 In cases involving uncertainties, the auditor should be able to form an 
opinion whether the financial statement items affected have been stated in 
conformity with generally accepted accounting principles in all respects other 
than those contingent on the outcome of the uncertainties. If he is satisfied 
that they have been so stated, he may appropriately express an opinion 
qualified by reason of the uncertainties (see paragraphs .35 and .39). If the 
auditor believes that the financial statement items affected by uncertainties 
reflect the application of accounting principles that are not generally 
accepted, he also should modify his report to state his reservations regarding 
departures from generally accepted accounting principles.

.26 The subsequent resolution of an uncertainty that has led to a 
modification of the auditor's opinion will (a) result in adjustment of the 
financial statements as to which his report originally was modified, (b) be 
recognized in the financial statements of a subsequent period, or (c) result in a 
conclusion that the matter has no monetary effect on the financial statements 
of any period. The qualifying expression in the opinion paragraph of the 
auditor's report should be the same regardless of the accounting treatment 
that is expected to be accorded the resolution of the uncertainty.

**Emphasis of a Matter**

.27 In some circumstances, the auditor may wish to emphasize a matter 
regarding the financial statements, but nevertheless intends to express an 
unqualified opinion. For example, he may wish to point out that the entity is a 
component of a larger business enterprise or that it has had significant

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7 The auditor may disclaim an opinion as discussed in footnote 8.

8 The Committee believes that the explanation of the uncertainties and the qualification of 
the auditor's opinion contemplated by this section should serve adequately to inform the users of 
the financial statements. Nothing in this section, however, is intended to preclude an auditor from 
declining to express an opinion in cases involving uncertainties. If he disclaims an opinion, the 
uncertainties and their possible effects on the financial statements should be disclosed in an 
appropriate manner (see paragraph .23), and the auditor's report should give all the substantive 
reasons for his disclaimer of opinion (see paragraph .45).

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transactions with related parties,* or he may wish to call attention to an unusually important subsequent event or to an accounting matter affecting the comparability of the financial statements with those of the preceding period. Such explanatory information may be presented in a separate paragraph of the auditor’s report. Phrases such as “with the foregoing explanation” should not be used in the opinion paragraph in situations of this type.

**Unqualified Opinion**

.28 An unqualified opinion states that the financial statements present fairly financial position, results of operations and changes in financial position in conformity with generally accepted accounting principles (which include adequate disclosure) consistently applied (see paragraph .07). This conclusion may be expressed only when the auditor has formed such an opinion on the basis of an examination made in accordance with generally accepted auditing standards.

**Qualified Opinion**

**General**

.29 A qualified opinion states that, “except for” or “subject to” the effects of the matter to which the qualification relates, the financial statements present fairly financial position, results of operations and changes in financial position in conformity with generally accepted accounting principles consistently applied. Such an opinion is expressed when a lack of sufficient competent evidential matter or restrictions on the scope of the auditor’s examination have led him to conclude that he cannot express an unqualified opinion, or when the auditor believes, on the basis of his examination, that

a. the financial statements contain a departure from generally accepted accounting principles, the effect of which is material,

b. there has been a material change between periods in accounting principles or in the method of their application, or

c. there are significant uncertainties affecting the financial statements, and he has decided not to express an adverse opinion or to disclaim an opinion.

.30 Ordinarily the auditor should not modify the language of the opinion paragraph of the standard report unless he is qualifying his opinion. However, reference to another auditor’s report as a basis, in part, of the principal auditor’s opinion is not considered to be a qualification (see paragraph .14).

.31 Financial statements, including the accompanying notes, sometimes contain unaudited information, pro forma calculations or other similar disclosures. These disclosures may be required in connection with a particular transaction (e.g., a business combination) or may otherwise be considered informative (e.g., in connection with subsequent events). If such disclosures are appropriately identified as “unaudited” or as “not covered by auditor’s

* [Editor’s Note: See section 334. Reference changed August, 1983, by issuance of Statement on Auditing Standards No. 45.]

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report," the auditor need not refer to them in his report. The reporting criteria stated in sections 504 and 711.13 apply to such data. If the unaudited information (e.g., an investor's share, material in amount, of an investee's earnings recognized on the equity method) is such that it should be subjected to auditing procedures in order for the auditor to form an opinion with respect to the financial statements taken as a whole, and the auditor has not been able to apply the procedures he considers necessary, he should qualify his opinion or disclaim an opinion because of a limitation on the scope of his examination.

Report Form

.32 When the auditor intends to express a qualified opinion, he should disclose all the substantive reasons in a separate explanatory paragraph(s) of his report, and should include, in the opinion paragraph, the appropriate qualifying language and a reference to the explanatory paragraph(s). The requirement for an explanatory paragraph does not apply when the opinion paragraph has been modified because of a change in accounting principle (see paragraph .20).

.33 The explanatory paragraph(s) should disclose the principal effects of the subject matter of the qualification on financial position, results of operations and changes in financial position, if reasonably determinable. If the effects are not reasonably determinable, the report should so state. If such disclosures are made in a note to the financial statements, the explanatory paragraph(s) may be shortened by referring to it. The explanatory paragraph(s) also should make clear whether the matter is (a) one as to which there is a difference of opinion between the auditor and his client and for which the auditor believes an adjustment should be made or (b) one involving an uncertainty that cannot presently be resolved because the outcome depends on future events. If an auditor wishes to emphasize a matter or disclosure regarding the financial statements but does not intend to qualify his opinion (see paragraph .27), he should not refer to this information in the opinion paragraph of his report.

.34 When a qualified opinion results from a limitation on the scope of the examination or an insufficiency of evidential matter, the situation should be described in the explanatory paragraph and referred to in both the scope and opinion paragraphs of the auditor's report. It is not appropriate for the auditor to request that the scope of his examination be explained in a note to the financial statements, inasmuch as the description of the scope is the auditor's representation and not that of his client.

* Reference changed by the issuance of statement on Auditing Standards No. 26, Association with Financial Statements.

** Reference changed by issuance of Statement on Auditing Standards No. 37.

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Qualifying Language

.35 A qualified opinion should include the word “except” or “exception” in a phrase such as “except for” or “with the exception of” unless the qualification arises because of an uncertainty affecting the financial statements; then the expression “subject to” should be used. Phrases such as “with the foregoing explanation” are not clear or forceful enough and should not be used. Since accompanying notes are deemed to be part of the financial statements, wording such as “fairly presented when read in conjunction with Note 1” is likely to be misunderstood and likewise should not be used.

.36 An example of a report in which the opinion is qualified because of the use of an accounting principle at variance with generally accepted accounting principles follows (assuming the effects are such that the auditor has concluded an adverse opinion is not appropriate):

(Separate paragraph)

The Company has excluded from property and debt in the accompanying balance sheet certain lease obligations, which, in our opinion, should be capitalized in order to conform with generally accepted accounting principles. If these lease obligations were capitalized, property would be increased by $..........., long-term debt by $..........., and retained earnings by $..........., as of December 31, 19XX, and net income and earnings per share would be increased (decreased) by $........... and $............ respectively for the year then ended.

(Opinion paragraph)

In our opinion, except for the effects of not capitalizing lease obligations, as discussed in the preceding paragraph, the financial statements present fairly...

.37 If the pertinent facts are disclosed in a note to the financial statements, a separate paragraph of the auditor’s report in the circumstances illustrated in paragraph .36 might read as follows:

(Separate paragraph)

As more fully described in Note X to the financial statements, the Company has excluded certain lease obligations from property and debt in the accompanying balance sheet. In our opinion, generally accepted accounting principles require that such obligations be included in the balance sheet.

.38 If a qualification arises because of lack of consistency in the application of accounting principles, the qualifying language should be positioned in the opinion paragraph so as to make this clear. (See section 546.)
An example of a report qualified because of an uncertainty affecting the financial statements follows:

(Separate paragraph)
As discussed in Note X to the financial statements, the company is defendant in a lawsuit alleging infringement of certain patent rights and claiming royalties and punitive damages. The company has filed a counter action, and preliminary hearings and discovery proceedings on both actions are in progress. The ultimate outcome of the lawsuits cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

(Opinion paragraph)
In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly.

[As amended, effective after August 31, 1982, by Statement on Auditing Standards No. 43.] (See section 1010.)

When an auditor qualifies his opinion because of a scope limitation, the wording in the opinion paragraph should indicate that the qualification pertains to the possible effects on the financial statements and not to the scope limitation itself. An example regarding inventories (assuming the effects of the limitation are not such that the auditor has concluded a disclaimer of opinion is appropriate—see paragraph .11) follows:

(Scope paragraph)
Except as explained in the following paragraph, our examination . . . and such other auditing procedures as we considered necessary in the circumstances . . .

(Separate paragraph)
We did not observe the taking of the physical inventories as of December 31, 19XX (stated at $............), and December 31, 19X1 (stated at $............), since those dates were prior to the time we were initially engaged as auditors for the Company. Due to the nature of the Company's records, we were

*The following example is appropriate in those rare instances when resolution of an uncertainty will be accounted for as a prior period of adjustment:
In our opinion, subject to the effects, if any, on the financial statements of the ultimate resolution of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly. . . . [Footnote added by issuance of SAS No. 43.] (See section 1010.)

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unable to satisfy ourselves as to the inventory quantities by means of other auditing procedures.\textsuperscript{10}

(Opinion paragraph)

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the physical inventories. . . .

Wording such as "In our opinion, except for the above-mentioned limitation on the scope of our examination . . ." bases the exception on the restriction itself, rather than on the possible effects on the financial statements, and therefore is unacceptable.

\textbf{Adverse Opinion}

\textsuperscript{41} An adverse opinion states that financial statements do not present fairly the financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Such an opinion is expressed when, in the auditor's judgment (see paragraph .16), the financial statements taken as a whole are not presented fairly in conformity with generally accepted accounting principles.

\textsuperscript{42} When the auditor expresses an adverse opinion, he should disclose in a separate paragraph(s) of his report (a) all the substantive reasons for his adverse opinion and (b) the principal effects of the subject matter of the adverse opinion on financial position, results of operations and changes in financial position, if reasonably determinable. If the effects are not reasonably determinable, the report should so state. The report also should state any reservations the auditor has regarding fair presentation in conformity with generally accepted accounting principles other than those giving rise to the adverse opinion.

\textsuperscript{43} When an adverse opinion is expressed, the opinion paragraph should include a direct reference to a separate paragraph that discloses the basis for the adverse opinion.

(Separate paragraph)

As discussed in Note X to the financial statements, the Company carries its property, plant and equipment accounts at appraisal values, and provides depreciation on the basis of such values. Further, the Company does not provide for income taxes with respect to differences between financial income and taxable income arising because of the use, for income tax purposes, of the installment method of reporting gross profit from certain types of sales. Generally accepted accounting principles, in our opinion, require that property, plant and equipment be stated at an amount not in excess of cost, reduced by depreciation based on such amount, and that deferred income taxes be provided. Because of the departures from generally accepted accounting principles identified above, as of December 31, 19XX, inventories

\textsuperscript{10} If the auditor has been unable also to carry out other tests, such as those relating to the pricing and clerical accuracy of the inventories, the language in the separate and opinion paragraphs should be modified accordingly. [Formerly footnote number 9, number changed due to issuance of Statement on Auditing Standards No. 43, effective after August 31, 1982] (See section 1010.)

\textbf{AU § 509.41}
have been increased $........ by inclusion in manufacturing overhead of
depreciation in excess of that based on cost; property, plant and equipment,
less accumulated depreciation, is carried at $........ in excess of an amount
based on the cost to the Company; and allocated income tax of $........ has
not been recorded; resulting in an increase of $........ in retained earnings
and in appraisal surplus of $. For the year ended December 31, 19XX,
cost of goods sold has been increased $........ because of the effects of the
depreciation accounting referred to above and deferred income taxes of $........
have not been provided, resulting in an increase in net income and earnings
per share of $........ and $........ respectively.

(Opinion paragraph)

In our opinion, because of the effects of the matters discussed in the
preceding paragraph, the financial statements referred to above do not
present fairly, in conformity with generally accepted accounting principles,
the financial position of X Company as of December 31, 19XX, or the results
of its operations and changes in its financial position for the year then ended.

.44 Because an opinion as to consistency implies the application of
generally accepted accounting principles, no reference to consistency should
be made in the opinion paragraph when an adverse opinion is issued.
However, if the auditor has specific exceptions as to consistency, these
exceptions should be expressed in the report.

Disclaimer of Opinion

.45 A disclaimer of opinion states that the auditor does not express an
opinion on the financial statements. When the auditor disclaims an opinion,
he should state in a separate paragraph(s) of his report all of his substantive
reasons for doing so, and also should disclose any other reservations he has
regarding fair presentation in conformity with generally accepted accounting
principles or the consistency of their application. The disclaimer of opinion is
appropriate when the auditor has not performed an examination sufficient in
scope to enable him to form an opinion on the financial statements (see
paragraphs .10, .11, and .12).1 1 A disclaimer of opinion should not be
expressed because the auditor believes, on the basis of his examination, that
there are material departures from generally accepted accounting principles
(see paragraphs .15, .16, and .17).

1 1 A disclaimer may be issued in cases involving uncertainties. See the footnote to paragraph
 .25. If an accountant is engaged to conduct an examination of the financial statements of a
nonpublic entity in accordance with generally accepted auditing standards, but is requested to
change the engagement to a review or compilation of the statements, he should look to the
guidance in Statement on Standards for Accounting and Review Services 1, paragraphs 44—49
[AR section 100.44—49]. [As amended, November 1979, by Statement on Auditing Standards
No. 26.] (See section 504.) [Formerly footnote number 10, number changed by issuance of
Statement on Auditing Standards No. 43, effective after August 31, 1982.] (See section 1010.)
When expressing a disclaimer because of a significant scope limitation, the auditor should indicate in a separate paragraph(s) the respects in which his examination did not comply with generally accepted auditing standards. He should state that the scope of his examination was not sufficient to warrant the expression of an opinion. The auditor should not indicate the procedures performed; to do so may tend to overshadow the disclaimer.

An example of a disclaimer resulting from an inability to obtain sufficient competent evidential matter follows:

(Scope paragraph)

... Except as set forth in the following paragraph, our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

(Separate paragraph)

The Company did not take a physical inventory of merchandise, stated at $........... in the accompanying financial statements as of December 31, 19XX, and at $........... as of December 31, 19X1. Further, evidence supporting the cost of property and equipment acquired prior to December 31, 19XX is no longer available. The Company's records do not permit the application of adequate alternative procedures regarding the inventories or the cost of property and equipment.

(Disclaimer paragraph)

Since the Company did not take physical inventories and we were unable to apply adequate alternative procedures regarding inventories and the cost of property and equipment, as noted in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to above.

Piecemeal Opinion

Piecemeal opinions (expressions of opinion as to certain identified items in financial statements) sometimes have been issued heretofore when the auditor disclaimed an opinion or expressed an adverse opinion on the financial statements taken as a whole. Because piecemeal opinions tend to overshadow or contradict a disclaimer of opinion or an adverse opinion, they are inappropriate and should not be issued in any situation.

[AU § 509.46]
Reports on Comparative Statements

[.49] [Superseded by Statement on Auditing Standards No. 15, effective for periods ending after June 30, 1977.] (See section 505.)

Effective Date

.50 Statements on Auditing Standards generally are effective at the time of their issuance. However, since the provisions of this section change certain reporting practices heretofore considered acceptable, this section will be effective with respect to reports issued on financial statements for periods ending on or after December 31, 1974, and need not be applied retroactively. The Committee understands that arrangements already may have been made for certain engagements, at the conclusion of which the auditor customarily has expressed a piecemeal opinion following a disclaimer of opinion occasioned by scope limitations. In order to provide a period of orderly transition, since the use of piecemeal opinions will no longer be appropriate under the provisions of paragraph .48 of this section, the provisions of that paragraph will be effective with respect to reports issued on financial statements for periods ending on or after January 31, 1975.

[14] [Superseded by Statement on Auditing Standards No. 15, effective for periods ending after June 30, 1977.] (See section 505.) [Formerly footnote number [13], number changed by issuance of Statement on Auditing Standards No. 43, effective after August 31, 1982.] (See section 1010.)
APPENDIX B

DEPARTURES FROM THE AUDITOR'S STANDARD REPORT

The Auditor's Considerations When a Question Arises About an Entity's Continued Existence

AU Section 340

Issue date, unless otherwise indicated: March, 1981

.01 When the continued existence of an entity is imperiled, there is heightened concern about the recoverability and classification of recorded asset amounts and the amounts and classification of liabilities. This section provides guidance regarding the auditor's considerations when information comes to his attention that raises a question about an entity's ability to continue in existence.1

.02 Ordinarily, such a question relates to the entity's ability to continue to meet its obligations as they become due without substantial disposal of assets, restructuring of debt, externally forced revisions of its operations, or similar actions. Other factors, not presently involving solvency, may also bring into question an entity's ability to continue in existence (for example, loss of key personnel, principal customer, essential supply source, or primary revenue producing assets).

.03 In an examination of financial statements in accordance with generally accepted auditing standards, the auditor does not search for evidential matter relating to the entity's continued existence because, in the absence of information to the contrary, an entity's continuation is usually assumed in financial accounting.2 Nevertheless, the auditor remains aware that auditing procedures applied primarily for other purposes may bring to his attention information contrary to that assumption. In forming an opinion on the financial statements, the auditor considers any such contrary information, together with any factors tending to mitigate that information and any management plans for dealing with the underlying conditions.

Contrary Information

.04 In this context contrary information includes information that comes to the auditor's attention, at any time through the date of his report, relating

1 This section does not apply to an examination of financial statements based on the assumption of liquidation (for example, when (a) an entity is in the process of dissolution or liquidation, (b) the owners have determined to commence dissolution or liquidation, or (c) legal proceedings, including bankruptcy, have reached a point at which dissolution or liquidation is probable).

2 See Accounting Principles Board Statement No. 4, paragraph 25.

AU § 340.04
to an entity's ability, at the date of the financial statements, to continue in existence. The following examples of contrary information vary widely in importance, and some may have significance only when viewed in conjunction with others.

a. Information that may indicate solvency problems:
   - Negative trends (for example, recurring operating losses, working capital deficiencies, negative cash flows from operations, and adverse key financial ratios).
   - Other indications (for example, default on loan or similar agreements, arrearages in dividends, denial of usual trade credit from suppliers, noncompliance with statutory capital requirements, and necessity of seeking new sources or methods of financing).

b. Information that may raise a question about continued existence without necessarily indicating potential solvency problems:
   - Internal matters (for example, loss of key management or operations personnel, work stoppages or other labor difficulties, substantial dependence on the success of a particular project, and uneconomic long-term commitments.
   - External matters (for example, legal proceedings, legislation, or similar matters that might jeopardize an entity's ability to operate; loss of a key franchise, license, or patent; loss of a principal customer or supplier; and uninsured catastrophes such as drought, earthquake, or flood).

Mitigating Factors

.05 Factors tending to mitigate the significance of contrary information concerning solvency relate primarily to an entity's alternative means for maintaining adequate cash flows. Examples of such factors include the following.

a. Asset factors:
   - Disposability of assets not operationally interdependent.
   - Capability of delaying the replacement of assets consumed in operations or of leasing rather than purchasing certain assets.
   - Possibility of using assets for factoring, sale-leaseback, or similar arrangements.

b. Debt factors:
   - Availability of unused lines of credit or similar borrowing capacity.
   - Capability of renewing or extending the due dates of existing loans.
   - Possibility of entering into debt restructuring agreements.

c. Cost factors:
   - Separability of operations producing negative cash flows.

AU § 340.05
• Capability of postponing expenditures for such matters as maintenance or research and development.
• Possibility of reducing overhead and administrative expenditures.

d. Equity factors:
• Variability of dividend requirements.
• Capability of obtaining additional equity capital.
• Possibility of increasing cash distributions from affiliates or other investees.

.06 Factors tending to mitigate the significance of contrary information not necessarily concerning solvency relate primarily to the entity's capacity to adopt alternative courses of action (for example, the availability of qualified persons to fill a vacant key position, the likelihood of suitably substituting for a lost principal customer or supplier, the possibility of adequately replacing assets seized or destroyed, and the capability of operating at reduced levels or of redeploying resources).

Consideration of Contrary Information and Mitigating Factors

.07 The auditor's initial consideration of contrary information focuses on the underlying conditions that resulted in the contrary information (for example, whether the conditions are indicative of a rapid or a gradual deterioration, whether they are temporary or recurring, whether they are susceptible of corrective actions solely within the entity, and whether they are applicable to identifiable elements or segments of the entity or are pervasive). The auditor's initial consideration of mitigating factors is based primarily on (a) knowledge of matters that relate to the nature of the entity's business and its operating characteristics and of matters affecting the industry in which it operates, including an awareness of the specific effects and general influence of international, national, and local economic conditions, (b) discussions with principal officers having responsibility for administration, finance, operations, and accounting activities, and (c) understanding of possible legal implications, if any, based on discussions with appropriate legal counsel when that is deemed necessary.

Consideration of Management Plans

.08 Additional considerations often are necessary; they generally focus on management plans that are responsive to the observed conditions that resulted in the contrary information. The relevance of such plans to an auditor generally decreases as the time period for planned actions and anticipated events increases, although longer time periods may be more meaningful in industries with a lengthy operating cycle. Particular emphasis ordinarily is placed on plans that might have a significant effect on the entity's solvency within a period of one year following the date of the financial statements on which the auditor is currently reporting. The auditor's considerations relating to such management plans may include the following.

AU § 340.08
a. Plans to liquidate assets:
   • Apparent marketability of the assets that management plans to sell.
   • Restrictions on the disposal of assets, such as covenants limiting such transactions in loan or similar agreements or encumbrances against assets.
   • Possible direct and indirect effects of the disposal of assets.

b. Plans to borrow money or restructure debt:
   • Availability of debt financing, including existing or committed credit arrangements, such as lines of credit and arrangements for factoring receivables or sale-leaseback of assets.
   • Existing or committed arrangements to restructure or subordinate debt or to guarantee loans to the entity.
   • Possible effects on management's borrowing plans of existing restrictions on additional borrowing and the sufficiency of available collateral.

c. Plans to reduce or delay expenditures:
   • Apparent feasibility of plans to reduce overhead and administrative expenditures, to postpone maintenance or research and development projects, or to lease rather than purchase assets.
   • Possible direct and indirect effects of reduced or delayed expenditures.

d. Plans to increase ownership equity:
   • Apparent feasibility of plans to increase ownership equity, including existing or committed arrangements to raise additional capital.
   • Existing or committed arrangements to reduce current dividend requirements or to accelerate cash distributions from affiliates or other investees.

.09 The auditor also should discuss with management any forecasts, projections, budgets, or other prospective data, particularly data relating to cash flows, that are available or that can reasonably be developed and that are relevant in relation to the plans discussed in paragraph .08. The auditor should consider the support for significant assumptions underlying the prospective data and should give particular attention to assumptions that are
   • Material to the relevant forecasts or projections.
   • Especially uncertain or sensitive to variations.
   • In deviation from historical trends.

The auditor's considerations should be based on (a) reading of the prospective data and the underlying assumptions, (b) knowledge of the entity, its business, and its management, and (c) comparison of prospective data in prior periods with historical results and of prospective data for the current forecast period with results achieved to date. If the auditor becomes aware of relevant factors the effects of which are not reflected in such prospective data, he

AU § 340.09
should also take those factors into account. The auditor's function, however, does not include predicting the outcome of future events, and an unqualified opinion on the financial statements does not constitute a guarantee or assurance by the auditor that the entity has the ability to continue for any particular period beyond the date of his opinion.

Consideration of Informative Disclosures

.10 The auditor should consider the need for, and the adequacy of, disclosure of the principal conditions that raise a question about an entity's ability to continue in existence, the possible effects of such conditions, and management's evaluation of the significance of those conditions and any mitigating factors. If disclosure is necessary and a satisfactory resolution of the question depends primarily on the realization of particular plans of management, the disclosure should deal with that fact and such plans.

Consideration of the Effects on the Auditor's Report

.11 After (a) considering the significance of the contrary information and any mitigating factors, (b) discussing plans, prospective data, and other appropriate matters with management, and (c) making any substantive tests that the auditor considers necessary and practicable to assess such information, factors, and plans, the auditor may conclude that the question raised about the entity's ability to continue in existence should not result in a modification of his report. On the other hand, the auditor may conclude that a substantial doubt remains about the entity's ability to continue in existence. In such a case, he should consider the recoverability and classification of recorded asset amounts, and the amounts and classification of liabilities, in light of that doubt. Identifying the point at which uncertainties about recoverability, classifications, and amounts require the auditor to modify his report is a complex professional judgment. No single factor or combination of factors is controlling. Reporting guidance is provided in section 509, Reports on Audited Financial Statements, particularly in "Inadequate Disclosure" (section 509.17) and in "Uncertainties" (section 509.21—.26).

.12 An example follows of a report qualified for an uncertainty about the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities because of a substantial doubt about an entity's ability to continue in existence.

(Explanatory paragraph)

As shown in the financial statements, the company incurred a net loss of $........ during the year ended December 31, 19XX, and, as of that date, the company's current liabilities exceeded its current assets by $........ and its total liabilities exceeded its total assets by $........ These factors, among others, as discussed in Note X, indicate that the company may be unable to continue in existence. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset

AU § 340.12
amounts or the amounts and classification of liabilities that might be necessary should the company be unable to continue in existence.

(Opinion paragraph)

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty about the recoverability and classification of recorded asset amounts and the amounts and classification of liabilities referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of X Company as of December 31, 19XX, 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 applied on a basis consistent with that of the preceding year.

.13 When financial statements of one or more prior periods are presented on a comparative basis with financial statements of the current period, reporting guidance is provided in section 505, Reports on Comparative Financial Statements. If a substantial doubt about the entity's ability to continue in existence becomes apparent in the current period, it would not imply that a basis for such doubt also existed in the prior period. Accordingly, an uncertainty concerning the recoverability and classification of recorded asset amounts, or the amounts and classification of liabilities, in the financial statements of the current period because of a substantial doubt about an entity's ability to continue in existence will not ordinarily affect the financial statements of the prior period that are presented on a comparative basis. Furthermore, modification of the auditor's report on the current period's financial statements normally would adequately communicate the nature and significance of the uncertainty. Thus, the auditor ordinarily should modify his report on only the current period's financial statements because of an uncertainty due to a substantial doubt that arose in the current period about the entity's ability to continue in existence.

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*Section 505.06 is amended to add the following footnote to the second item.

See section 340.13 for guidance concerning the auditor's discovery of an uncertainty about an entity's ability to continue in existence.

AU § 340.13
Adequacy of Disclosure in Financial Statements
AU Section 431
(Supersedes Statement on Auditing Standards No. 1, section 430)
Issue date, unless otherwise indicated: October, 1980

.01 The third standard of reporting is:
Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.

.02 The presentation of financial statements in conformity with generally accepted accounting principles includes adequate disclosure of material matters. These matters relate to the form, arrangement, and content of the financial statements and their appended notes, including, for example, the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth. An independent auditor considers whether a particular matter should be disclosed in light of the circumstances and facts of which he is aware at the time.

.03 If management omits from the financial statements, including the accompanying notes, information that is required by generally accepted accounting principles, the auditor should express a qualified or an adverse opinion and should provide the information in his report, if practicable, unless its omission from the auditor's report is recognized as appropriate by a specific Statement on Auditing Standards.1 In this context, practicable means that the information is reasonably obtainable from management's accounts and records and that providing the information in his report does not require the auditor to assume the position of a preparer of financial information. For example, the auditor would not be expected to prepare a basic financial statement or segment information and include it in his report when management omits such information.

.04 In considering the adequacy of disclosure, and in other aspects of his examination, the auditor uses information received in confidence from the client. Without such confidence, the auditor would find it difficult to obtain information necessary for him to form an opinion on financial statements. Thus, the auditor should not ordinarily make available, without the client's

1 An independent auditor may participate in preparing financial statements, including accompanying notes. The financial statements, including accompanying notes, however, remain the representations of management, and such participation by the auditor does not require him to modify his report (see section 110.02).

AU § 431.04
consent, information that is not required to be disclosed in financial statements to comply with generally accepted accounting principles (see AICPA Code of Professional Ethics, Rule 301 [ET section 301.01]).
.01 This section provides guidance on the professional judgments the independent auditor makes in deciding (a) whether he may serve as principal auditor and use the work and reports of other independent auditors who have examined the financial statements of one or more subsidiaries, divisions, branches, components, or investments included in the financial statements presented and (b) the form and content of the principal auditor's report in these circumstances. Nothing in this section should be construed to require or imply that an auditor, in deciding whether he may properly serve as principal auditor without himself auditing particular subsidiaries, divisions, branches, components, or investments of his client, should make that decision on any basis other than his judgment regarding the professional considerations as discussed in paragraphs .02 and .10; nor should an auditor state or imply that a report that makes reference to another auditor is inferior in professional standing to a report without such a reference. [As modified, September 1981, by the Auditing Standards Board.]

Principal Auditor's Course of Action

.02 The auditor considering whether he may serve as principal auditor may have performed all but a relatively minor portion of the work, or significant parts of the examination may have been performed by other auditors. In the latter case, he must decide whether his own participation is sufficient to enable him to serve as the principal auditor and to report as such on the financial statements. In deciding this question, the auditor should consider, among other things, the materiality of the portion of the financial statements he has examined in comparison with the portion examined by other auditors, the extent of his knowledge of the overall financial statements, and the importance of the components he examined in relation to the enterprise as a whole. [As modified, September 1981, by the Auditing Standards Board.]

.03 If the auditor decides that it is appropriate for him to serve as the principal auditor, he must then decide whether to make reference in his

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1 Section 315 applies if an auditor uses the work of a predecessor auditor in expressing an opinion on financial statements.

AU § 543.03
report to the examination made by another auditor. If the principal auditor decides to assume responsibility for the work of the other auditor insofar as that work relates to the principal auditor’s expression of an opinion on the financial statements taken as a whole, no reference should be made to the other auditor’s examination. On the other hand, if the principal auditor decides not to assume that responsibility, his report should make reference to the examination of the other auditor and should indicate clearly the division of responsibility between himself and the other auditor in expressing his opinion on the financial statements. Regardless of the principal auditor’s decision, the other auditor remains responsible for the performance of his own work and for his own report.

Decision Not to Make Reference

.04 If the principal auditor is able to satisfy himself as to the independence and professional reputation of the other auditor (see paragraph .10) and takes steps he considers appropriate to satisfy himself as to the other auditor’s examination (see paragraph .12), he may be able to express an opinion on the financial statements taken as a whole without making reference in his report to the examination of the other auditor. If the principal auditor decides to take this position, he should not state in his report that part of the examination was made by another auditor because to do so may cause a reader to misinterpret the degree of responsibility being assumed.

.05 Ordinarily, the principal auditor would be able to adopt this position when:

a. Part of the examination is made by another independent auditor which is an associated or correspondent firm and whose work is acceptable to the principal auditor based on his knowledge of the professional standards and competence of that firm; or

b. The other auditor was retained by the principal auditor and the work was performed under the principal auditor’s guidance and control; or

c. The principal auditor, whether or not he selected the other auditor, nevertheless takes steps he considers necessary to satisfy himself as to the other auditor’s examination and accordingly is satisfied as to the reasonableness of the accounts for the purpose of inclusion in the financial statements on which he is expressing his opinion; or

d. The portion of the financial statements examined by the other auditor is not material to the financial statements covered by the principal auditor’s opinion.

Decision to Make Reference

.06 On the other hand, the principal auditor may decide to make reference to the examination of the other auditor when he expresses his opinion on the financial statements. In some situations, it may be impracticable for the

\[ \text{AU § 543.04} \]
principal auditor to review the other auditor’s work or to use other procedures which in the judgment of the principal auditor would be necessary for him to satisfy himself as to the other auditor’s examination. Also, if the financial statements of a component examined by another auditor are material in relation to the total, the principal auditor may decide, regardless of any other considerations, to make reference in his report to the examination of the other auditor.

.07 When the principal auditor decides that he will make reference to the examination of the other auditor, his report should indicate clearly, in both the scope and opinion paragraphs, the division of responsibility as between that portion of the financial statements covered by his own examination and that covered by the examination of the other auditor. The report should disclose the magnitude of the portion of the financial statements examined by the other auditor. This may be done by stating the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements examined by the other auditor. The other auditor may be named but only with his express permission and provided his report is presented together with that of the principal auditor.³

.08 Reference in the report of the principal auditor to the fact that part of the examination was made by another auditor is not to be construed as a qualification of the opinion but rather as an indication of the divided responsibility between the auditors who conducted the examinations of various components of the overall financial statements. [As modified, September 1981, by the Auditing Standards Board.]

.09 An example of appropriate reporting by the principal auditor indicating the division of responsibility when he makes reference to the examination of the other auditor follows:

We have examined the consolidated balance sheet of X Company and subsidiaries as of December 31, 19...., and the related consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of B Company, a consolidated subsidiary, which statements reflect total assets and revenues constituting 20 percent and 22 percent, respectively, of the related consolidated totals. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for B Company is based solely upon the report of the other auditors.

³ As to filings with the Securities and Exchange Commission, see Rule 2-05 of Regulation S-X. 

AU § 543.09
In our opinion, based upon our examination and the report of other auditors, the accompanying consolidated balance sheet and consolidated statements of income and retained earnings and changes in financial position present fairly . . .

When two or more auditors in addition to the principal auditor participate in the examination, the percentages covered by the other auditors may be stated in the aggregate.

Procedures Applicable to Both Methods of Reporting

.10 Whether or not the principal auditor decides to make reference to the examination of the other auditor, he should make inquiries concerning the professional reputation and independence of the other auditor. He also should adopt appropriate measures to assure the coordination of his activities with those of the other auditor in order to achieve a proper review of matters affecting the consolidating or combining of accounts in the financial statements. These inquiries and other measures may include procedures such as the following:

a. Make inquiries as to the professional reputation and standing of the other auditor to one or more of the following:
   (i) The American Institute of Certified Public Accountants, the applicable state society of certified public accountants and/or the local chapter, or in the case of a foreign auditor, his corresponding professional organization.
   (ii) Other practitioners.
   (iii) Bankers and other credit grantors.
   (iv) Other appropriate sources.

b. Obtain a representation from the other auditor that he is independent under the requirements of the American Institute of Certified Public Accountants and, if appropriate, the requirements of the Securities and Exchange Commission.

c. Ascertain through communication with the other auditor:
   (i) That he is aware that the financial statements of the component which he is to examine are to be included in the financial statements on which the principal auditor will report and that the

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4 The AICPA Professional Ethics Division can respond to inquiries about whether individuals are members of the American Institute of Certified Public Accountants and whether complaints against members have been adjudicated by the Trial Board or the National Review Board. The division cannot respond to inquiries about public accounting firms or provide information about administrative reprimands issued by the division or pending disciplinary proceedings or investigations. The AICPA Division for CPA Firms can respond to inquiries about whether specific public accounting firms are members of either the Private Companies Practice Section (PCPS) or the SEC Practice Section (SECP), and can indicate whether a firm has undergone peer review in compliance with the Section’s membership requirements and whether any sanctions against the firm have been publicly announced. In addition, the division will supply, for a fee, copies of peer-review reports that have been accepted by the applicable section of the division and information submitted by member firms on applications for membership and annual updates.

AU § 543.10
other auditor's report thereon will be relied upon (and, where applicable, referred to) by the principal auditor.

(ii) That he is familiar with accounting principles generally accepted in the United States and with the generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants and will conduct his examination and will report in accordance therewith.

(iii) That he has knowledge of the relevant financial reporting requirements for statements and schedules to be filed with regulatory agencies such as the Securities and Exchange Commission, if appropriate.

(iv) That a review will be made of matters affecting elimination of intercompany transactions and accounts and, if appropriate in the circumstances, the uniformity of accounting practices among the components included in the financial statements.

(Inquiries as to matters under a, and c (ii) and (iii) ordinarily would be unnecessary if the principal auditor already knows the professional reputation and standing of the other auditor and if the other auditor's primary place of practice is in the United States.)

[As modified, September 1981, by the Auditing Standards Board.]

.11 If the results of inquiries and procedures by the principal auditor with respect to matters described in paragraph .10 lead him to the conclusion that he can neither assume responsibility for the work of the other auditor insofar as that work relates to the principal auditor's expression of an opinion on the financial statements taken as a whole, nor report in the manner set forth in paragraph .09, he should appropriately qualify his opinion or disclaim an opinion on the financial statements taken as a whole. His reasons therefor should be stated, and the magnitude of the portion of the financial statements to which his qualification extends should be disclosed.

Additional Procedures Under Decision Not to Make Reference

.12 When the principal auditor decides not to make reference to the examination of the other auditor, in addition to satisfying himself as to the matters described in paragraph .10, he should also consider whether to perform one or more of the following procedures:

a. Visit the other auditor and discuss the audit procedures followed and results thereof.

b. Review the audit programs of the other auditor. In some cases, it may be appropriate to issue instructions to the other auditor as to the scope of his audit work.

c. Review the working papers of the other auditor, including his evaluation of internal control and his conclusions as to other significant aspects of the engagement.

AU § 543.12
.13 In some circumstances the principal auditor may consider it appropriate to participate in discussions regarding the accounts with management personnel of the component whose financial statements are being examined by other auditors and/or to make supplemental tests of such accounts. The determination of the extent of additional procedures, if any, to be applied rests with the principal auditor alone in the exercise of his professional judgment and in no way constitutes a reflection on the adequacy of the other auditor's work. Because the principal auditor in this case assumes responsibility for his opinion on the financial statements on which he is reporting without making reference to the other auditor's examination, his judgment must govern as to the extent of procedures to be undertaken.

**Long-Term Investments**

.14 With respect to investments accounted for under the equity method, the auditor who uses another auditor's report for the purpose of reporting on the investor's equity in underlying net assets and its share of earnings or losses and other transactions of the investee is in the position of a principal auditor using the work and reports of other auditors. Under these circumstances, the auditor may decide that it would be appropriate to refer to the other auditor's examination in his report on the financial statements of the investor. (See paragraphs .06—.11.) When the work and reports of other auditors constitute a major element of evidence with respect to investments accounted for under the cost method, the auditor may be in a position analogous to that of a principal auditor.

**Qualifications in Other Auditor's Report**

.15 If the opinion of the other auditor is qualified, the principal auditor should decide whether the subject of the qualification is of such nature and significance in relation to the financial statements on which the principal auditor is reporting that it would require qualification of his own report. If the subject of the qualification is not material in relation to such financial statements and the other auditor's report is not presented, the principal auditor need not make reference in his report to the qualification; if the other auditor's report is presented, the principal auditor may wish to make reference to such qualification and its disposition.

**Restated Financial Statements of Prior Years Following a Pooling of Interests**

.16 Following a pooling-of-interests transaction, an auditor may be asked to report on restated financial statements for one or more prior years when other auditors have examined one or more of the entities included in such financial statements. In some of these situations the auditor may decide that he has not examined a sufficient portion of the financial statements for such prior year or years to enable him to serve as principal auditor (see paragraph .02). Also, in such cases, it often is not possible or it may not be appropriate or necessary for the auditor to satisfy himself with respect to the restated

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financial statements. In these circumstances it may be appropriate for him to express his opinion solely with respect to the combining of such statements; however, no opinion should be expressed unless the auditor has examined the statements of at least one of the entities included in the restatement for at least the latest period presented. The following is an illustration of appropriate reporting on such combination that can be presented in an additional paragraph of the auditor’s report following the standard scope and opinion paragraphs covering the consolidated financial statements for the current year:*

We previously examined and reported upon the consolidated statements of income and changes in financial position of XYZ Company and subsidiaries for the year ended December 31, 19X1, prior to their restatement for the 19X2 pooling of interests. The contribution of XYZ Company and subsidiaries to revenues and net income represented ...... percent and ...... percent of the respective restated totals. Separate financial statements of the other companies included in the 19X1 restated consolidated statements of income and changes in financial position were examined and reported upon separately by other auditors. We also have applied procedures to the combination of the accompanying consolidated statements of income and changes in financial position for the year ended December 31, 19X1, after restatement for the 19X2 pooling of interests; in our opinion, such consolidated statements have been properly combined on the basis described in Note A of notes to consolidated financial statements.

[As modified, October 1980, by the Auditing Standards Board.]

.17 In reporting on restated financial statements as described in the preceding paragraph, the auditor does not assume responsibility for the work of other auditors nor the responsibility for expressing an opinion on the restated financial statements taken as a whole. He should apply procedures which will enable him to express an opinion only as to proper combination of the financial statements. These procedures include testing the combination for clerical accuracy and the methods used to combine the restated financial statements for conformity with generally accepted accounting principles. For example, the auditor should make inquiries and apply procedures regarding such matters as the following:

a. Elimination of intercompany transactions and accounts.

b. Combining adjustments and reclassifications.

c. Adjustments to treat like items in a comparable manner, if appropriate.

d. The manner and extent of presentation of disclosure matters in the restated financial statements and notes thereto.

The auditor should also consider the application of procedures contained in paragraph .10.

[As modified, October 1980, by the Auditing Standards Board.]

* If restated consolidated balance sheets are also presented, the auditor may also express his opinion with respect to the combination of the consolidated balance sheets.

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[.18] [Superseded by Statement on Auditing Standards No. 7, effective November 30, 1975.] (See section 315.)

AU § 543.18
.01 Information essential for a fair presentation in conformity with generally accepted accounting principles should be set forth in the financial statements (which include the related notes). When such information is set forth elsewhere in a report to shareholders, or in a prospectus, proxy statement, or other similar report, it should be referred to in the financial statements. If the financial statements, including accompanying notes, fail to disclose information that is required by generally accepted accounting principles, the auditor should express a qualified or an adverse opinion because of the departure from those principles and should provide the information in his report, if practicable, unless its omission from the auditor's report is recognized as appropriate by a specific Statement on Auditing Standards. [As amended December, 1977 by Statement on Auditing Standards No. 21.] (See section 435.)

.02 An illustration of appropriate wording in such instances follows:

(Middle paragraph)

On January 15, 19...2, the company issued debentures in the amount of $. 

............... for the purpose of financing plant expansion. The debenture agreement restricts the payment of future cash dividends to earnings after December 31, 19...1.

(Opinion paragraph)

In our opinion, except for the omission of the information in the preceding paragraph, the aforementioned financial statements present fairly

.O3 There may be instances where the independent auditor may wish to include in his report additional explanatory matter (which is not required for adequate disclosure) to highlight certain circumstances or to aid in the interpretation of the financial statements. Since such additional disclosure is not intended to qualify the scope of examination or the opinion on the statements, no reference thereto should be made in the opinion paragraph of the independent auditor's report.

Omission of Statement of Changes in Financial Position

.O4 If an entity issues financial statements that purport to present financial position and results of operations but omits the related statement of

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changes in financial position, and if the omission is not sanctioned by Opinion No. 19 [AC section F40] of the Accounting Principles Board, the omission should be treated in accordance with the provisions of the Special Bulletin of the American Institute of Certified Public Accountants issued in October 1964 relating to disclosures of departures from Opinions of the Accounting Principles Board. Accordingly, the auditor normally will conclude that the omission requires qualification of his opinion.

.05 If the financial statements, including accompanying notes, fail to disclose information that is required by generally accepted accounting principles, the auditor should provide the information in his report, if practicable, unless its omission from the auditor's report is recognized as appropriate by a specific Statement on Auditing Standards. The auditor is not required to prepare a basic financial statement (a statement of changes in financial position for one or more years) and include it in his report if an entity declines to present the statement. Accordingly, in these cases the auditor should qualify his report, ordinarily in the following manner:

We have examined the balance sheet of X Company as of December 31, 19...., and the related statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The company declined to present a statement of changes in financial position for the year ended December 31, 19.... Presentation of such statement summarizing the company's financing and investing activities and other changes in its financial position is required by Opinion No. 19 of the Accounting Principles Board.

In our opinion, except that the omission of a statement of changes in financial position results in an incomplete presentation as explained in the preceding paragraph, the aforementioned financial statements present fairly the financial position of X Company at December 31, 19...., and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[As amended December, 1977 by Statement on Auditing Standards No. 21.]
(See section 435.)
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