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Illustrations of accounting policy disclosure : a survey of applications of APB opinion no. 22; Financial report survey, 36

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Illustrations of Accounting Policy Disclosure

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Financial Report Survey
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Illustrations of Accounting Policy Disclosure

A Survey of the Applications of APB Opinion No. 22

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AICPA American Institute of Certified Public Accountants

FINANCIAL REPORT SURVEYS

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*OUT OF PRINT

Illustrations of Accounting Policy Disclosure

A Survey of the Applications of APB Opinion No. 22

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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 part of a series produced by the Institute's staff through use of the Institute's National Automated Accounting Research System (NAARS). 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.

John Graves
Director, Technical Information Division

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I

SCOPE AND PURPOSE OF THE SURVEY

The accounting policies of a reporting entity are the specific accounting principles and methods of applying those principles that are judged by the management of the entity to be appropriate in the circumstances to present fairly financial position, changes in financial position, and results of operations in conformity with generally accepted accounting principles and that accordingly have been adopted for preparing the financial statements. In April 1972 the AICPA Accounting Principles Board issued Opinion No. 22, "Disclosure of Accounting Policies," which requires a description of all significant accounting policies of a reporting entity to be included as an integral part of the financial statements.

APB Opinion No. 22 has been amended by these pronouncements:

1. FASB Statement No. 2, "Accounting for Research and Development Costs"
2. FASB Statement No. 52, "Foreign Currency Translation"

The selection of accounting policies and their presentation in accordance with Opinion No. 22 require considerable judgment. An accountant who is confronted with problems in selecting or presenting accounting policies can benefit from learning how other accountants are solving the problems in practice. Accordingly, excerpts from financial statements contained in recently published annual reports to shareholders of business enterprises are presented in this publication to illustrate what accounting policies are being selected currently and how they are being disclosed.

A similar survey of accounting policies disclosure was published by the AICPA in 1978. Since then, numerous authoritative pronouncements in accounting have been issued and the accounting policies adopted by business enterprises have changed significantly. Because of those changes, a new survey of accounting policies disclosure seems appropriate.

The AICPA National Automated Accounting Research System (NAARS) was used to compile the information. The examples presented were selected from the published annual reports to shareholders of more than 21,000 documents stored in the computer data base.

II

COMPLETE ACCOUNTING POLICIES SUMMARIES CLASSIFIED BY TYPE OF INDUSTRY

Opinion No. 22 states that accounting policies disclosure is particularly useful if given in a separate Summary of Significant Accounting Policies preceding the notes to the financial statements or as the initial note, and preference is expressed in the Opinion for that format under the same or a similar title. The Summary should not duplicate details presented elsewhere as part of the financial statements, and in some cases should refer to related details presented elsewhere.

Summaries of accounting policies are presented in this chapter. Since accounting policies differ among industries, the summaries are taken from companies operating in a wide variety of industries. The summaries illustrate accounting policies peculiar to particular industries and are classified by type of industry.

AGRICULTURE, FORESTRY AND FISHERIES

UNITED STATES SUGAR CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Accounting Policies:

Principles of Consolidation. The following is a summary of the significant accounting policies followed by United States Sugar Corporation and Subsidiaries (the Corporation). The policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Inventory Valuation. Inventories are stated at the lower of cost or market. Cost is determined substantially by the average method.

Cane Planting Costs. Cost incurred in connection with annual plantings of sugar cane are deferred and amortized over four years commencing with the first harvest of such cane.

Purebred and Other Breeding Cattle. Costs incurred in connection with raising purebred and other breeding cattle and the amortization of the previously capitalized cost of mature animals (four through eleven years of age) are capitalized by allocating such costs to all animals less than four years old. Accordingly, except as discussed in the next paragraph, no costs are charged against income until the animals are sold or die.

Costs incurred in connection with maintaining a herd are not capitalized once the carrying value equals replacement cost.

Property, Plant and Equipment. Property, plant and equipment are carried at cost, less accumulated depreciation computed by the straight-line method.

Deferred Income Taxes. Deferred income taxes are provided for timing differences between financial and taxable income. The principal timing differences arise from (1) depreciating plant and equipment by the use of accelerated methods for income tax purposes and the straight-line method for financial accounting purposes, (2) depreciating cattle and expensing other cattle costs for income tax purposes and capitalizing such amounts for financial accounting purposes, (3) pension and other employee benefits expenses deductible in different periods for financial accounting and tax purposes, and (4) expenses accrued for financial purposes and not deducted for tax purposes.

Investment Tax Credits. Investment tax credits are accounted for on the "flow-through" method, whereby the benefit is recognized in the year in which the assets that give rise to the credits are placed in service.

Retirement Income Plans. The Corporation and its subsidiaries have noncontributory defined benefit retirement income plans and, effective October 1, 1983, a defined contribution plan (ESOP) (see Note 7). These plans cover substantially all permanent employees. Beginning in 1983, because of an excess of assets over prior service cost (overfunding), the Corporation began to fund pension cost based on the requirements of the Employee Retirement Income Security Act of 1974, under which amounts funded may vary from pension costs accrued. Pension expense for 1983 includes the cost of current service net of amortization of the overfunding amount over 10 years. Because of the overfunding and the establishment of the defined contribution plan, pension expense relating to the defined benefit plans was insignificant for 1985 and 1984.

NATIONAL GRAPE CO-OPERATIVE ASSOCIATION, INC. & WELCH FOODS INC., A COOPERATIVE
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

1. Basis of Consolidation. The consolidated financial statements include the accounts of National Grape Co-operative Association, Inc. (National) and its wholly-owned membership subsidiary, Welch Foods Inc., A Cooperative (Welch). All material intercompany balances and transactions have been eliminated.

2. Distribution of Net Proceeds. Under the terms of a Crop Purchase Agreement, National delivers all grapes received from its members to Welch. During the course of the year Welch manufactures and markets these grapes into food products, primarily juices, concentrates, jellies and drinks. At each year end Welch is obligated to distribute to National all of the net proceeds from its sale of patron grapes. National, in turn, distributes its net proceeds to members in the form of cash, allocation certificates and permanent equity credits.

3. Inventories. All inventories are stated at the lower of cost (first-in, first-out) or market.

4. Property, Plant and Equipment. Property, plant and equipment are stated at cost. Depreciation is provided principally on the straight-line or sum-of-the-years digits methods. Expenditures for maintenance and repairs are charged to operations as incurred. Major improvements and renewals are capitalized.

The estimated service lives of the assets used in determining depreciation are as follows: land impovements—10 years; buildings and building improvements—33⅓ years; and machinery and equipment—4-12 years.

5. Federal Income Taxes. National and Welch, as cooperatives, are not subject to Federal income taxes on net proceeds earned from patronage sources and distributed or allocated to patrons. However, Welch is subject to Federal income tax on net proceeds, if any, relating to non-patronage sources. Investment tax credits are recorded as a reduction of the provision for Federal income taxes in the year realized. Any unused investment tax credits are allocated to patrons in the same manner as net proceeds. For fiscal years 1983-1985, the distribution and allocation of net proceeds resulted in no Federal income tax expense.

6. Pension Plans. National and Welch have non-contributory pension plans covering substantially all employees not covered by union-sponsored plans. Pension expense includes current service costs and amortization of prior service costs. Annual funding of the plan is in accordance with the estimate of the Companies' consulting actuary.

7. Goodwill. Goodwill is not amortized since management is of the opinion that it is of continuing value.

8. Waste Water Facilities. In connection with the construction of municipally-owned waste water facilities at certain of its plants, Welch has capitalized its proportionate share of the capital expenditures as allocated to the industrial users of these facilities. Amortization is provided over the terms of the underlying agreements. Expenses are charged to operations as incurred.

9. Dominant Business Segment. Welch is primarily in the business of processing, packaging and marketing consumer beverages and food products with major emphasis on Concord and Niagara grape products. The basic ingredient is grape juice derived from deliveries of grapes to National by patrons. Selling is done principally through food brokers.

10. Reclassification of Prior Year Statements. Certain reclassifications have been made to the 1984 and 1983 consolidated financial statements to conform with the 1985 presentation.

TEJON RANCH CO. AND SUBSIDIARIES DECEMBER 31, 1985
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

Seed and Other Inventories. Seed and other inventories are valued at the lower of average cost or market.

Cattle Inventories and Breeding Herd. Cattle raised on the ranch are stated at previously established nominal unit prices which are substantially below current market; purchased bulls and cows used for breeding are stated at cost less depreciation (straight-line method over five to seven years); other cattle are stated at cost.

Property and Equipment. Property and equipment accounts are stated on the basis of cost except for land acquired upon organization in 1936 which is stated on the basis (presumed to be at cost) which was carried by the Company's predecessor. Depreciation is computed using the straight-line method over the estimated useful lives of the various assets. Oil, gas and mineral reserves have not been appraised, and no value has been assigned to them.

Vineyards and Orchards. Costs of planting and developing permanent crops (vineyards and orchards) are capitalized until the crops become commercially productive. Interest costs and depreciation of irrigation systems and trellis installations during the development stage are also capitalized. Revenue from permanent crops earned during the development stage is credited against development costs. Depreciation of orchard and vineyard costs commences when the permanent crops become commercially productive.

Investment Tax Credit. The investment tax credit is recognized on the flow-through method as a reduction of the provision for federal income taxes.

Net Income Per Share. Net income per share is based upon the average number of shares of Common Stock outstanding during the year.

Reclassifications. Certain reclassifications of prior year amounts have been made to conform with current year classifications.

ALCOHOLIC AND MALT BEVERAGE DISTILLERS

ADOLPH COORS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Summary of Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Adolph Coors Company and all domestic and foreign subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated.

Short-Term Interest Bearing Investments. Short-term interest bearing investments consist of certificates of deposit and other income producing securities of less than one-year maturity. These investments are readily convertible to cash, and are stated at cost which approximates market.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method for substantially all inventories.

Current cost, as determined principally on the first-in, first-out method, exceeded LIFO cost by $56,630,000 and $55,354,000 at December 29, 1985 and December 30, 1984, respectively.

Returnable Containers. Bottles are recorded in inventory at cost and expensed as used due to their limited lives. Kegs, which are classified as properties, are depreciated over their estimated useful lives.

Properties. Expenditures for new facilities and significant betterments of existing properties are capitalized at cost. The Company has engineering and construction staffs responsible for the majority of plant expansion projects and installation of machinery and equipment. Capitalized costs of projects undertaken internally consist of direct materials, labor and allocated overhead. Maintenance and repairs are expensed as incurred.

Depreciation is computed principally on the straight-line method at rates considered sufficient to amortize costs over estimated service lives.

The Company has oil, gas and coal properties to provide sources of natural energy for its own use and for sale to unaffiliated customers. The costs of acquisition, exploration and development of natural resource properties are accounted for under the successful efforts method. Productive properties are amortized on the unit of production method.

Excess of Cost Over Net Assets of Businesses Acquired. The excess of cost over the net assets of businesses acquired in transactions accounted for as purchases is being amortized on a straight-line basis, generally over a 40-year period.

Research and Project Development. Expenditures for research and development are charged to operations as incurred. Project costs, primarily feasibility and conceptual studies, are also charged to expense as incurred.

Income Taxes. Investment tax credits ($4,000,000 in 1985, $9,600,00 in 1984 and $9,400,000 in 1983) are recorded on the flow-through method of accounting whereby they are applied as a reduction of income tax expense in the year the properties generating such credits are placed in service or are claimed on qualified progress expenditures.

Net Income Per Share. Net income per share is based on the weighted average number of shares of common stock outstanding during each year. Except for voting privileges, both classes of common stock have the same rights and privileges.

Fiscal Year. The fiscal year of the Company is a 52- or 53-week period ending on the last Sunday in December.

AMUSEMENT AND RECREATION SERVICES

GOLDEN NUGGET, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

Golden Nugget, Inc. conducts casino gaming operations in Las Vegas, Nevada and Atlantic City, New Jersey. In addition, the Company operates hotel and related facilities and provides transportation services in support of its casino gaming operations. The significant accounting policies followed by the Company and its subsidiaries in preparing the accompanying consolidated financial statements are as follows:

(a) Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

(b) Casino Revenue and Promotional Allowances. In accordance with industry practice, the Company recognizes as casino revenue the net win from gaming activities, which is the difference between gaming wins and losses. Operating revenues in the accompanying consolidated statements of income exclude the retail value of rooms, food, beverages, transportation and other promotional allowances provided to customers without charge. The actual costs of providing such promotional allowances are included in casino-hotel operating expenses.

(c) Marketable Securities. Marketable securities are carried at the lower of aggregate cost or market value. The cost of marketable securities sold is based on the first-in, first-out method.

(d) Property and Equipment. Property and equipment are recorded at cost and are depreciated over their estimated useful lives using the straight-line method for financial statement purposes and accelerated methods for income tax purposes.

(e) Goodwill. Goodwill of $5,645,000 is included in "Other assets" and represents the excess of cost over the value of net tangible assets of the business in 1950 when it was acquired by Golden Nugget, Inc. Such amount is not being amortized because, in the opinion of management, there has been no diminution of its value.

(f) Original Issue Discount and Debt Issue Costs. Original issue discount is amortized over the life of the related indebtedness using the effective interest method.

Costs associated with the issuance of debt are deferred and amortized over the life of the related indebtedness using the straight-line method giving pro rata effect, where appropriate, to debt retirement schedules specified in the debt indentures.

(g) Investment Tax Credits. Investment tax credits are accounted for as reductions of income tax expense in the year in which the related assets are placed in service.

(h) Net Income Per Share of Common Stock. Net income per share of common stock is computed based on the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the period. Common stock equivalents included in the computation consist of those shares issuable upon the assumed exercise of certain dilutive stock options as determined under the treasury stock method and common stock warrants primarily as determined using the if-converted method. The number of shares used in the computation of net income per share of common stock was 34,864,068 in 1985, 36,041,007 in 1984 and 42,947,312 in 1983.

Fully diluted per share amounts are the same as primary amounts for the periods presented.

(i) Reclassifications. Certain reclassifications have been made to prior year financial statements to conform with current year presentations.

THOUSAND TRAILS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Three Years Ended December 31, 1985

Note A—Significant Accounting Policies

General. The Company and its subsidiaries operate membership-based destination campground resorts in the United States and Canada. All significant intercompany transactions and balances have been eliminated in the accompanying financial statements.

Revenue Recognition. The Company sells memberships for cash or on an installment basis. Membership sales, net of an allowance for sales cancellations, are recorded in full upon execution of membership contracts. Installment sales require a down payment of at least 10% of the sales price. All marketing costs and an allowance for estimated contract collection losses and sales cancellations (based on historical loss occurrence rates) are recorded currently.

Certain membership contracts provide for prepaid use by members of Company-owned rental trailers. Revenue attributable to prepaid use is recorded as deferred rental revenue and recognized over the period of expected use.

Members are assessed annual dues which are used for resort maintenance and operations, member services and related general and administrative expenses. The Company establishes dues at rates intended to fully provide for such expenses when active memberships sold reach approximately 40% of total memberships available for sale. Membership contracts provide for annual adjustment of dues to reflect increases in the Consumer Price Index.

Operating Resorts. Operating resort land and improvement costs, including the estimated costs to fully develop the resorts, are aggregated by geographical area and recorded as a cost of membership sales based upon the ratio of actual memberships sold within each area to the total memberships planned for sale within the area. The maximum number of memberships which will be sold in a geographical area is determined based on members' historical use of the Company's resorts in that area. The Company currently plans to sell ten memberships for each campsite. Resort utilization statistics are reviewed on a regular basis, and the number of total planned memberships available for sale will be revised if future experience indicates the ten-to-one ratio is no longer appropriate. As of December 31, 1985, the Company had 85,100 members, which represented approximately one-third of the total memberships planned for sale on its 42 operating resorts.

Resorts. Resorts under initial development are classified as operating resorts when development has been completed to the extent that the resorts are available for regular use by members.

Investment. Real estate acquired for potential future development as resorts and real estate acquired in excess of that necessary for operating resorts is classified as investment in real estate. Real estate contiguous to operating resorts is infrequently used but is generally available for use by members until disposition or further development. Certain parcels of the real estate contiguous to operating resorts are subject to land use permits obtained in connection with development of the resorts. Prior to disposition or development of such parcels, the Company will be required to obtain waivers or modifications of such permits from local governmental authorities.

Depreciation. Depreciation of equipment is provided on the straight-line method over the assets' respective useful lives which range from three to ten years.

Foreign. The Company translates the financial statements of its Canadian subsidiary into U.S. dollars at exchange rates in effect as of the balance sheet dates. Unrealized translation gains and losses are included in retained earnings.

Earnings. Earnings per share of common stock is computed based on weighted average common and equivalent shares outstanding during the year. Stock options, warrants and rights to purchase stock are included in the computation of earnings per share when dilutive.

Reclassifications. Certain reclassifications have been made in the 1983 and 1984 financial statements to conform with 1985 classifications.

CONTRACT CONSTRUCTION

GENERAL HOMES CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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(2) Significant Accounting Policies

Basis of Presentation. The accompanying consolidated financial statements include the accounts of General Homes Corporation and its subsidiaries and controlled joint ventures, except for certain subsidiaries which are not consolidated. These subsidiaries, which include the Company's wholly-owned mortgage banking subsidiary, FGMC, Inc. (FGMC), and its indirect mortgage finance subsidiaries, GHX, Inc. (GHX); General Homes Finance Corporation (GHFC); and General Homes Mortgage Securities, Inc. (GHMS) and the Company's title insurance subsidiaries are all accounted for using the equity method. Prior years' equity in income of unconsolidated subsidiaries has been reclassified from other income and tax effected to conform to the current year's presentation. All significant intercompany balances and transactions have been eliminated.

The Company is primarily engaged in one industry segment, volume production of single-family housing and development of related subdivisions.

Revenue Recognition. The Company recognizes revenue from home and property sales when a closing occurs, which is when payment has been received and title, possession and other attributes of ownership have been transferred to the buyer and the Company is not obligated to perform significant activities after the sale.

Mortgage Discount Expense. Mortgage discount expense primarily represents the difference between the face amount of a mortgage loan and its sales price. The Company accrues the discount expense when the sale of a home is recognized and reduces discount expense by the amount of income earned from the sale of loan servicing rights.

Interest. A summary of interest capitalized, incurred, and included in cost of sales and interest expense and income for the three years ended September 30, 1985 is as follows (in thousands):

	1983	1984	1985
Capitalized at beginning of year	$ 35,468	$ 34,360	$ 42,080
Incurred (paid or accrued)	19,818	26,747	36,738
Included in cost of sales	(18,502)	(19,027)	(14,967)
Expensed	(2,424)	—	(1,441)
Capitalized at end of year	$ 34,360	$ 42,080	$ 62,410
Interest expense	$ 2,424	$ —	$ 1,441
Interest income	(1,401)	(1,803)	(4,771)
Interest, net	$ 1,023	$ (1,803)	$ (3,330)

Receivables. Homes sales receivables represent the proceeds from first mortgage loans not yet funded by FGMC or unrelated financial institutions. These receivables are usually collected within ten days after the sale is closed.

Inventories. Inventories are stated at the lower of cost or estimated net realizable value. Reserves of $1,000,000, $251,000, and $885,000 were provided by a charge to cost of sales in fiscal 1983, 1984 and

1985, respectively, to reduce the cost of certain residential inventory to estimated net realizable value.

Income for the year ended September 30, 1985, reflects a charge to cost of sales of $1,127,000 and expenses of $311,000 related to the cancellation of options to purchase improved lots in seven subdivisions from unrelated third parties in Houston, Texas. The Company has discontinued operations in the seven subdivisions.

Cost includes land acquisition and development costs, housing construction costs, indirect costs related to development and construction activities, and interest and property taxes during the development and construction period. A summary of indirect costs capitalized, incurred and included in cost of sales for the three years ended September 30, 1985 is as follows (in thousands):

	1983	1984	1985
Capitalized at beginning of year	$ 3,442	$ 3,586	$ 4,322
Incurred	5,080	6,712	7,989
Included in cost of sales	(4,936)	(5,976)	(5,590)
Capitalized at end of year	$ 3,586	$ 4,322	$ 6,721

Improved lots and land include expenditures of $11,917,000 and $14,286,000 at September 30, 1984 and 1985, respectively, for the development of water and sewer utility systems in certain projects located in Texas. (Municipal utility districts are obligated to reimburse the Company for these expenditures; however, reimbursement is dependent upon each district's ability to sell bonds.)

Land and development costs, except expenditures that will be reimbursed by municipal utility districts, are allocated between commercial and residential acreage using the relative sales value method and are then allocated to individual improved lots based upon the area method. The cost of single-family housing is determined by specific identification.

Property and Equipment. Property and equipment consists primarily of model home furniture and office furniture and equipment, and depreciation expense is provided using the straight-line method over the estimated useful lives. Accumulated depreciation was $4,664,000 and $7,442,000 as of September 30, 1984 and 1985, respectively.

GEMCO NATIONAL, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 1985, 1984 and 1983

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Gemco National, Inc. ("Gemco") and its wholly owned subsidiary, Universal Industries, Inc. ("Universal"). All significant intercompany balances and transactions have been eliminated in consolidation. See note 2 for a discussion of Gemco's subsidiaries in the discontinued Architectural Metal and Glass Division.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Property, Plant and Equipment and Depreciation. Property, plant and equipment are stated at cost. Building, machinery and equipment are depreciated generally using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized using the straight-line method over the lesser of the lease term or the estimated useful life of the related asset.

Excess of Cost Over Net Assets of Subsidiaries Acquired. The excess of cost over net assets of subsidiaries acquired is amortized on a straight-line basis over a period of 40 years.

Debenture Issue Costs. Debenture issue costs are amortized over the term of the 7% convertible subordinated debentures. When debentures are converted to common stock, the applicable portion of the unamortized debenture issue costs is charged against additional paid-in capital. When debentures are repurchased by Gemco, the applicable portion of the unamortized debenture issue costs is charged to income.

Income Taxes. Deferred income taxes are recognized for income and expense items that are reported for financial reporting purposes in different years than for income tax purposes. Investment tax credits are accounted for as a reduction of income tax expense in the year realized.

Reclassifications. Certain 1984 and 1983 balances have been reclassified to conform to the 1985 financial statement presentation.

FISCHBACH CORPORATION AND SUBSIDIARIES
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of all significant domestic and foreign subsidiaries. All significant intercompany accounts and transactions are eliminated.

Business. The principal business of the Company is construction, with a strong emphasis on electrical and mechanical contracting. Representative of its operations are installations of electrical, heating, ventilating, plumbing, air conditioning systems, power plant work, general contracting and sign work.

Revenue Recognition. The companies generally follow the completed contract method of reporting income from contracts and provide for estimated losses on uncompleted contracts.

Contracts entered into by the companies generally provide that billings are to be made monthly in amounts which are commensurate with the extent of performance under contracts. In the normal course of business, the companies do not bill or receive compensation under the contracts in advance of performance. Accordingly, the amounts included in the accompanying consolidated balance sheets as "Billings in Excess of Costs on Uncompleted Contracts" generally do not represent a liability for future performance. Rather, they consist principally of the accumulated estimated gross profit on related uncompleted contracts to date of billing which, under the companies' method of accounting, will not be recognized as income until the contracts are completed. "Billings in Excess of Costs on Uncompleted Contracts" neither includes nor represents the estimated gross profit on all uncompleted contracts in process. Based upon current tax rates, Federal income taxes applicable to "Billings in Excess of Costs on Uncompleted Contracts" would be approximately $30,250,000 at September 30, 1985 and $23,450,000 at September 30, 1984.

Property, Plant and Equipment. Depreciation is provided at rates based upon estimated useful service lives (ten to forty years for buildings and two to fifteen years for equipment) using the straight-line and accelerated methods for buildings and improvements and for equipment. Improvements on leased property are amortized on the straight-line method over the terms of the leases.

Interest Capitalized. The companies charge to the cost of real estate projects interest incurred during the period of construction. These costs are amortized over the useful lives of the projects. During 1985, interest costs of $1,275,000 were charged to projects under construction.

Construction Joint Ventures. The companies have entered into various venture agreements at varying participations. Such joint ventures generally follow the completed contract method of reporting income from contracts. The companies' share of joint venture revenues included in the statements of consolidated income amounted to approximately $4,892,000, $53,706,000 and $102,900,000 for 1985, 1984 and 1983, respectively.

Net Income Per Share of Common Stock. Net income per share of common stock, assuming no dilution, is computed by dividing net income by the weighted average number of shares outstanding during the year. The effect of dilutive stock options on the computation is insignificant for 1984 and 1983, and is anti-dilutive in 1985.

Net income per share of common stock, assuming full dilution, gives effect to the conversion of outstanding convertible debentures (after elimination of related interest expense, net of income tax effect) and exercise of dilutive stock options.

MORRISON KNUDSEN CORPORATION
Notes to Consolidated Financial Statements
(Thousands of Dollars Except Per Share Data)

The term "Corporation" as used in this Annual Report includes Morrison Knudsen Corporation and its consolidated subsidiaries unless otherwise indicated.

Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Morrison Knudsen Corporation and all of its subsidiaries, except a wholly owned Brazilian subsidiary which effective December 1, 1984 is stated at cost because its earnings are subject to material risk due to political and economic uncertainty. Intercompany accounts and transactions have been eliminated.

Pursuant to a reorganization plan approved by the stockholders in May, 1985, Morrison Knudsen

Corporation became the parent company of the Morrison-Knudsen group of companies including Morrison-Knudsen Company, Inc.

Investments in Joint Ventures. Investments in joint ventures are accounted for by the equity method. The Corporation's proportionate share of revenue and cost of revenue is included in the consolidated statement of income.

Recognition of Revenue. The Corporation recognizes revenue on construction contracts, including substantially all of its joint-venture contracts, on the percentage-of-completion method based on the proportion of costs incurred on the contract to total estimated contract costs. Construction management and engineering contract revenue is recognized on the accrual method. Revenue on new ship construction and conversion contracts is recognized on the percentage-of-completion method based on the proportion of manhours incurred on the contract to total estimated manhours. Revisions in contract revenue and cost estimates are reflected in the accounting period when known. Provision is made currently for estimated losses on uncompleted contracts. Claims for additional revenue are recognized when settled.

Classifications of Current Assets and Liabilities. The Corporation includes in current assets and liabilities amounts realizable and payable under construction, engineering and shipbuilding contracts which extend beyond one year. Current assets include $20,300 of retentions, generally payable by owners on final acceptance, which are not expected to be collected in 1986. Other assets and liabilities are classified as current or non-current on the basis of expected realization or payment within or beyond one year.

Depreciation. The cost of buildings, ways and wharves (less salvage values of 10 to 20%) is depreciated on the straight-line method over periods from 10 to 40 years. The cost of construction equipment (less salvage values of 10 to 20%) is depreciated on the straight-line method over periods from 5 to 10 years. The cost of other equipment (less salvage value of 10%) is depreciated on the straight-line or declining-balance method over periods from 5 to 20 years.

Maintenance and repairs of $37,700 in 1985, $30,500 in 1984 and $34,500 in 1983 have been charged to costs and expenses. The cost and accumulated depreciation of property and equipment disposals are removed from the accounts and gains or losses are reflected in income.

Income Taxes. Certain items of income and expense are recognized in different periods for tax and financial accounting purposes. The tax effects of these timing differences are reflected as deferred income taxes. Investment tax credits are applied as a reduction of the provision for income taxes under the flow-through method.

Earnings Per Share. Primary and fully diluted earnings per share are based on the weighted average number of outstanding shares of common stock and common stock equivalents of options and deferred stock awards.

Capitalization of Interest Cost. Interest is capitalized for assets being constructed or developed for the Corporation's use or for sale. Total interest cost incurred in 1985, 1984 and 1983 was $11,977, $11,140 and $13,085 of which $8,989, $2,793 and $2,721, respectively, was capitalized.

Foreign Currency Translation. The financial statements of Canadian entities are translated using a current exchange rate. Resulting translation gains and losses are deferred in a separate component of stockholders' equity. Monetary assets, liabilities, revenue and expense elements of financial statements of other foreign entities, are translated using a current exchange rate while nonmonetary assets and liabilities are translated at applicable historical rates. Translation gains and losses of these entities are reflected in income.

Pensions. Effective January 1, 1985, the Corporation adopted Statements of Financial Accounting Standards No. 87—Employers' Accounting for Pensions and No. 88—Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits. See Employee Benefit Plans Note.

SLATTERY GROUP, INC.

Summary of Significant Accounting Policies

Basis of Consolidation. The accompanying consolidated financial statements include the accounts of Slattery Group Inc. (formerly Alpha Portland Industries, Inc.) and its wholly-owned subsidiaries, Slattery Equities Inc. (formerly Slattery Group Inc.), Slattery Associates, Inc., H. Sand & Co. Inc., Underpinning and Foundation Constructors, Inc. and Grow Tunneling Corp.

Construction Contracts. Earnings on long-term construction contracts are recognized on the percentage-of-completion method in the ratio that costs incurred bear to total estimated costs. Revenues on contracts that are less than twenty percent complete are included in the same amounts as costs incurred, and the respective cumulative earnings are not recognized until the period in which such percentage is attained. Earnings and costs on contracts are subject to revision throughout the terms of the contracts, and any required adjustments are made in the periods in which revisions become known. Provisions are made for the full amounts of anticipated losses in the periods in which they are first determinable. Claims for additional contract revenues are recognized to the extent of costs incurred if it is probable that the claim will result in additional revenue and the amount can be reliably estimated. Profit on such claims is not recognized until the claims have been allowed.

Balances billed but not paid pursuant to retainage provisions under the construction contracts generally become due upon completion of the contracts and acceptance by the owners. Construction contracts are normally completed within two to four years.

Costs and estimated earnings in excess of billings on uncompleted contracts comprise principally revenues recognized on contracts for which billings have not been presented to the contract owners at the balance sheet date. Such revenues are expected to be billed and collected generally within one year.

Revenues and costs and expenses relating to construction contracts include the Company's proportionate share of such items applicable to joint ventures. The investment in construction joint ventures is stated at cost plus the equity in unremitted earnings of the various joint ventures.

In accordance with industry practice, the Company includes in current assets and liabilities amounts realizable and payable under long-term construction contracts. Consistent with this practice, equity in construction joint ventures has been classified as current.

Excess Cost of Net Assets Acquired. The excess resulting from the 1971 acquisition of H. Sand & Co. Inc. is being amortized using the straight-line method, over a period of forty years. The excess ($7,087,000) with respect to the 1968 acquisition of Slattery Associates, Inc. is not being amortized because, in the opinion of management, this asset presently has value of indefinite duration.

Equipment and Property. Property and equipment are stated at the lower of cost or estimated realizable value. Major renewals and improvements are charged to the property accounts, while replacements, maintenance, and repairs which do not improve or extend the life of the respective assets are expensed currently.

At the time properties are retired or otherwise disposed of, the property and related accumulated depreciation accounts are relieved of the applicable amounts. Gain or loss from retirements or sales is credited or charged to income.

Depreciation. Depreciation is computed principally by use of the straight-line method based on the estimated useful lives of the construction equipment (principally 8 years), and the building (40 years).

Employee Benefits. The Company has pension plans covering substantially all of its employees. Generally, costs are accrued based on actuarial estimates, with prior service costs being amortized over periods of twenty to thirty years, except that as to construction employees covered by union contracts the costs are accrued according to contributions specified in such contracts.

Income Taxes. The Company computes and records taxes currently payable based upon determination of taxable income which is different from pre-tax financial statement income. Such difference arises from the reporting of financial statement amounts in different periods for tax purposes. The tax effect of such "timing" difference is provided as deferred taxes.

Investment credits recognized, including those utilized in computing deferred income taxes for timing differences, are reflected as a reduction of income tax expense over the productive lives of the related properties.

DATA PROCESSING COMPANIES

UCCEL CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 1985, 1984 and 1983

1. Summary of Significant Accounting Policies

(a) Consolidation. The consolidated financial statements include the accounts of UCCEL Corporation and its subsidiaries, all of which operate in the data processing services industry. The Company's majority shareholder, Careal Holding AG (Careal), owns approximately 59 percent of the Company's outstanding common capital stock.

(b) Cash and Marketable Securities. Marketable securities are stated at cost which approximates market value. Cash and marketable securities are as follows:

	December 31, 1985	December 31, 1984
	(In thousands)	
Cash	$ 4,601	$ 2,233
Interest bearing deposits	16,292	28,138
Certificates of deposit	—	7,015
Other marketable securities	21,389	11,049
	$42,282	$48,435

(c) Inventories (pledged). Inventories are stated at the lower of cost (specific identification and first-in, first-out) or market and consist principally of computer equipment purchased substantially from a single supplier.

(d) Property and Equipment. Property and equipment are as follows:

	December 31, 1985	December 31, 1984
	(In thousands)	
Computer and other data processing equipment	$34,424	$35,320
Office furniture and other equipment	13,319	11,305
Leasehold improvements	9,456	7,873
	$57,199	$54,498

Depreciation is provided principally by the straight-line method, without considering salvage value, over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the term of the lease or the lives of the related assets.

(e) Marketable Equity Securities. Cost of marketable equity securities at December 31, 1985 was $5,092,000, and accordingly, a valuation allowance for the unrealized loss was established by a charge to stockholders' equity. Realized gain or loss on sale of marketable equity securities is determined based on specific identification of the securities sold.

(f) Excess of Cost Over Net Assets of Businesses Acquired. Excess of cost over net assets of businesses acquired is amortized by the straight-line method, generally over 25 to 40 years, except for $866,000 relating to an acquisition made prior to 1970, which is not being amortized.

(g) Software Costs. Purchased software is amortized by the straight-line method over the period expected to be benefited, which is generally five to eight years.

In 1986, The Financial Accounting Standards Board Statement of Financial Accounting Standards No. 86 will be in effect, and it specifies criteria for the capitalization of internally developed and purchased software. The Company has not yet determined what effect implementation of this statement will have on the results of operations.

(h) Investment Tax Credits. Investment tax credits are applied as a reduction of income taxes by the flow-through method.

(i) Deferred Income. Deferred income consists principally of software maintenance and billed software contracts which have not been recognized in revenue. Maintenance revenue is recognized ratably over the maintenance period. Revenue from billed software contracts is recognized when products are delivered.

(j) Investment Income. Components of investment income are as follows:

	Years ended December 31, 1985	1984	1983
		(In thousands)	
Realized gain (loss) on sale of marketable equity securities	$3,999	$ (293)	—
Investment portfolio interest	3,352	4,700	3,552
Software license financing	1,333	1,299	1,088
Dividends	762	1,260	—
	$9,446	$ 6,966	$4,640

(k) Reclassifications. Certain accounts have been reclassified to conform to 1985 presentation.

101 CULLINET SOFTWARE, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

A. Principles of Consolidation. The consolidated financial statements include the accounts of Cullinet Software, Inc., and its wholly owned subsidiaries (referred to hereafter in these notes as the Company). All significant intercompany balances and transactions have been eliminated in the financial statements.

B. Financial Statement Presentation. Certain amounts in the prior years' financial statements have been reclassified to conform to the fiscal year 1986 presentation.

C. Revenue Recognition. The Company recognizes revenue from the initial "license to use" computer software upon the delivery and acceptance of programs by the customer. A license to use is issued for a period of one year. After the initial term of license, an annual renewal fee is charged. Certain contracts allow the customer typically to pay the initial license fee in monthly installments over a period of one to five years with interest and administrative fees, at varying rates, charged on the unpaid balance.

D. Research and Development and Installation Costs. Research and development costs and installation costs are expensed as incurred. In August 1985, the Financial Accounting Standards Board issued a statement requiring that certain internal development costs be capitalized and amortized over the economic life of the product. Beginning with fiscal year 1987 the Company will be required to comply with this pronouncement. If the Company had adopted this policy earlier, the impact on income from operations for the fiscal year ended April 30, 1986 would not have been material.

E. International Representatives. The Company utilizes international representatives to market and provide technical support for its products in various parts of the world. As part of the agreements with the representatives, the Company typically receives 45% of the list price of the products licensed through the international representatives.

F. Property, Plant, and Equipment. Property, plant, and equipment are carried at cost and depreciated using the straight-line method, over their estimated useful lives.

G. Purchased Computer Software Licenses. The costs to acquire licenses of certain computer software products are being amortized using the straight-line method, principally over seven years. Certain provisions of these and other agreements require royalty payments when the Company recognizes revenue from licensing the products to its customers. These royalty payments are included in sales, support and general and administrative expenses.

Purchased computer software licenses are shown net of accumulated amortization of $11,388,000 and $6,484,000 at April 30, 1986 and 1985, respectively.

H. Excess of Cost Over the Value of Net Assets Acquired. The excess of cost over fair value of net assets acquired is being amortized using the straight-line method principally over a period of seven years. These amounts are presented net of accumulated amortization of $535,000 and $221,000 at April 30, 1986 and 1985, respectively.

I. Income Taxes. The Company follows the comprehensive method of income tax allocation which recognizes the tax effects of income and expense transactions included in each year's consolidated statement of income regardless of the year the transactions will be reported for tax purposes.

The Company previously considered taxes on undistributed earnings of its Domestic International Sales Corporation (DISC) to be permanently deferred and as such the Tax Reform Act of 1984 had no impact on the Company except for requiring the long term deferral of taxes on the DISC income for the six months ended December 31, 1984 when the DISC was terminated by the Act. The Company subsequently established a Foreign Sales Corporation (FSC) to continue to realize tax benefits on its foreign operations.

Investment tax credits are accounted for under the "flow-through" method and are recognized in the year in which the related property is placed in service.

J. Translation of Foreign Currencies. The balance sheet accounts of the foreign consolidated subsidiaries have been translated into U.S. dollars at current exchange rates for monetary items and historical rates for all other items. Revenue and expense accounts are translated at average rates of exchange prevailing during the year.

The Company enters into forward exchange transactions to minimize the effect of currency fluctuations. Net gains and losses on such transactions and other currency gains and losses, which are immaterial in amount, are included in income currently.

K. Earnings Per Share. Earnings per share are based on the weighted average number of common shares and common equivalent shares outstanding during each year (adjusted for stock split, see Note 7).

ACTIVISION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(Dollar amounts in tables in thousands except per share data, unless otherwise noted)

1. Summary of Significant Accounting Policies

Consolidation. The consolidated financial statements include the accounts of Activision, Inc. and its wholly-owned subsidiaries after elimination of intercompany accounts and transactions.

Revenue Recognition. The Company records revenue, net of an allowance for estimated returns, at the time products are shipped.

Inventory Valuation. Inventories are stated at the lower of standard cost (which approximates actual cost determined on a first-in, first-out basis) or market.

Depreciation and Amortization. Fixed assets other than leasehold improvements are depreciated on a straight-line basis over the estimated useful lives of the related assets (two to seven years). Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the assets or the lease term.

Product Development Expenditures. Product development expenditures are charged to expense as incurred. Such expenditures, included in general, administrative and product development expenses, amounted to $2.7 million, $3.3 million and $6.8 million in Fiscal 1986, 1985 and 1984, respectively.

Income Taxes. Deferred taxes are recorded to reflect differences in the timing of recognition of certain costs and expenses for financial statement and income tax purposes. Investment tax credits are recorded as a reduction of the provision for federal income taxes using the flow-through method.

Loss Per Share. Net loss per share has been computed using the weighted average number of common shares outstanding during the period. Prior to June 9, 1983 (date of Company's initial public offering), the fair market value of the Company's common stock was determined by the Board of Directors.

Foreign Currency Translation. Assets and liabilities of subsidiaries outside the United States are translated into U.S. dollars at the exchange rate in effect at the end of the period. Revenue and expense accounts are translated at the weighted average of exchange rates which were in effect during the year. Translation adjustments that arise from the translation of foreign subsidiaries' financial statements are accumulated as a separate component of shareholders' equity.

COMPUTER LANGUAGE RESEARCH, INC.

Notes to Consolidated Financial Statements
December 31, 1985

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany transactions and balances have been eliminated.

Inventories. Inventories are stated at the lower of cost (first-in, first-out) or market.

Depreciation and Amortization. Depreciation and amortization is provided for property, equipment and purchased software by the straight-line method over the following estimated useful lives:

Buildings and improvements	5–30 years
Data processing equipment	5–7 years
Furniture, fixtures, machinery and other equipment	3–8 years
Purchased software	3–5 years

Deferred Income Tax. Deferred income tax results principally from using the cash basis method of accounting and accelerated depreciation of property and equipment for federal income tax purposes.

Investment Tax Credit. Investment tax credits are applied as a reduction of income taxes using the flow-through method.

Software Costs. The Financial Accounting Standard "Capitalization of Software Costs" will be applied beginning in 1986. The effect of application on 1986 financial statements is not expected to be significant.

Earnings Per Share. Earnings per share are computed based upon net income and the weighted average number of shares of common stock and common stock equivalents outstanding during the year. No material difference exists between primary and fully diluted earnings per share.

NATIONAL EDUCATION CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Summary of Accounting Policies:

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all subsidiaries. The financial statements of certain foreign subsidiaries are included on the basis of a fiscal year ended October 31. All significant intercompany profits, transactions and balances have been eliminated.

Revenues and Costs. Education Centers Revenues are recorded ratably over the terms of the courses which range from six to twenty-five months. Course service costs are charged to expense as incurred. Advertising costs and salesmen's commissions are deferred and amortized into expense within nine months of incurrence.

Independent Study Contract Revenues are deferred and recognized as income when cash is received, but only to the extent such cash can be retained by the Company. Generally, the Company follows the guidelines of the National Home Study Council in determining retention rights. Advertising and promotional literature costs associated with independent study contracts are amortized over eighteen months.

Industrial Contract Revenues are recognized as income when cash is received with appropriate recognition of estimated expenses relating to servicing such contracts when the Company is required to perform such services. For those industrial contracts not requiring future servicing to clients by the Company, revenue is recognized when study materials are shipped.

Marketable Securities. Substantially all of the marketable securities are marketable equity securities and short-term interest bearing instruments which are carried at cost which approximates market.

Inventories. Substantially all domestic inventories in Training, Publishing and Services are stated at the last-in, first-out (LIFO) method. At December 31, 1985, inventories valued at current cost are not materially different from the LIFO values reflected in the Company's financial statements.

Other inventories, primarily consisting of course materials, are stated at the lower of cost or market.

Land, Buildings and Equipment. Land, buildings and equipment are stated at cost and are depreciated principally using the straight-line method over the estimated useful lives of the various classes of property.

Acquired Intangible Assets. Acquired intangible assets consist of course development costs, copyrights, preproduction and editorial costs, and the excess of cost over acquired net assets purchased by the Company in conjunction with various acquisitions. Such assets are being amortized over their estimated useful lives, averaging approximately seven years.

Prepublication Costs. Prepublication costs related to basal textbook series are deferred and amortized over their estimated useful lives, which approximate four years from the date of market introduction.

Unearned Tuition. Unearned tuition represents the portion of student tuition payments received in advance of services being performed.

Income Taxes. Deferred income taxes are provided for timing differences between financial and taxable income. Benefits from investment and other tax credits are reflected currently in income.

Earnings Per Share. Earnings per share are computed based on the weighted average number of common shares outstanding during the respective periods, including dilutive stock options. There is no significant difference between earnings per share and fully diluted earnings per share.

ADVANCED SYSTEMS, INCORPORATED AND SUBSIDIARIES
Notes to Financial Statements

Note 1—Significant Accounting Policies

Principles of Consolidation and Basis of Presentation. The financial statements include the accounts of Advanced Systems, Incorporated and all of its subsidiaries (the "Company," "ASI"). All significant intercompany accounts and transactions have been eliminated.

Educational Contracts Receivable and Revenue Recognition. The Company markets its educational products and services primarily under the Total Training Resource (TTR) agreement. These TTR contracts, which generally range from one to five years, require the customer to purchase a minimum dollar amount of the Company's products and services. The customer can elect to take delivery of the

Company's products and services through subscription library plans, reference library plans, perpetual licenses, or by purchase, and can pay for these products and services by applying a portion of the existing TTR agreement or by a separate payment.

TTR agreements are generally billed in equal annual installments at the beginning of each contract year. Both the billed and unbilled portions of the TTR commitments are included in educational contracts receivable when signed by the customer. TTR commitments are reported as deferred educational contract revenues in the accompanying balance sheets until revenues are recognized. Under the subscription library plan option, the Company's course products are ordered from and returned to the Company's library at the customer's discretion. Revenues from the subscription library plans are recognized on a straight-line basis unless actual usage is greater. Usage in excess of straight-line on a contract-to-date basis is recognized as revenue when the usage occurs. If contract usage is less than the straight-line revenue, an accrual is established for expected future service expenses including royalties, duplication, shipping, materials and other costs.

Under the reference library plan option, the customer contracts to maintain a specified amount of courses at the customer's site for a specified period of time. Revenues from the reference library plans and other contract and non-contract sales are recognized immediately when the products are shipped or services provided.

Educational Contract Acquisition Costs. The Company defers the costs, principally marketing and sales costs, associated with acquiring TTR agreements. These acquisition costs ("Educational contract acquisition costs") are shown as a reduction of deferred educational contract revenues in the accompanying balance sheets and are recognized as an expense on a pro rata basis when the related revenue is recognized.

Educational Program Production Costs. Costs incurred by the Company in the original production of, and improvement to, educational courses are capitalized and amortized by the straight-line method over the estimated useful lives of the respective courses, generally four years.

Income Taxes. Deferred income taxes are provided for items reported in different periods for financial and tax reporting purposes. Investment tax credits are used to reduce the provision for income taxes in the year in which the related property is acquired.

Depreciation and Amortization. Depreciation and amortization, computed using the straight-line method, are provided over the useful lives of the various classes of property, equipment and leasehold improvements.

Net Income Per Share. Net income per share is based on the weighted average number of common and common equivalent shares outstanding during each year, adjusted to reflect the effects of the 5% stock dividend in April 1985 and the 5% stock dividend declared in December 1985. Common equivalent shares outstanding include the common shares into which the shares of the Series A $3.50 Convertible Preferred Stock are convertible and the additional common shares which would be outstanding as a result of the assumed exercise of common stock options.

Marketable Securities. Marketable securities are stated at the lower of cost or market. The unrealized loss on long-term marketable equity securities, which management considers to be temporary, is recorded as a reduction of stockholders' equity.

ELECTRIC AND GAS COMPANIES

DOMINION RESOURCES, INC.
Notes to Consolidated Financial Statements

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B. Significant Accounting Policies:

General. The consolidated financial statements include the accounts of Dominion Resources and its subsidiaries, the Power Company, Dominion Capital and Dominion Resource Services. In consolidation, all significant inter-company transactions and accounts have been eliminated.

The results of Dominion Capital's wholly-owned subsidiary, Rincon Securities Inc., are accounted for on the equity method of accounting.

Dominion Resources is presently exempt from regulation as a registered holding company under the Public Utility Holding Company Act of 1935.

The Power Company, Dominion Resources' principal subsidiary, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy. VNG, a division of the Power Company, provides regulated gas service to certain areas within the state of Virginia. The

Power Company's accounting practices are prescribed by the Uniform System of Accounts promulgated by the regulatory commissions having jurisdiction.

The Power Company has two wholly-owned subsidiaries, Laurel Run Mining Company and Dominion Exploration Inc. Laurel Run Mining Company is engaged in the underground mining of coal near Mt. Storm, West Virginia. Dominion Exploration Inc. is organized to explore for natural gas when circumstances warrant. The results of these subsidiaries are accounted for on the equity method of accounting.

Revenues. The Power Company's operating revenues are recorded on the basis of service rendered.

Utility Plant and Depreciation. Utility plant is recorded at original cost which includes labor, materials, services, allowance for funds used during construction and other indirect costs. During 1985, Common Plant was reclassified to Electric Plant.

Depreciation of utility plant (other than nuclear fuel) for financial reporting purposes is computed on the straight-line method based on estimated remaining useful lives. The cost of depreciable utility plant retired and the cost of removal, less salvage, are charged to accumulated depreciation. The provision for depreciation was based on mean depreciable plant using the following rates:

Years	1985	1984	1983
Electric	3.4%	3.3%	3.3%
Gas	3.3	3.3	3.3
Common		5.1	5.0

The cost of maintenance and repairs is charged to the appropriate operating expense and clearing accounts. The cost of additions and replacements is charged to the appropriate utility plant account, except that the cost of minor additions and replacements is charged to maintenance expense.

Decommissioning costs of $143.8 million in current dollars for nuclear units in service are being charged on a present-value basis to customers subject to the jurisdiction of the Virginia and West Virginia Commissions. For the remaining jurisdictions, decommissioning costs are being recorded as straight-line depreciation based upon estimated service lives. Amounts collected in 1985 have been placed in a trust in order that the Power Company may avail itself of the related Federal income tax benefits. A redetermination of estimated decommissioning costs is being prepared and is expected to show substantially higher costs than currently reflected in rates to customers.

Nuclear Fuel. Progress payments are being made for fuel to be owned or leased by the Power Company.

Operating expenses include amortization of owned nuclear fuel which is provided on a unit of production basis sufficient to fully amortize, over the estimated service life, the cost of the fuel plus future storage and disposal costs.

In 1983, the Power Company entered into a contract with the Department of Energy (DOE) to dispose of fuel consumed prior to April 7, 1983, as well as fuel consumed after that date, based on an ongoing fee equivalent to 1.0 mill per kilowatt-hour generated. This fee is presently being recovered from customers.

In June, 1985, the Power Company made a one-time interest-free payment of $112.8 million to DOE for the fee assessed on fuel burned prior to April 7, 1983.

In 1979, a settlement was reached in the Westinghouse uranium dispute which provides for cash and discounts on uranium and goods and services over the period 1979–1997 which are estimated to equal the value of contracts litigated had they been fully performed by Westinghouse. Settlement proceeds are applied to reduce fuel expenses to the extent that fuel expenses reflect higher costs as a result of the breached contracts.

Federal Income Taxes. Dominion Resources and its subsidiaries file a consolidated Federal income tax return.

Dominion Resources' and its subsidiaries' practice is to reduce the current provision for Federal income taxes to reflect the tax benefit resulting from the use of accelerated depreciation methodology for property additions. Prior to 1974, the Power Company flowed through to income the tax effect of all timing differences between book and tax accounting. Effective with property additions placed in service in 1974, deferred income taxes have been provided on the aforementioned benefit and, subsequently, deferred taxes have been provided on most other timing differences between book income and Federal taxable income, to the extent permitted by the regulatory commissions having jurisdiction.

To the extent timing differences have arisen in prior periods which have not been normalized, the tax increase or decrease will be recorded when the timing differences reverse. The Power Company's only significant non-normalized timing difference pertains primarily to accelerated tax depreciation of plant placed in-service prior to 1974. Deferred tax provisions have not been recorded on these timing differences (with the exception of FERC jurisdictional operations) because they are not allowed for rate-making purposes. As of December 31, 1985, the cumulative net amount of such timing differences was approximately $805 million. The tax effect of this amount is not being recorded currently but such costs will be reflected in rates when the timing differences reverse.

Accumulated investment tax credits are being amortized over the service lives of the property giving rise to such credits.

An additional tax credit of ½% of the annual compensation of those employees covered by the Employee Stock Ownership Plan (ESOP) did not affect net income and was recorded as a liability until the contribution was made to the ESOP trust.

Allowance for Funds Used During Construction. The applicable regulatory Uniform System of Accounts defines AFC as the net cost of borrowed funds used for construction purposes and a reasonable rate on other funds when so used.

The Power Company separately determines rates and reports amounts applicable to borrowed funds, calculated on a net-of-tax basis, and to equity funds. In accordance therewith, for 1985, 1984 and 1983, aggregate rates of 8.56%, 8.51%, and 8.35%, respectively, were used for the accrual of AFC.

For expenditures on the Bath County Pumped Storage Station after December 31, 1979, and before May 1, 1983, AFC was accrued in an amount equal to the net-of-tax cost of borrowings associated with the project financing. Effective May 1, 1983, restricted use long-term debt associated with the Bath station and pollution control projects is included in the computation of the AFC rate.

Deferred Fuel. Approximately 80% of the Power Company's fuel expenses are subject to a deferral method of accounting. Under this method, the difference between actual fuel expenses and the level of fuel expenses included in current rates is deferred and matched against future fuel-related revenues.

In the event that future developments dictate a change in the fuel recovery procedures, the Power Company will request regulatory approval to recover through billings to customers any unrecovered deferred fuel expenses.

Marketable Securities. Marketable securities are carried at the lower of aggregate cost or market value with dividend and interest income accrued as earned. For long-term marketable securities, a valuation allowance, representing the excess of aggregate cost over aggregate market value of these securities, is included in the common stockholders' equity section of the balance sheet. The excess of aggregate cost over aggregate market value of short-term marketable securities is included in current earnings.

Deferred Interest. The Power Company charges to operations an interest cost associated with variable interest rate loans based on the interest rate ceiling stated in the loan agreements. Amounts paid in excess of the amounts charged to operations are deferred pending refund from the applicable lending institutions.

Pollution Control Project Funds. Pollution control project funds represent proceeds from the sale for the benefit of the Power Company of pollution control notes. These funds are placed in a trust until the Power Company requisitions from the trustee monies for the reimbursement of qualified project expenditures. Any interest income generated from the unused portion of such funds is capitalized as a credit against the recorded cost of such projects.

Retirement Plan. Dominion Resources has a contributory defined benefit retirement plan and funds pension costs accrued. Prior service costs from changes in actuarial assumptions are being funded on the basis of future salaries of participants currently covered by the plan.

Leases. In 1984, the Power Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 71 which requires capitalization of those leases whose inception was subsequent to December 31, 1982, in accordance with SFAS No. 13.

Prior to 1984, the Power Company's practice was to account for all leases as operating leases in accordance with rate-making practices.

Reclassification. Certain amounts in the 1984 and 1983 consolidated financial statements have been reclassified to conform to the 1985 presentation.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

Our accounting records are maintained in conformity with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by The Public Utilities Commission of Ohio (PUCO).

Consolidation. Our financial statements include the accounts of wholly-owned subsidiaries, which in the aggregate are immaterial.

Property and Plant. Electric and Steam Utility Plant is carried on the books at original cost as defined by the FERC. The costs of maintenance and repairs are charged to Operating Expense as incurred. The cost of replacing or improving property is charged to Property and Plant. The cost of property retired, plus any removal cost, less any salvage realized, is charged to Accumulated Depreciation and Amortization.

Depreciation. We report depreciation expense on our income statement as a current cost of doing business to account for the normal using up of our property. Depreciation is deducted in equal amounts over the estimated useful life of the property. For example, if we estimate that an item will be useful for 10 years, we charge one-tenth of its cost to depreciation expense each year. However, in the case of the Davis-Besse Nuclear Power Station (Davis-Besse), we utilize the units-of-production depreciation method which bases depreciation on the ratio of the amount of electrical energy it produces in the accounting period to its total estimated energy production during its useful life. We intend to use the units-of-production depreciation method on our investment in Perry 1.

Terminated Projects. Costs associated with terminated nuclear generating units are being amortized over a period approximating 15 years, which began in 1983. See Note E.

Allowance for Funds Used During Construction. The PUCO and the FERC allow us to include as part of the total cost of constructing new assets the cost of money paid on funds which are tied up in construction projects. This is called Allowance for Funds Used During Construction (AFUDC).

When a construction project is completed, or to the extent the PUCO allows it in rate base after it is at least 75% completed, the funds invested in it are no longer considered tied up in construction and we stop recording AFUDC. The cost of the project at that time, including AFUDC, is treated as a new asset and is included in a subsequent rate case to determine the rates we charge our customers for service. Because the resulting rates include a factor for all these costs, we are being allowed to recover in cash all costs of the property, including AFUDC, over the useful life of the property.

The amount of AFUDC for an accounting period is determined by applying a rate of AFUDC to the funds tied up in construction. The annual AFUDC percentage rate is determined by a formula set by the FERC. The rate represents an average of the cost of money paid on funds tied up in construction. The rate is compounded semiannually. The part of the rate which represents interest is reduced to recognize that interest is tax deductible.

The amount of AFUDC is reflected in two parts of our income statement: an addition to Nonoperating Income as the Allowance for Equity Funds Used During Construction and a reduction of Interest Charges as the Allowance for Borrowed Funds Used During Construction. On the balance sheet, the AFUDC becomes part of Construction Work in Progress.

The amount of AFUDC recorded in each accounting period varies. The variation occurs because of (1) the number of dollars spent on construction both during and prior to the accounting period, (2) the length of the construction period and (3) the rate used in computing AFUDC. The rates were 10.73% in 1985, 10.66% in 1984 and 10.35% in 1983.

Federal Income Tax. The depreciation expense we report on our income statement is different from the depreciation expense we use to calculate Federal income tax. There are several reasons for this difference. First, AFUDC and certain overheads are excluded from the cost of assets which we are allowed to depreciate for tax purposes. However, these costs are included in the cost of assets we depreciate on our income statement (book depreciation). Second, the portion of depreciation expense representing nuclear unit decommissioning costs (see Note D) is not deductible for tax purposes until cash payments are made. Third, the period of time over which the Internal Revenue Service (IRS) allows the cost of assets to be depreciated is shorter than the period of time (useful life) we use. Finally, the IRS allows some of the depreciation we are entitled to in future years to be used early. Beginning with property additions made in October 1976, the tax reductions resulting from these differences are not applied to reduce tax expense on the income statement in the periods we obtain them. They are deferred for allocation to income over the useful life of property through an accounting procedure called normalization. At December 31, 1985, the cumulative net amount of income tax timing differences for which deferred income taxes have not been provided amounted to about $500,000,000.

When we place new property in service during the year, the IRS allows us a credit against taxes due for 10% of the investment we have made in the new asset. This is called the investment tax credit. We record Federal income tax on our income statement as though it were not reduced by this credit. We recognize the tax savings from this credit over the life of the property involved through the normalization procedure.

Our Federal income taxes are lowered because we can deduct our interest charges from income. This reduction of taxes is split between Net Operating Income and Total Nonoperating Income. The tax reductions resulting from interest actually paid on funds invested in property currently being constructed are recorded in Total Nonoperating Income. The tax reductions of interest paid on all other funds are recorded in Net Operating Income.

Revenues. Customer meters are read or estimated and billed on a monthly basis. Operating revenues are recorded in the accounting period during which the meters are read.

A fuel factor is added to our base rates for electric service. This fuel factor is designed to recover from customers what we actually pay for fuel. It is changed every six months after a hearing before the PUCO. Our steam fuel rate is adjusted each month for what we paid for fuel in the preceding month.

Fuel. When we make a payment for coal or oil, it is recorded on the balance sheet as Fossil Fuel Inventory. When we make a lease payment for nuclear fuel, we record it on the balance sheet as a deferred charge. As the fossil and nuclear fuel is used, we transfer the cost to the income statement as fuel expense. Nuclear fuel expense also includes a factor for the cost of the ultimate disposal of spent nuclear fuel and interest which is being recovered through rates.

Any difference between the cost of fuel actually used and the amount collected from customers through the fuel factor in rates is deferred. The deferred amount is taken into account to adjust the fuel factor for a subsequent six-month period.

Accounts Receivable. Amounts due from customers and others was reduced by the allowance for uncollectible accounts of $4,426,000 and $3,226,000 in 1985 and 1984, respectively.

INDIANA GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Consolidation. The consolidated financial statements include the accounts of the Company's wholly owned subsidiary companies. All intercompany transactions have been eliminated.

(b) Acquisition Adjustments. Acquisition adjustments result from acquisitions in 1968 and 1973 and represent the excess of the acquisition price over the original cost of utility plant. Such adjustments are being amortized over 25-year periods.

(c) Utility Plant, Depreciation and Maintenance. Construction costs include allocations of payroll-related costs and administrative and general expenses as well as an allowance for the cost of funds used during construction.

The Companies provide for depreciation on the original cost of depreciable plant in service using straight-line rates which, exclusive of amounts charged to clearing accounts, averaged 4.2%, 4.2% and 4.1% on an overall basis in 1985, 1984 and 1983, respectively.

Maintenance of property units and renewals of minor items are charged to expense as incurred.

(d) Income Taxes. Income taxes not currently payable due to the use of accelerated depreciation methods and the shorter lives for tax purposes permitted under the class life system and accelerated cost recovery system, together with the capitalization of certain costs for book purposes, which are deducted currently for tax purposes, have been provided for as deferred income taxes. Taxes deferred in prior years are being charged and income credited as these tax effects reverse.

Investment tax credits are deferred and credited to income over the life of the property giving rise to the credit.

(e) Unamortized Debt Discount and Expense. Debt discount and expense is being amortized over the lives of the related issues. Gains realized from reacquisition of debt for sinking fund purposes are included in other income—net.

(f) Gains or Losses on Reacquired Preferred Stock. Gains or losses realized from reacquisition of preferred stock are included in other income—net.

(g) Revenue Recognition. The Company recognizes revenue for service only at the time bills are rendered to customers.

(h) Cost of Gas. To better match sales and cost of gas, the Company defers gas costs attributable to the differences in volumes delivered to customers and volumes billed due to cycle billing. This accounting method generally results in deferrals only during the heating season when such differences in volumes delivered and volumes billed are significant due to the seasonal sales of gas for space heating purposes.

(i) Gas in Underground Storage. In fiscal 1983, the Company adopted the last-in, first-out (LIFO) method for pricing gas stored underground; it had previously used the average cost method.

Based on the cost of purchased gas during September 1985, the cost of replacing the current portion of gas in underground storage at September 30, 1985 exceeded LIFO cost by approximately $19,615,000.

(j) Refundable or Recoverable Gas Costs. Refunds from pipeline suppliers, changes in cost of gas purchased from pipeline suppliers and changes in costs of contracted gas storage, which are different from the amounts recovered through rates, are deferred and are being refunded or recovered in accordance with procedures approved by the Indiana Commission.

(k) Allowance for Funds Used During Construction. An allowance for funds used during construction, which represents the net cost of borrowed funds used for construction purposes and a reasonable rate upon other funds when so used, is charged to construction work in progress during the period of construction at an annual rate of 10% (10% in 1984 and 11% in 1983).

EL PASO ELECTRIC COMPANY AND SUBSIDIARY
Notes to Consolidated Financial Statements

A. Summary of Significant Accounting Policies

General. The Company maintains its accounts in accordance with the Uniform System of Accounts prescribed for electric utilities by the FERC. The Subsidiary is not a regulated company.

The Company reports under the guidelines of Statement of Financial Accounting Standards ("SFAS") No. 71, Accounting for the Effects of Certain Types of Regulation. This pronouncement provides for specialized reporting and accounting requirements as they relate to specific transactions which are unique to the industry. In December 1985, the Financial Accounting Standards Board issued an exposure draft that would, if enacted in its present form, significantly change generally accepted accounting principles for regulated enterprises. The exposure draft proposes revised accounting requirements for phase-in (rate moderation) approaches to cost recovery of completed plant construction, disallowance of recovery of all or a portion of completed plant construction due to imprudency or excess capacity, and disallowance of recovery of costs associated with abandoned plants.

If the exposure draft is adopted in its present form, any rate moderation plan entered into by the Company would be subject to the provisions of this amendment and would require full recovery of costs deferred under the plan within ten years of commencement of such deferrals. Also, the amendment would require that any disallowed costs associated with a newly completed generating facility, or an abandoned facility, be charged to expense at the time such disallowances are determined to be probable. See Note B of Notes to Consolidated Financial Statements.

Principles of Consolidation. The consolidated financial statements include the Company and Subsidiary. All intercompany balances and significant intercompany transactions have been eliminated in consolidation.

Utility Plant. Utility plant is stated at original cost. The Company provides for depreciation on a straight-line basis at annual rates which will amortize the undepreciated cost of depreciable property over estimated remaining service lives.

The Company charges the cost of repairs and minor replacements to the appropriate operating expense and capitalizes the cost of renewals and betterments. The cost of depreciable utility plant retired or sold and the cost of removal, less salvage, are charged to accumulated depreciation.

AFUDC. The applicable regulatory authorities provide for the capitalizing of AFUDC which is defined as an amount which includes the net cost during a period of construction of borrowed funds used for construction purposes plus a reasonable rate on other funds when so used. While AFUDC results in an increase in utility plant under construction for rate making purposes with a corresponding credit to income, it is not current cash income. AFUDC, net of certain tax effects, is normally recovered in cash over the service life of utility plant in the form of increased revenue collected as a result of higher depreciation expense. See Note B of Notes to Consolidated Financial Statements.

The amount of AFUDC is determined by applying an accrual rate to the balance of certain CWIP. In this connection, the FERC has promulgated procedures for the computation (a prescribed formula) of the accrual rate. The Company also compounds AFUDC on major construction projects semiannually.

Investments. Investments are stated at cost which approximates market.

Operating Revenues. Operating revenues are recognized based on cycle billings rendered to customers monthly. The Company does not accrue operating revenues with respect to energy consumed but not billed at the end of a fiscal period.

Fuel Cost Adjustment Provisions. The Company's Texas retail customers are presently being billed under a fixed fuel factor approved by the Texas Commission in connection with the Commission's order in the Company's 1985 rate filing. This fuel factor will remain in effect until the earlier of the Company's next general rate case or Commission ordered fuel reconciliation. On February 21, 1986 the Texas Commission passed a new fuel rule which would subject the utility's fixed fuel factor to a monthly reduction, as opposed to an annual reduction, if the utility had materially overrecovered its allowable fuel costs under its existing fuel factor.

Rate tariffs currently applicable to FERC and New Mexico jurisdictional customers contain appropriate fuel and purchased power cost adjustment provisions designed to recover the Company's fuel costs. Effective March 1986 the New Mexico tariffs will contain a fixed factor similar to Texas.

Unamortized Debt Expense and Premium or Discount on Debt. Unamortized amounts apply to outstanding issues and are being amortized ratably over the lives of such issues.

Federal Income Taxes and Investment Tax Credits. Accelerated methods of computing depreciation of utility plant are used for Federal income tax reporting purposes which differ from the methods used for financial reporting purposes. Differences in the tax and financial methods of accounting for tax leases and other investments, nuclear fuel interest, fuel revenues and other capitalized costs also exist. In accordance with regulatory authority requirements and accounting requirements related to non-regulated companies, provision has been made in the financial statements for Federal income taxes deferred to future years as a result of these items. In addition, deferred Federal income taxes are provided on the borrowed portion of AFUDC.

Investment tax credit utilized is deferred and amortized to income over the estimated useful lives of the related properties after such properties are placed in service.

Reclassification. Certain amounts in the consolidated financial statements for 1984 and 1983 have been reclassified to conform with the 1985 presentation.

PACIFIC GAS AND ELECTRIC COMPANY
Notes to Consolidated Financial Statements
For the Years Ended December 31, 1985, 1984, and 1983

Note 1: Summary of Significant Accounting Policies

Accounting Records. The accounting records of Pacific Gas and Electric Company (PG&E) are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the California Public Utilities Commission (CPUC).

Principles of Consolidation. The consolidated financial statements include the accounts of PG&E and its wholly-owned and majority-owned subsidiaries (the Company) for all periods presented. All significant intercompany transactions and accounts have been eliminated in consolidation.

PG&E's major subsidiaries are Pacific Gas Transmission Company (PGT), a 50.2%-owned company (See Note 9) which transports and sells natural gas outside California; Pacific Gas and Electric Finance Company N.V. (Finance), which was organized in the Netherlands Antilles to borrow funds outside the United States and to lend such funds to PG&E and its subsidiary companies; Alberta and Southern Gas Co. Ltd. (A&S), whose principal functions are purchasing gas in Canada and arranging for its transportation to the U.S. border; Natural Gas Corporation of California (NGC), which is a natural gas exploration and production company; and Pacific Conservation Services Company (PCSC), which provides loans to PG&E residential customers for installation of conservation and weatherization measures. Other subsidiaries include Mission Trail Insurance (Cayman) Ltd., which was formed in 1985 to provide liability insurance; PG&E Gas Supply Company, which is a gas exploration company; JWP Land Company, which acquires, develops, and otherwise holds real property; and Standard Pacific Gas Line Inc., which transports natural gas within California.

Subsidiaries of PG&E engaged in projects currently in deferred status include Calaska Energy Company, a member of the partnership to construct the Alaskan portion of the Alaska Natural Gas Transportation System for the transportation of natural gas from Alaska to the continental United States; and Alaska California LNG Company, Pacific Gas LNG Terminal Company, Pacific Gas Marine Company, and Pacific Indonesia LNG Company, which were formed in connection with the Company's project to import liquefied natural gas from Alaska and Indonesia.

NGC Production Company, whose principal function is the production of oil and gas, is a wholly-owned subsidiary of NGC.

Alberta Natural Gas Company Ltd (ANG) is the largest subsidiary of PGT. ANG owns and operates a pipeline which transports natural gas for A & S through Canada to the border. In addition, ANG owns and operates an extraction plant near Cochrane, Alberta, which removes hydrocarbons from the gas stream. ANG and PGT own ANGUS Chemical Company (ANGUS), which is engaged in the production and sale of nitroparaffins. ANGUS is currently involved in a joint venture construction project of a chemicals plant located in Ireland.

The investments in ANG and ANGUS, which are less than 50%-owned subsidiaries, are accounted for in accordance with the equity method of accounting.

Revenues. Revenues consist of billings to customers and changes in regulatory balancing accounts. Billings to customers are included in revenues as meters are read on a cycle basis throughout each month. In accordance with orders of the CPUC, the Company has established regulatory balancing accounts for electric energy costs, sales and major plant additions, and gas costs and sales. Operating revenues include changes in these regulatory balancing accounts. These changes represent amounts authorized by the CPUC to be deferred for future recovery from or repayment to customers. The effect of using these regulatory balancing accounts is that changes in sales and cost of sales of electric energy and gas do not significantly affect the Company's earnings.

Utility Plant. The costs of additions to plant in service and replacements of retirement units of property are capitalized. Until an addition is placed in service, the costs are accumulated in Construction Work in Progress. Costs include labor, material and similar items and indirect charges for such items as engineering, supervision, and transportation. Costs also include allowance for funds used during construction (AFUDC), at rates calculated in conformity with FERC pronouncements, for the imputed cost of equity investment and a net after-tax amount for borrowed funds. The equity component of AFUDC is included in other income and the borrowed funds component, net of federal and state income taxes, is recorded as a reduction of interest charges. Costs of depreciable units of plant retired are eliminated from plant in service accounts, and such cost plus removal expenses less salvage are charged to accumulated depreciation. Costs of repairing property and replacement of minor items of property are included in the income statements as maintenance.

Depreciation. For financial statement purposes, depreciation of plant in service is computed using a straight-line remaining life method at rates based on the estimated useful lives of properties. For federal income tax purposes, depreciation is generally computed using the most liberalized methods allowed by the Internal Revenue Code.

Income Taxes. PG&E and its 80% or more owned subsidiaries file a consolidated federal income tax return.

Income tax expense includes the tax liability generated from the year's operations plus deferred taxes on most major timing differences between financial and income tax reporting to the extent permitted for ratemaking purposes. These timing differences include balancing account revenues, property taxes charged to major projects under construction, gas exploration costs, property depreciation under the Accelerated Cost Recovery System (ACRS), and interest on nuclear fuel financing. Deferred taxes are also provided for the benefits recognized for Investment Tax Credits (ITC).

Although the tax effect of most major timing differences is deferred, the tax effect of certain deductions is recorded when paid. These include overhead costs capitalized, removal costs, pre-1981 federal tax depreciation, and state depreciation.

Because the recognition of most tax deferrals was allowed only recently, timing differences exist for which deferred taxes were not provided and, therefore, have not yet been recovered through rates. At December 31, 1985, the cumulative net amount of timing differences for which deferred income taxes have not been provided is approximately $2.0 billion for federal and state purposes, the tax effects of which are expected to be recovered in future rates.

Debt Premium, Discount, and Related Expenses. Long-term debt issuance premium or discount and related expenses are amortized over the lives of the issues to which they pertain. The gain or loss on reacquisition of mortgage bonds is amortized over the remaining life of the respective issues. The federal income tax on such gain is recognized over the life of the remaining property, and tax on the loss is deferred and recognized over the remaining life of the issue.

Gas Exploration Costs. The majority of gas exploration costs are capitalized under a modified "full-cost" method of accounting to reflect cost recovery procedures authorized by the CPUC. Unsuccessful project costs, current operating costs, and the financing costs of the gas exploration program are recovered through gas exploration development balancing account procedures and, therefore, do not affect the Company's income. Pursuant to its own investigation, the CPUC terminated the gas exploration program effective August 4, 1985 and issued guidelines for the liquidation of the properties acquired under such program (i.e. sale, abandonment, or production phase-out). All liquidation costs except for certain financing costs will continue to be recovered through the existing balancing account procedures.

The successful efforts method of accounting is used to determine the profits and losses on certain operations not accorded the balancing account procedure by the CPUC.

Workers' Compensation and Disability Claims. The liability for future workers' compensation and disability claims is recorded in noncurrent liabilities in accordance with Statement of Financial Accounting Standards No. 71. The corresponding amount to be recovered through future rates is shown as a deferred charge.

Nonearning Assets. There are certain project costs which are being amortized over a period set by the CPUC as well as project costs that are pending regulatory action. These costs are not in rate base and, therefore, they are not earning a return on PG&E's investment. These projects are discussed further in Note 10.

BANCO POPULAR De PUERTO RICO
Summary of Significant Accounting Policies

Note 1—Summary of Significant Accounting Policies

The accounting policies followed by Banco Popular de Puerto Rico, Inversiones Internacionales Incorporado and subsidiaries and Popular Business Trust and subsidiary are disclosed in the preceding summary of significant accounting policies.

The accounting and reporting policies of Banco Popular de Puerto Rico, Inversiones Internacionales Incorporado and subsidiaries and Popular Business Trust and subsidiary conform to generally accepted accounting principles. The following is a description of the more significant of these policies:

Combination. The combining financial statements include the accounts of the Bank at December 31, 1985 and 1984 and of Inversiones Internacionales Incorporado and subsidiaries and Popular Business Trust and subsidiary at November 30, 1985 and 1984. The capital stock of these companies is held in trust for the beneficial interest of the stockholders of Banco Popular de Puerto Rico. The trust agreements provide that the beneficial interest of a shareholder shall only be transferable in connection with the transfer of voting stock in Banco Popular de Puerto Rico.

There are no significant transactions between the Bank, Inversiones Internacionales Incorporado and subsidiaries and Popular Business Trust and subsidiary.

Securities. Securities are held by the Bank both for investment and trading purposes. Securities held for investment are carried at cost (identified certificate method) adjusted for amortization of premiums and for accretion of discounts. Premiums are deducted and discounts are added to interest income based on the straight-line method over the maturity period of the related securities. Interest on investment securities is reported as interest income. Net gains or losses on sales of investment securities are reported separately in the statement of income.

Trading account securities are carried at market value. Net gains or losses realized on sales and on the valuation adjustment to the carrying value of trading account securities are shown separately in the statement of income.

Securities held by Inversiones Internacionales Incorporado and subsidiaries are stated at cost not in excess of net realizable values.

Loans. Loans are stated at the outstanding balance, less unearned income and reserve for loan losses. Originating fees are recorded as income when a loan is disbursed. Unearned interest on instalment loans is recognized as income on a basis which results in approximate level rates of return over the term of the loan. Interest on commercial, mortgage and construction loans is recorded as income on a monthly basis based on interest rates. Recognition of interest income is discontinued when it is not reasonable to expect that it will be realized. Loans on which the recording of interest income has been discontinued are designated as non-accruing. The Bank's policy is to discontinue recording interest on loans when they are sixty days (mortgages—90 days) or more in arrears on payments of interest or when other factors indicate collection of interest or principal is doubtful. Such loans are not returned to an accrual status until interest is received on a current basis and the other factors indicative of doubtful collection cease to exist.

Reserve for Loan Losses. The provision for loan losses charged to current operations is based on an evaluation of the risk characteristics of the loan portfolio and economic conditions. Loan losses are charged and recoveries are credited to the valuation reserve for loan losses.

Bank Premises and Equipment. Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful life of each type of asset. Amortization of leasehold improvements is computed over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs which do not improve or extend the life of the respective assets are expensed as incurred. Cost of renewals and betterments is capitalized. When assets are disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings currently.

Other Real Estate. Properties acquired through foreclosures are carried at the lower of cost (primarily outstanding loan balance) or estimated market value.

Before foreclosure, the recorded amount of the loan, if necessary, is written-down to the appraised value of the real estate to be acquired by charging the reserve for loan losses. Subsequent to foreclosure, gains or losses on the sale of and losses on the periodic revaluations of other real estate are credited or charged to net expense of operating other real estate. Costs of maintaining and operating such properties are expensed as incurred.

Taxes on Income. Certain expense items are accounted for in different time periods for financial reporting purposes than for tax purposes. Provision for deferred taxes is made in recognition of significant timing differences based on the net change method.

Employees' Retirement Plans. The Bank and Inversiones Internacionales Incorporado and subsidiaries have trusteed non-contributory (contributory prior to 1984) retirement and related plans covering substantially all regular employees. Their policy is to account for pension costs by annual charges to operating expenses representing amounts, based on actuarial computations, required to provide for current service benefits and amortization of prior service costs over periods of 30 and 40 years.

Earnings Per Share. Earnings per share have been computed on the basis of the weighted average number of shares of Banco Popular de Puerto Rico outstanding during the year.

BANKAMERICA CORPORATION
Notes to Consolidated Financial Statements

1. Significant Accounting Policies

The consolidated financial statements of BankAmerica Corporation and subsidiaries are prepared in conformity with generally accepted accounting principles and prevailing practices of the banking industry. The statements also reflect specialized industry accounting practices of certain non-banking subsidiaries that may differ from those used by banking subsidiaries. The following is a summary of the significant accounting and reporting policies used in preparing the financial statements.

Financial Statement Presentation. The consolidated financial statements of BankAmerica Corporation and subsidiaries (the corporation) include the accounts of BankAmerica Corporation (the parent), and all companies in which more than 50 percent of the voting stock is owned directly or indirectly, including Bank of America NT&SA (the bank), Seafirst Corporation (Seafirst), and Seattle-First National Bank (SFNB). Seafirst, SFNB, and their subsidiaries are included in the consolidated financial statements as of July 1, 1983 (see Note 3).

Investments in affiliates (20-to-50-percent-owned companies) and joint ventures are accounted for by the equity method and classified as investment securities. Income or loss from affiliates is included in other noninterest revenue. Investments in other entities are carried at the lower of cost or market, and income is reported when dividends are received.

Certain amounts in prior periods have been reclassified to conform to the current presentation.

Investment Securities and Trading Account Assets. Debt securities held for investment are carried at cost, adjusted for amortization of premiums to the earlier of maturity or call date and accretion of discounts to maturity. Equity securities held for investment are discussed above. Gains and losses on sales of securities are included in investment securities profit, and the cost of securities sold is based on the specific identification method.

Trading account assets are carried at market value. Realized and unrealized gains and losses on trading account assets are included in trading account profit and commissions.

Publicly traded, marketable securities of investment subsidiaries and a venture capital limited partnership are generally carried at market value. Realized and unrealized gains and losses on these investments are included in other noninterest revenue.

Loans. Loans are carried at the principal amount outstanding. Loans are generally placed on nonaccrual status when they are past due 90 days as to either interest or principal. However, loans that are in the process of renewal in the normal course of business or are well secured and in the process of collection may not be placed on nonaccrual status, at the judgment of senior credit management. A nonaccrual loan may be restored to an accrual basis when interest and principal payments are current and management has considered the borrower's prospects for continuing future contractual payments.

When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income of the current period. Previously accrued interest may not be reversed at the time the loan is placed on nonaccrual if both principal and interest are ultimately protected by sound collateral values. Under certain circumstances, cash receipts on nonaccrual loans are applied against principal and not recognized in interest income.

Interest revenue on nondiscounted loans is accrued based on the principal amount outstanding. Interest revenue on discounted loans is accrued based on other methods that generally approximate the interest method.

The corporation provides equipment financing to its customers through a variety of lease arrangements. Direct financing leases are carried at the aggregate of lease payments receivable plus estimated residual value less unearned income. Leveraged leases, a form of financing lease, are carried net of nonrecourse debt. Operating leases are carried at the applicable cost of the leased property less accumulated depreciation computed on a straight-line basis.

Unearned income on direct financing leases is amortized over the lease terms by methods producing approximately level rates of return on net lease assets. Unearned income on leveraged leases is amortized over the lease terms by methods producing approximately level rates of return on net investments in leases.

Allowance for Loan Losses. The allowance for loan losses is a reserve for estimated future credit losses. Credit losses arise primarily from the loan portfolio, but may also be derived from other sources, including commitments to extend credit, guarantees, and standby letters of credit. Actual credit losses, net of recoveries, are deducted from the allowance for loan losses. A provision for loan losses, which is a charge against earnings, is added to bring the allowance to a level which, in management's opinion, is adequate to absorb future losses inherent in the credit portfolio. Management performs a quarterly evaluation of the credit portfolio in order to determine the level of the allowance. The factors considered in this evaluation include, but are not necessarily limited to, estimated future losses from loan and off-balance-sheet agreements and obligations; general economic conditions; deterioration in credit concentrations or pledged collateral; international lending risk; historical loss experience; as well as trends in portfolio volume, maturity, composition, delinquencies, and nonaccruals.

Other Real Estate Owned. Other real estate owned includes former bank premises, property acquired through foreclosure or forgiveness of debt, and real estate investments of a foreign subsidiary securing pension fund liabilities. These properties are generally carried at the lower of cost or current appraisal. Losses arising from the acquisition of property in full or partial satisfaction of loans are treated as loan losses. Routine holding costs and subsequent declines in appraised value are charged to other noninterest expense as incurred.

Premises and Equipment. Premises, equipment, and leasehold improvements are generally carried at cost less accumulated depreciation and amortization computed on a straight-line basis over the estimated useful lives of the assets or lease terms. The cost of assets and related accumulated depreciation and amortization are removed from the accounts and any gain or loss recognized on sale or retirement. Maintenance, repairs, and minor alterations are charged to other noninterest expense as incurred. The cost of improvements is added to the applicable property accounts.

Interest Rate Futures. The corporation uses interest rate futures contracts as part of its overall interest rate risk management strategy. Gains and losses on futures contracts used in securities trading operations are recognized currently by using the mark-to-market method of accounting and are included in trading securities profit and commissions. Gains and losses on futures contracts used in asset/liability management are deferred and amortized over the lives of the hedged assets or liabilities as adjustments to interest expense if the following criteria are met: the item to be hedged exposes the corporation to price or interest rate risk, and the futures contract reduces that exposure and is designated as a hedge. Unrealized gains and losses on futures contracts used in asset/liability management that do not meet the aforementioned criteria are recognized in noninterest revenue.

Income Taxes. A consolidated U.S. federal income tax return is filed by the parent and includes all domestic and Canadian subsidiaries and their foreign branches. State, local, and foreign income tax returns are filed according to the taxable activity of each unit. Consolidated or combined returns are also filed as required by certain states, including California.

Income taxes and benefits are based on the results of operations as reported in the consolidated statement of operations. The deferred portion of the provision results from recognition of certain revenues and expenses in different periods for tax purposes.

U.S. taxes are provided on the earnings of foreign joint ventures and affiliates and are not provided on the undistributed earnings of foreign subsidiaries.

Investment tax credits arising from the acquisition of property for use in the corporation's operations are recorded in the year the property is placed in service. Investment tax credits arising from assets leased to customers are amortized over the lease terms.

Interest Rate Swaps. The corporation acts as an intermediary in arranging interest rate swap transactions and utilizes interest rate swaps to hedge against future interest rate fluctuations. The income or expense associated with interest rate swaps generally is recognized over the life of the swap agreement.

HOWARD SAVINGS BANK
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements contained herein include the accounts of both The Howard Savings Bank and its subsidiaries with all significant intercompany accounts and transactions eliminated.

Investment Securities. Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts computed on a straight-line basis, which approximates the interest method, and are recognized as adjustments to interest income. Gains and losses are recognized when securities are sold by the specific identification method. The Bank normally holds all non-equity securities to maturity.

Loans. Mortgages on real estate and other loans are stated at the face amount of the loans, including premiums paid. Discounts and unearned discount are stated separately and included in unearned discount, and are generally credited to income based on the straight-line method for mortgage loans and the rule of seventy-eights method, which recognizes income in proportion to the outstanding loan balance, for discounted and Title I loans. Interest income on non-discounted loans is credited to income as earned.

The accrual of income on loans is discontinued when certain factors indicate reasonable doubt as to the timely collectibility of such income. Loans on which the accrual of income has been discontinued are designated as non-accrual loans and income is recognized subsequently only in the period collected. When interest accruals are discontinued, interest receivable, which had been previously credited to income, is reversed.

In 1984, the Bank shortened the period during which income is recognized on non-refundable commitment fees to reflect the true nature of the account. This refinement of the existing method resulted in the Bank recognizing income of $2,307,000, due to the additional amortization.

Allowance for Possible Loan Losses. The provision for loan losses is charged to operations currently. The determination of the balance of the allowance for possible loan losses is based on an analysis of the loan portfolio, economic conditions, historical loan loss experience, and other factors that warrant recognition in providing for an adequate allowance. Other real estate properties are carried at the lower of cost or net realizable value. Estimated provisions for possible losses are charged to operations whenever there has been a decline in the estimated market value of other real estate properties. Management believes that the allowance for possible loan losses is maintained at an adequate level to absorb potential losses.

Premises and Equipment. Land is stated at cost, and depreciable assets at cost less accumulated depreciation. Improvements and major renewals are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred. Depreciation is provided using the straight-line and declining balance methods over useful lives of 40–50 years for premises, and 3–10 years for equipment.

Income Taxes. Certain items of income and expense are recognized in different periods for financial reporting purposes than for income tax purposes. Deferred taxes are provided in recognition of these timing differences. Investment tax credits are accounted for using the flow-through method. The Howard Savings Bank and its subsidiaries file a consolidated federal tax return.

Pension Plan. The Bank maintains a pension plan which covers substantially all employees. The Bank's policy is to fund pension costs accrued. Prior service costs have been funded.

Trust Department. Trust assets consisting of securities and other property, other than cash on deposit with the Bank, held by The Howard Savings Bank in fiduciary or agency capacities for customers of the Trust Department, are not included in the financial statements because such properties are not assets of the Bank.

Reclassifications. Certain of the amounts in previous periods have been reclassified to conform to the current period's presentation. These reclassifications had no significant effect on net income or total assets.

Income Per Share. For 1985 and 1984, net income per share is determined by dividing the net income for the year by the average number of shares outstanding during that period. For 1983, net income per share was determined by dividing the net income of $251,000 earned in the first five full months following the date of conversion to a stock savings bank (July 26, 1983), by the number of shares outstanding since the conversion date (5,483,075).

Shares issuable under the stock option plan are not included in the income per share calculation as their effect would not be material.

FIRST BANK SYSTEM, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 1985

Note A—Accounting Policies

First Bank System, Inc. and its subsidiaries (the "Company") provide bank and bank-related services principally to domestic markets. The accounting principles followed by the Company and the methods of applying those principles which affect the determination of financial position, changes in financial position, or results of operations are summarized below.

Basis of Presentation. The consolidated financial statements include the accounts of First Bank System and its bank and nonbank subsidiaries. All significant intercompany accounts and transactions have been eliminated in preparing the consolidated financial statements. The excess of cost over net assets of subsidiaries acquired is included in other assets and is being amortized on a straight line basis over periods ranging from twenty to forty years.

Securities. Investment securities are stated at cost, increased by accretion of discounts and reduced by amortization of premiums, both computed by the interest method. The adjusted cost of the specific certificate sold is used to compute gains or losses on the sale of investment securities.

Trading account securities are carried at market. Gains or losses on sale of trading account securities, adjustments to market values and other noninterest income are included in trading account profits and commissions.

Loans. Interest income is accrued on loan balances outstanding. Loan fees are deferred and recognized over the loan and/or commitment period. Loans are reviewed regularly by management and are placed in a nonaccrual status when the collection of interest or principal is considered unlikely. Thereafter, no interest is taken into income unless received in cash.

Certain subsidiaries engage in both direct and leveraged lease financing, which amounts are included within loans. The net investment in direct financing leases consists of the sum of all minimum lease payments and estimated residual values, less unearned income and investment tax credit. Unearned income and investment tax credit are earned and included in lease financing income over the terms of the leases, to produce a constant rate of return on the net investment.

The investment in leveraged leases consists of the sum of all lease payments (less the portion applicable to principal and interest on nonrecourse debt) plus estimated residual values, less unearned income and investment tax credit. Unearned income and investment tax credit are earned and included in lease financing income over the positive years of the net investment.

Reserve for Loan Losses. Management determines the adequacy of the reserve based on a continuous evaluation of the loan portfolio, recent loss experience and other pertinent factors, including current and anticipated economic conditions. The reserve is increased by provisions charged to operating expense and reduced by net charge-offs.

Bank Premises and Equipment. Bank premises and equipment are stated at cost less accumulated depreciation and amortization computed primarily on the straight line method based on estimated useful lives.

Capitalized leases, less accumulated amortization, are included in bank premises and equipment, and the lease obligations are included in long-term debt. Capitalized leases are amortized on the straight line method over the lease term and the amortization is included in depreciation expense.

Other Real Estate. Other real estate, which is included in other assets, represents properties acquired through foreclosure or other proceedings recorded at the lower of the amount of loan satisfied or fair market value. Any write-down to fair market value at the time of foreclosure is charged to the reserve for loan losses.

Property is appraised annually to ensure that the recorded amount is supported by the current fair market value. Market write-downs, operating expenses, and losses on sale of other real estate are charged to other expense. Income, including gains on sales of other real estate, is credited to other income.

Income Taxes. Certain items of income and expense are recognized in different periods for financial reporting purposes and for purposes of computing income taxes currently payable. Deferred taxes are provided on such differences.

The Company files a consolidated federal income tax return. Income tax expense is computed on a consolidated basis and allocated based upon each subsidiary's taxable income or loss.

Investment tax credits on property and equipment used by the Company are recognized in the year the assets are acquired. Investment tax credits on assets acquired and leased to others are reflected in lease financing income over the terms of the respective leases.

Benefit Plans. The Company has a noncontributory trusteed pension plan covering all eligible employees. Pension costs are accrued, as actuarially determined, and are fully funded. The actuarial cost method used to compute pension cost is the projected unit credit method.

Per Share Calculations. Income for primary and fully diluted earnings per share is adjusted for preferred stock dividends. Primary earnings per share have been computed using the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Fully diluted earnings assumes conversion of the convertible subordinated debentures.

FINANCE—PERSONAL AND BUSINESS CREDIT INSTITUTIONS

AMERICAN EXPRESS COMPANY
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of American Express Company and its subsidiaries (the Company). All significant intercompany transactions are eliminated.

As a result of the initial public offering of common stock by Fireman's Fund Corporation (FFC) and other transactions described in Note 2, the Company owns approximately 41 percent of the outstanding shares of FFC common stock. Accordingly, FFC is no longer consolidated in the Company's financial statements, but is accounted for by the equity method of accounting. The consolidated financial statements and related notes for 1984 and 1983 have been restated to reflect the Company's ownership interest in FFC on an equity basis. This change has no effect on previously reported earnings.

Foreign Currency. Foreign currency assets and liabilities are translated into their U.S. dollar equivalents based on rates of exchange generally prevailing at the end of the year. Revenue and expense accounts are generally translated at exchange rates prevailing during the year. Aggregate exchange gains and losses arising from the translation of foreign assets and liabilities and from certain foreign currency transactions are included in shareholders' equity. In countries with highly inflationary economies, however, major foreign currency fixed assets are translated at historical rates, and gains and losses from the translation of foreign currency assets and liabilities are reflected in net income.

Net Income Per Share. Net income per share is computed on the basis of the weighted monthly average number of common shares outstanding and common share equivalents (dilutive stock options, warrants and certain convertible debt), and after adjustment for dividends on preferred shares and interest on the convertible debt. The weighted average shares used in the computations were 223,625,000; 217,185,000 and 203,329,000 for 1985, 1984 and 1983, respectively.

Investment Securities. Debt securities and investment mortgage loans, other than trading securities of Shearson Lehman Brothers Inc. (Shearson Lehman), are carried at amortized cost, except where there is a permanent impairment of value, in which case they are carried at estimated realizable value. All trading securities owned by Shearson Lehman and all nonredeemable preferred and common stocks owned by the life insurance subsidiaries are carried at market. Other preferred and common stocks are generally carried at the lower of aggregate cost or market, except that preferred stocks that either must be redeemed by the issuer or may be redeemed by the holder are carried at cost. Unrealized appreciation or depreciation on Shearson Lehman's trading securities is included in net income.

Securities to be Resold or Repurchased. Securities purchased under agreements to resell and securities sold under agreements to repurchase result from transactions that are collateralized by negotiable securities and are carried at the amounts at which the securities will subsequently be resold or repurchased.

Annuity and Life Insurance Accounting. Earnings on single premium deferred no load annuity and single premium life insurance products are recognized over the lives of the contracts and represent the excess of income earned from investment of contract considerations over interest credited to reserves for contract owner benefits and other expenses. Insurance premiums on life and disability policies, other than single premium life insurance policies, are recognized as revenues when collected or due, and the related benefits and expenses are associated with premium revenues in a manner that results in recognition of income over the lives of the policies.

Liabilities for annuities in deferred status take into account accumulation values and, where applicable, premium and contract persistency and anticipated mortality experience. Liabilities for future life and disability benefits are generally calculated on the basis of anticipated life and disability experience, policy persistency and investment yields and, where appropriate, standard industry tables.

Prepaid policy acquisition costs (principally sales compensation and other costs of issuing new policies) are recorded in Other Assets in the accompanying Consolidated Financial Statements. Costs applicable to life policies, except for single premium life policies, are amortized in a manner that results in expense recognition over the premium-paying period of the policies. Costs applicable to annuity and single premium life policies are amortized in a manner that results in expense recognition over the lives of the products. The amortization of costs relating to single premium products is in proportion to investment income margins. Amortization of costs relating to other products is in proportion to premium revenue, using actuarial assumptions consistent with those used in calculating policy reserves.

Assets and liabilities relating to segregated asset accounts represent funds held for the exclusive benefit of the variable annuity contract holders. The Company receives sales and administrative service charges, together with investment, mortality and expense assurance fees from the variable annuity funds.

Investment Certificates. Investment certificates entitle certificate holders, who have made either lump-sum or installment payments, to receive at maturity a definite sum of money. Payments are credited to investment certificate reserves. Investment certificate reserves accumulate at specified percentage rates of accumulation. Cash surrender values may be less than accumulated investment certificate reserves prior to maturity dates, where the certificate allows for the deduction of a surrender charge. Investment certificate reserves are maintained for advance payments by certificate holders, additional credits granted and interest accrued on each.

Commercial Paper and Government Securities Trading Operations. The consolidated operations of Lehman Commercial Paper Inc. and Lehman Government Securities Inc. were acquired as part of the Lehman Brothers Kuhn Loeb Holding Co., Inc. acquisition. Interest income and interest expense arising from the trading operations of these businesses are presented in Interest and Dividends Revenues on a net basis in the accompanying Consolidated Financial Statements.

Futures Contracts. Shearson Lehman purchases and sells financial futures that principally relate to GNMA securities, United States Government obligations and certificates of deposit. In addition, American Express Bank Ltd. (AEBL) enters into interest rate futures contracts principally as a hedge against exposed interest rate positions. These futures are marked to market with unrealized gains and losses reflected in earnings of the current period.

WESTINGHOUSE CREDIT CORPORATION
Notes to Financial Statements

Note 1: Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Westinghouse Credit Corporation (WCC), a wholly owned subsidiary of Westinghouse Electric Corporation (Westinghouse), and WCC's wholly owned subsidiaries.

Cash and Accounts Payable. WCC's cash management system provides for the funding of bank accounts, generally as checks are presented for payment. As a result, cash and accounts payable include \$29.2 million at December 31, 1985 and \$31.0 million at December 31, 1984, representing checks issued but not presented for payment.

Allowance for Losses. WCC maintains an allowance for losses at a level which, in the opinion of management, provides adequately for future losses that may develop in the present receivables portfolio. To determine the adequacy of the allowance, fixed percentages developed through past charge-off experience are applied to specific types of receivables outstanding. In addition, management evaluates allowance requirements by examining current delinquencies, the characteristics of the accounts, the value of the underlying collateral and general economic conditions and trends.

The provision for losses on receivables represents a charge to income necessary to increase the allowance for losses to the appropriate level based on management's evaluation. Accounts are written off against the allowance for losses when they are past due contractually and no recent payment activity has occurred, unless management deems the accounts collectable.

Recognition of Earned Finance Charges. When installment accounts are purchased, WCC immediately recognizes a portion of the deferred finance charge as earned income utilizing the sum-of-the-digits method. When payments become due, a proportionate share of the remainder of the deferred finance charge is recognized as earned income utilizing the same method. If payments become delinquent for more than one payment period, income is recognized only on a collection basis. In the case of interest-bearing receivables, income is generally recognized on the accrual method, except that interest is not taken into earned finance charges when accounts become delinquent for more than two payment periods.

Leasing Transactions. Income from direct financing lease transactions and leveraged lease transactions in which WCC is an equity participant is reported on the financing method. In accordance with the financing method, WCC's investment in leased property is recorded as a receivable from the lessee to be recovered through future rentals. For direct financing leases, the unearned income is amortized to income over the lease term in a manner which approximates a constant rate of return on the net investment. For leveraged leases, the cost of assets leased to others is financed primarily by loans from debt participants, but ownership of the property is retained by WCC and other equity participants. The loans by the debt participants are secured by the lessees' rental obligations and the leased property. In the event of default by a lessee, the debt participants have no recourse to WCC or its subsidiaries. The components of leveraged lease income, which include investment tax credits and unearned and deferred income net of initial direct costs, are recognized as income over the life of the lease at a level rate of return on the positive net investment. Income from operating leases, in which WCC's initial investment in leased property is capitalized at cost, represents gross rentals less depreciation.

For tax purposes, income from all leases represents gross rentals less depreciation and, for leveraged leases, interest expense on loans from debt participants.

Income Taxes. WCC is included in the consolidated Federal income tax return filed by its parent, Westinghouse Electric Corporation. The allocation to WCC of its portion of the consolidated tax is covered by a tax allocation agreement. As provided in the agreement, except for certain specified transactions, the provision for Federal income taxes includes the effect of WCC's income, deductions and credits on the consolidated tax. The agreement further provides that WCC will receive full tax recovery from Westinghouse applicable to those deductions and credits regardless of whether such recovery is realized for those deductions and credits in the consolidated Federal income tax return filed for the current year.

Deferred income taxes are provided for timing differences between income for financial reporting and tax return purposes, principally related to lease income, deferred investment tax credits and recognition of earned finance charges. Such amounts, with the exception of investment tax credits, will be reflected as components of accrued taxes payable in subsequent years.

Investment tax credits are generated primarily on property leased to others. For financial reporting purposes, such credits are deferred and recognized as earned income over the terms of the respective leases.

FINANCE—SAVINGS AND LOAN ASSOCIATIONS

CYPRESS SAVINGS ASSOCIATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended December 31, 1985, 1984 and 1983.

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Cypress Savings Association and subsidiaries (the "Association") conform to generally accepted accounting principles and to general practices within the savings and loan industry. The following summarizes the more significant of these policies and practices:

Principles of Consolidation. The financial statements include the accounts of Cypress Savings Association and its wholly-owned subsidiaries. Significant intercompany balances and transactions have been eliminated.

Investments. Investments are carried at cost, adjusted for amortization of premiums and accretion of discounts. Gain or loss on sale of investments is based on the specific identification method.

Allowance for Loan Losses. A provision for loan losses is charged to operations based on management's evaluation of the potential losses in the loan portfolio. Such evaluation, which includes a review of all loans of which full collectibility may not be reasonably assured, considers among other matters the estimated net realizable value of the underlying collateral.

Allowance for Uncollected Interest. The Association provides an allowance for the loss of interest on mortgage loans when, in management's judgement, such interest is uncollectible. Such interest, if ultimately collected, is credited to income in the period of recovery.

Real Estate Investments. Real estate investments consist of property held for development and sale, investment in joint ventures, and property acquired by foreclosure or deed in lieu of foreclosure ("Real Estate Owned" or "REO").

Property held for development and sale is carried at the lower of cost or estimated net realizable value. Interest and other costs necessary to prepare the property for its intended use are capitalized during the development period and charged to cost of sales as properties are sold.

Investment in joint ventures is accounted for using the equity method. Loans to the joint ventures are also included in real estate investments in the statement of financial condition.

REO is carried at the lower of estimated fair market value or the balance of the loan on the property at the date of acquisition. Costs relating to the development and improvement of REO are capitalized, whereas those relating to holding REO are charged to expense.

Interest is capitalized on property held for development and sale and on investment in joint ventures at the Association's cost of funds during the period the property is under development.

Office Properties and Equipment. Office properties and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line or sum-of-the-years-digits method over the estimated useful lives of the assets which generally range from 10 to 15 years for leasehold improvements and from 3 to 15 years for furniture and equipment. Expenditures for new properties and equipment and major renewals and betterments are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gains or losses are recorded in income.

Organization Costs. Certain costs incurred in organizing the Association were deferred and are being amortized on the straight-line method over forty years for financial statement purposes and five years for regulatory and income tax purposes.

Loan Origination Fees and Discounts on Purchased Loans. The portion of loan origination fees that exceeds the costs of underwriting and closing loans is deferred and amortized to income over the term of the related loan using a method which approximates the interest method. Discounts received in connection with the purchase of loans are amortized to income over the term of the loans using the interest method. Fees that are received in the form of nonmonetary assets are recorded at fair value.

Loan origination fees that are to be collected in the future at a specified date or upon occurrence of certain events are recorded as a receivable and amortized to income over the term of the loan, provided that collection of such fees is reasonably assured.

Commitment Fees. Nonrefundable commitment fees to make or purchase loans at market rates of interest are amortized to income over the commitment period.

Income Taxes. The Association provides deferred income taxes on elements of income that are recognized for financial accounting purposes in periods different than such items are recognized for income tax purposes. Investment tax credits reduce the provision for income taxes in the period in which the credits arise, to the extent they can be realized for financial accounting purposes.

Earnings Per Share. Earnings per common and common equivalent share is based upon the weighted average number of common and common equivalent shares outstanding. In 1985, options and warrants are excluded from the computation because assumption of their exercise would be antidilutive. In 1984 and 1983, outstanding options and warrants are included in the computation using the modified treasury stock method. Earnings per common and common equivalent share have been adjusted for the effect of the November 1983 six-for-five stock split.

Fully diluted earnings per share is not shown because such computation does not result in a significant change in earnings per common and common equivalent share.

Reclassification. Certain amounts in the 1983 and 1984 financial statements have been reclassified to conform with the 1985 classifications.

FREEDOM SAVINGS AND LOAN ASSOCIATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

The accounting and reporting policies of Freedom Savings and Loan Association, (the "Association") conform to generally accepted accounting principles and to general practices within the savings and loan industry. The following summarizes the more significant of those policies.

Consolidation. The accompanying consolidated financial statements include the accounts of the Association and of its wholly-owned subsidiaries, Freedom Mortgage Company, Independence Investment Company and subsidiaries, Liberty Title Company, Sunbay Corporation of Florida, and, new subsidiaries formed in 1985, Freedom March 85, Inc., Freedom Capital Inc., Freedom May 85, Inc., Freedom Acceptance Corporation, and Freedom Securities Corporation. In January 1984, the Association sold its subsidiary, Data Management Resources, Inc. and subsidiaries ("DMR"). Prior to that time, DMR was consolidated with the Association. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Association is involved in joint ventures directly or through its wholly-owned subsidiaries. Those entities in which the Association has a controlling interest are fully consolidated in the financial statements; those entities not controlled are accounted for under the equity method.

Investment Securities. Investment securities, other than marketable equity securities, are carried at cost, adjusted for amortization of premiums and accretion of discounts. Marketable equity securities are carried at the lower of cost or market value. Gain or loss on sale of investments is based on the specific identification method.

Allowance for Loan Losses. An allowance for loan losses is established by a provision charged to operations based upon a review of the loan portfolio, loss experience, economic conditions and other pertinent factors which, in management's judgment, deserve current recognition in estimating loan losses in the portfolio.

Real Estate Owned. Property acquired by foreclosure or deed in lieu of foreclosure is carried at the lower of fair value or the balance of the loan on the property at date of acquisition. Costs relating to the development and improvement of property, including interest, are capitalized whereas those relating to holding the property are charged to expense.

Property that has been acquired for development or resale is carried at the lower of cost or estimated net realizable value. Costs relating to the development and improvement of the property, including interest, are capitalized, allocated to individual units as applicable and charged to cost of sales using the specific identification method or relative sales value method, as appropriate.

Losses are charged to operations as incurred or when it is determined that the investment in real estate owned is greater than the estimated net realizable value. Recognition of gains on sale of real estate is dependent upon the transaction meeting certain payment criteria relating to the nature of the property sold and the terms of the sale. Under certain circumstances, the gain, or a portion thereof, is deferred until the necessary payment criteria are met.

Premises and Equipment. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range principally up to 40 years for buildings and 10 years for equipment. Expenditures for new properties and equipment and major renewals and improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gains and losses are reflected in income.

Goodwill. Goodwill and core deposits resulting from a March 1983 acquisition (see MERGERS) are amortized to expense using the straight-line method over 40 years for goodwill and 10 years for core deposits.

Uncollected Interest. The Association reverses all accrued interest and ceases accruing interest on certain loans which, in management's judgment, may become uncollectible and on all loans which are more than 90 days past due. Such interest, if ultimately collected, is credited to income in the period of recovery.

Capitalized Interest. The Association follows the policy of capitalizing a portion of its interest costs as a cost of construction of office facilities, the development of real estate acquired for development and sale, and investments in joint ventures involved in real estate development. During the years ended December 31, 1985, 1984 and 1983 interest costs of $498,000, $156,000 and $2,373,000, respectively, were capitalized.

Loan Origination Fees and Premium and Discounts on Loans. Loan origination fees in excess of direct underwriting costs are deferred. Deferred fees are amortized to income over ten years for residential real estate loans and over the term of the related loan for commercial real estate loans using the level yield method.

Unearned interest on consumer loans is amortized using the level yield method over the term of the related loans.

Premiums and discounts on mortgage-backed securities and loans purchased are amortized and accreted to income using the level yield method over the term of the related securities or estimated lives of the loans.

Loan Commitment Fees. Non-refundable commitment fees received for commitments to make or purchase loans in the future are deferred to the extent that they exceed the direct costs of underwriting the commitments. Based on the type of commitment issued, such deferred commitment fees are amortized to income over the commitment period or the combined commitment and loan period.

Income Taxes. The Association and its subsidiaries file consolidated income tax returns. Income taxes are allocated proportionately to the Association and its subsidiaries. Deferred income taxes are provided on elements of income recognized for financial accounting purposes in periods different from the periods in which such items are recognized for income tax purposes. Investment tax credits reduce federal income taxes to the extent realized for financial accounting purposes.

The Association is permitted under the Internal Revenue Code to deduct an annual addition to a reserve for bad debts in determining taxable income, subject to certain limitations. This tax deduction may differ significantly from the provision for loan losses used for financial accounting purposes. Bad debt deductions for income tax purposes are included in taxable income of later years only if the bad debt reserves are used subsequently for purposes other than to absorb bad debt losses. Because the Association does not intend to use the reserve for purposes other than to absorb losses, no deferred income taxes have been provided. At December 31, 1985, such tax bad debt deductions for which no deferred income taxes have been provided are approximately $17.7 million. Cash dividends paid, if any, which exceed current earnings and profits as computed for tax purposes would be deemed as being paid from such bad debt reserves and would create taxable income. However, such taxable income would be offset by existing net operating loss carryforwards.

Retained Income. At the time of conversion to a capital stock association, eligible savings account holders were granted a priority in the unlikely event of future liquidation of the Association, by establishing a special reserve account in an amount equal to total retained income at March 31, 1980. The total amount of the special reserve account is being decreased to the extent that the balances of eligible account holders are reduced at annual determination dates which commenced March 31, 1980. No dividends may be paid to stockholders if such dividends reduce the net worth of the Association below the amount required for the special reserve account (approximately $2.5 million at December 31, 1985). See COMMON AND PREFERRED STOCK for additional dividend restrictions.

Loss Per Share. Loss per share is computed based on the weighted average number of shares of common stock outstanding (1985, 2,942,000; 1984, 2,871,000; and 1983, 2,815,000).

Futures Transactions. The Association periodically hedges against the effect of fluctuations in interest rates using futures contracts. Gains and losses on such transactions are deferred and amortized using the interest method over the term of the asset hedged.

Reclassifications. Certain amounts in prior year consolidated financial statements have been reclassified for comparative purposes.

HOME FEDERAL SAVINGS AND LOAN ASSOCIATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

The following is a description of the significant accounting policies which the company follows in preparing and presenting its consolidated financial statements.

A. *Principles of Consolidation.* The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries. The subsidiaries are engaged in real estate development, commercial paper issuance, insurance agency operations, trust company and trustee services, loan originations, and real estate brokerage services. All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts for years prior to 1985 have been reclassified for comparative purposes.

B. *Marketable Securities.* Marketable securities are carried at cost, adjusted for amortization of premium and accretion of discount over the term of the security. Gains and losses on the sale of securities are reflected in operations at the time of sale. These investments are not carried at the lower of cost or market, in that it is management's intention to hold them to maturity.

C. *Real Estate.* Real estate acquired is recorded at the lower of cost or net realizable value. Subsequent costs directly related to properties held for future development or in the process of development or sale, are capitalized up to, but not in excess of, net realizable value. Costs relating to holding other real estate, including properties acquired in settlement of loans, are charged to operations.

D. *Investment in Joint Ventures.* The company's investment in joint ventures is accounted for by the equity method.

E. *Allowance for Estimated Losses.* The company provides valuation allowances for estimated losses on real estate when any significant and permanent decline in value occurs. The allowance for credit losses is available for future loan charge-offs. Many factors are collectively weighed by management in determining the adequacy of the allowance. These factors include management's review of the extent of existing risks in the loan portfolio and of prevailing economic conditions, regular examinations and evaluations of the quality of the loans by the company's Credit Review Group and by regulatory authorities, the actual loss experience (charge-offs less recoveries), and the level of the allowance. In the opinion of management, the allowance, when taken as a whole, is adequate to absorb reasonably foreseeable loan losses.

F. *Gain or Loss on Sale of Loans.* The company sells mortgage loan participations for cash proceeds equal to the principal amount of loans sold but with yield rates which reflect the current market rate. Gain or loss is recognized and premium or discount is recorded at the time of sale in an amount reflecting the difference between the contractual interest rates of the loans sold and the current market rate. Additionally, a fee for servicing the loan is considered in the determination of gain or loss. Amortization of discount or premium represents an adjustment of yield and is reflected as an addition to or reduction of interest income using the "level-yield" method over the estimated remaining life of such loans. Gains or losses on whole loan sales are recognized in full at the time of the sale.

G. *Loan Interest Income.* Interest on loans receivable is accrued as earned. Interest on loans ninety days or more contractually delinquent or in foreclosure is generally excluded from income, except in the case of loans where collection of accrued interest is considered probable.

H. *Offices and Equipment.* Depreciation of premises, furniture and equipment is provided for on the straight-line method over the estimated useful lives of the related assets. Estimated lives are generally forty to sixty-seven years for buildings, five to twenty years for building improvements and three to twenty years for furniture and equipment. Leasehold improvements are generally amortized on the straight-line method over the terms of the respective leases.

I. Excess of Cost Over Net Assets Acquired. The excess of cost over net assets acquired resulting from acquisitions accounted for under the purchase method initiated prior to October 1, 1982 is being charged to operations over a period of twenty-five years on the straight-line method. Subsequent to September 30, 1982, the excess of cost over net assets acquired resulting from such transactions is being charged to operations over the estimated remaining life of the long-term interest-bearing assets acquired using the "level-yield" method.

J. Income Taxes. The company and its wholly-owned subsidiaries file their federal and state income tax returns on a consolidated basis. Investment credits are accounted for under the "flow-through" method.

K. Deferred Income. Discounts on loans acquired in acquisitions accounted for using the purchase method are amortized using the "level-yield" method over the estimated remaining life of the loans acquired. Fees obtained for loan originations are deferred to the extent amounts received exceed loan origination costs. Deferred loan fees, discounts on home improvement and mobile home loans, and discounts on other purchased loans are credited to income using the "level-yield" method over the estimated remaining life of the loans.

The company is involved in real estate sales and engages in joint ventures with builders for the development of property. Profit is recognized from these activities when the collectibility of the sales price is reasonably assured, and the company is not obligated to perform significant activities after the sale. Accordingly, profit on real estate sales which does not meet the criteria for profit recognition is deferred and credited to operations on the installment basis until such time as the criteria for profit recognition have been satisfied.

Nonrefundable commitment fees received for commitments to make or purchase loans in the future are deferred to the extent they exceed the direct costs of underwriting the commitments. Based on the type of commitment issued and current market interest rates, such deferred commitment fees are amortized to income over the commitment period or the combined commitment and loan period.

L. Capitalized Interest. The aggregate amount of interest capitalized in 1985, 1984 and 1983 on real estate projects and on assets to be used by the company was $17,088,000, $13,215,000 and $15,653,000, respectively.

M. Acquisition, Development and Construction Loans with Contingent Additional Interest (AD&C Loans). The company originates acquisition, development, and construction loans with the following characteristics: (1) the borrower has title to but little or no equity in the underlying security and (2) the company participates in the profit on the ultimate sale of the project (the percentage or term of profit participation varies).

The company recognizes profits from these activities when the collectibility of the sales price is reasonably assured and the company is not obligated to perform significant activities after the sale. Accordingly, profits on sales which do not meet the criteria for profit recognition are deferred and credited to operations on the installment basis until such time as the criteria for profit recognition is met.

Interest in excess of the company's cost of funds and fees collected on these loans are deferred and recognized in income as sales occur.

FINANCE—INVESTMENT COMPANIES

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 1986, 1985 and 1984

Note 1. Summary of Significant Accounting Policies:

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of intercompany balances and transactions.

Principles of Financial Reporting and Investment Valuation. The Company reports investments in portfolio companies on the value method of accounting. The value method does not reflect consolidation of any portfolio investment nor recognition of income or loss by use of the equity method of accounting, except for certain investments in unincorporated concerns. Investments are carried on the statement of financial position at fair value as determined by the Board of Directors, which recognizes any unrealized appreciation or depreciation from original cost less a provision for deferred income taxes. Investments considered subject to Board of Directors' valuation exclude the 90% portion of those loans guaranteed by an Agency of the U.S. Government. Reference is made to the statement of loans to and investments in small business companies.

Recognition of Interest Income. It is the Company's policy to record interest on loans and debt securities only to the extent that management and the Board of Directors anticipate such amounts may be collected.

Net Realized Gain or Loss on Investments. Realized gains and losses are measured by the difference between the proceeds of the sale and the cost basis of the investment without regard to unrealized gains and losses as previously reported, and include securities written off as worthless during the year and recoveries of securities written off in prior years. All other changes in valuation of portfolio securities are included in unrealized gain (loss) on investments.

Depreciation and Amortization. Depreciation or amortization of various capitalized costs is provided on the straight-line method over their estimated useful lives as follows:

Asset	Life
Furniture and equipment	3-10 years
Organization expense	5 years
Loan guaranty fees	Life of the loan

Income Taxes. The Company intends to continue qualifying as a regulated investment company by meeting certain requirements of the Internal Revenue Code relating to distribution of dividends to its shareholders of its net investment income, thereby incurring no tax liability on such income. Based on its status as a regulated investment company, the Company may elect to retain, deem or distribute, in whole or in part, net long-term capital gains realized on the disposition of its investments. Capital gains taxes were not provided in 1986, 1985 and 1984 with respect to net long-term capital gains from dispositions in such year as the Company designated such gains as a deemed capital gain distribution to its shareholders of record on March 31, 1986, 1985 and 1984. In connection therewith, the Company paid federal capital gains taxes on behalf of its shareholders. These taxes were not charged against operations. Additionally, the Company has distributed or has declared distributions from current year net long-term capital gains totaling $1,777,300 ($1,867,200 and $1,552,200 in 1985 and 1984, respectively), thereby incurring no tax liability on these gains. See Note 6.

Deferred income taxes are provided at the Federal capital gains rate on net increase or decrease in unrealized appreciation or depreciation on equity investments. Such appreciation or depreciation is not included in income until realized.

Undistributed net realized earnings, subsequent to any extra year-end dividends or capital gain distributions as described in Note 6, consist principally of the Company's tax basis allowance for possible loan losses ($605,300, $579,800, and $598,100 in 1986, 1985, and 1984, respectively), and other items of income and expense not recognized for tax purposes.

SOURCE CAPITAL, INC.
Notes to Financial Statements
December 31, 1985

Note A—Significant Accounting Policies

The Company is registered under the Investment Company Act of 1940 as a diversified, closed-end management investment company. The significant accounting policies followed by the Company in the preparation of its financial statements include the following:

1. Securities Valuation. Securities, including outstanding call options, listed or traded on a national securities exchange are valued at the last sale price on the last business day of the period, or, if there was not a sale that day, at the mean between the most recent bid and asked prices. Securities which are unlisted are valued at the mean between the most recent bid and asked prices.

2. Federal Income Tax. No provision for federal taxes on net investment income is considered necessary because the Company has elected to be taxed as a "regulated investment company" under the Internal Revenue Code, and intends to maintain this qualification and to distribute each year substantially all of its taxable net investment income to its shareholders. See also NOTE E.

3. Other. Dividend income is recorded on the ex-dividend date. Interest income and expenses are recorded on an accrual basis. Dividends payable by the Company on the Preferred Stock are recorded on an accrual basis and distributions payable on the Common Stock are recorded on the ex-dividend date.

VALOR INVESTMENT FUND, INC.
Notes to Financial Statements
Year ended July 31, 1985

Note A—Summary of Significant Accounting Policies

The Company is registered under the Investment Company Act of 1940, as amended, as a closed-end, diversified management investment company. The following is a summary of significant accounting policies followed by the Company in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles.

Investment Securities. Investments in securities are valued at market value as of the Company's year-end.

Securities Transactions. Securities transactions are recorded on a trade date basis. Cost of securities sold is determined using the identified cost.

Interest Income. Interest income, adjusted for amortization of premium or accretion of discounts on investments in municipal bonds, is earned from the settlement date and recorded on the accrual basis.

Income Taxes. It is the Company's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to make distributions of income and realized capital gains sufficient to relieve it from all or substantially all federal income taxes. No provision for federal income taxes is required for the year ended July 31, 1985.

Management and Service Fees. No management fees have been paid or accrued to outside organizations; a total of $1,000 in fees has been paid or accrued to directors for the year ended July 31, 1985. The only service fees paid or accrued were legal, accounting, custodian, and recordkeeping fees to unaffiliated persons.

FINANCE—SECURITY AND COMMODITY BROKERS, DEALERS, AND SERVICES

THE QUICK & REILLY GROUP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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Note 2. Significant Accounting Policies

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated.

Transactions in securities are recorded on a settlement date basis. For the year ended February 28, 1986 the Company has recorded proprietary transactions on a trade date basis. Commission and clearance revenues and the related expenses are recorded on a trade date basis. For the year ended February 28, 1985, the Company recorded proprietary transactions on a settlement date basis which was not significantly different from trade date.

Securities owned or sold, but not yet purchased are valued at market and the resulting unrealized gains and losses are reflected in income.

PIPER JAFFRAY INCORPORATED
Notes to Consolidated Financial Statements

A. Summary of Significant Accounting Policies

Piper Jaffray Incorporated is the parent company of Piper, Jaffray & Hopwood Incorporated, a securities broker-dealer, commodities broker and investment banking firm. As such, Piper, Jaffray & Hopwood Incorporated effects transactions in listed and unlisted securities, underwrites corporate and municipal securities, sells mutual fund shares, acts as a broker of options and futures contracts, sells U.S. Government securities, commercial paper and tax incentive programs and provides certain other financial services. All such services and financial products are within the securities industry.

The consolidated financial statements include the accounts of Piper Jaffray Incorporated and its subsidiaries, all of which are wholly-owned. All intercompany accounts and transactions have been eliminated.

Securities transactions are recorded on a settlement date basis, generally the fifth business day following the transaction date. Income, net of related expenses, on unsettled transactions is recorded if the effect is material.

Depreciation of office equipment is provided using accelerated methods over estimated useful lives of from five to ten years. Leasehold improvements are amortized over the life of the lease.

Investment tax credits are accounted for by using the "flow-through" method whereby the benefit is reflected as a reduction of the tax liability and provision in the year the related asset is placed in service.

Income per share of common stock was computed by dividing net income by the average number of common shares outstanding during each year.

For comparability, certain 1983 and 1984 amounts have been reclassified to conform with the presentation for 1985. The reclassifications had no effect on net income or stockholders' equity as previously reported.

The Company's fiscal year ends on the last Friday of September. Fiscal years 1985 and 1984 were 52-week periods; fiscal year 1983 was a 53-week period.

HOTELS AND MOTELS

RAMADA INNS, INC. AND SUBSIDIARIES
Financial Review

Statement of Significant Accounting Policies

Basis of Consolidated Statements. The consolidated financial statements include the accounts of Ramada Inns, Inc. and all of its domestic and foreign subsidiaries (the "Company"). All subsidiary companies are wholly owned except Ramada New Jersey Holdings Corporation which is majority owned. In consolidation, all material intercompany transactions are eliminated. The Company uses a 52/53 week fiscal year ending on the Thursday nearest December 31. Consolidated foreign subsidiaries are reported on the basis of a fiscal year ending in November.

Investments in unconsolidated partnerships are stated at cost plus equity in undistributed earnings and losses since acquisition. The principal portion of such investments is the Company's approximate 50% interest in Tropicana Enterprises, a Nevada general partnership which owns the real property and certain personal property used in the operation of the Las Vegas Tropicana.

Accounts and Notes Receivable. Provisions for estimated uncollectible receivables are made to reduce receivables to amounts anticipated to be collected. In 1985, 1984 and 1983, respectively, provisions for gaming receivables were $8,316,000, $6,216,000 and $6,487,000; for hotel receivables, provisions were $3,432,000, $3,525,000 and $3,070,000.

Inventories. Inventories are valued at the lower of cost or market. Cost has been determined as follows: food and beverage—principally average cost, supplies for resale and operating supplies—first-in, first-out.

Property and Equipment. Property and equipment are stated at cost. During construction, the Company follows the practice of capitalizing interest and other direct and indirect costs related to development. Interest is capitalized monthly by applying the effective interest rate on borrowings for the project to the average balance of expenditures.

Depreciation and amortization are computed by the straight-line method based upon the following lives:

Buildings	40 years
Furniture	7–10 years
Equipment	3–15 years
Leasehold improvements	shorter of lease term or asset useful life

Foreign Currency Translation. Substantially all assets and liabilities of foreign subsidiaries are translated at current exchange rates, while revenue and expense accounts are translated using average monthly exchange rates. Net gains and losses resulting from this translation process are shown as a separate component of shareholders' equity. Such gains and losses will only be realized upon the sale or liquidation of the Company's net investment in a foreign subsidiary.

Deferred Charges. Debenture issuance expense is amortized on a straight-line basis over the life of the related debentures, or is charged against paid-in capital on a pro rata basis upon conversion of the debentures into common stock. Mortgage and loan issuance expenses are amortized on a straight-line basis over periods not exceeding the terms of the related mortgages or loans.

Preopening expenses incurred in connection with new hotels are generally deferred and amortized over three years using the straight-line method.

Recognition of Revenue. Gaming revenue includes gaming wins net of losses and room and other revenues net of promotional allowances; such allowances consist of complimentary food, beverage and accommodations.

Initial hotel license fees are recorded as revenue when the license application is approved and substantially all services are performed. Monthly royalty fees, which are based on licensees' gross room receipts, are accrued as earned.

Investment Tax Credits. Investment tax credits are taken as a reduction of the provision for federal income taxes during the year such credits become available. The proceeds from the sale of tax benefits are included in income in the year when the transactions occurred and are included in the operating income of the industry segment in which the asset is employed.

Earnings Per Share. Earnings per share, assuming no dilution, are based on the weighted average number of common shares outstanding. Weighted average shares are not adjusted for common stock equivalents resulting from an assumed exercise of stock options, since the potential dilutive effect from exercising such options is immaterial.

Earnings per share, assuming full dilution, are not presented because the conversion of debentures and the exercise of stock options would not have a material dilutive effect on the per share amounts.

UNITED INNS, INC.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

a. Principles of Consolidation. The consolidated financial statements include the accounts of United Inns, Inc. and its wholly-owned subsidiaries, a 75% owned subsidiary and a 50% owned joint venture where the Company has management control. In consolidation, all material intercompany transactions have been eliminated.

b. Income Recognition on Sale of Properties. Income from installment sales of certain hotel properties is recognized as collections are made since these sales in prior years did not meet the criteria for immediate profit recognition under generally accepted accounting principles.

c. Inventories. Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out method.

d. Investments. Long-term receivables consist primarily of notes resulting from sales of certain hotel properties and real estate. Classified as land not in use are various parcels of land held for possible future development or sale. The Company's 30% limited partner interest in each of two operating hotels in Germany is included in other investments.

e. Property and Equipment. Property and equipment are depreciated on the straight-line method. Maintenance and repairs are charged to expense as incurred; the costs of additions, renewals, and betterments are capitalized. Upon sale or disposition, the accounts are relieved of original cost and accumulated depreciation; any resulting gain or loss is taken into income. Certain costs incurred during the construction of properties, primarily interest and property taxes, are capitalized for financial statement purposes. Interest and taxes capitalized during construction in 1985, 1984 and 1983 were \$2,936,243, \$2,284,147, and \$3,042,525 respectively.

f. Other Assets. Franchise costs, deferred mortgage, loan and other expenses are amortized on a straight line basis over the terms of the related agreements with periods varying from 3 to 30 years.

g. Earnings Per Share. Earnings per share are based on the weighted average number of shares outstanding during the respective periods. Primary and fully diluted earnings are the same on a per share basis.

SONESTA INTERNATIONAL HOTELS CORPORATION

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of all subsidiaries, all of which are wholly owned. All significant intercompany balances and transactions have been eliminated.

Operations. The consolidated financial statements include the results of operations of all owned and leased properties, and fee income from managed properties. When properties are sold, the operating results are included to the date of such sale or lease termination. Accordingly, the consolidated statements of operations and retained earnings include the results of operations of the Sonesta Beach Hotel in Key Biscayne, Florida through December 31, 1984. The Company's operations are described in more detail in Note 2.

Foreign Currency Translation. Assets and liabilities denominated in foreign currency are translated at end of period rates, and income and expense items are translated at average rates during the period. The net result of such translation is reflected in a separate component of stockholders' equity.

Merchandise and Supplies. Merchandise and supplies are stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment. Depreciation and amortization of items of property and equipment are computed generally on the straight-line method as follows:

Buildings:	
Owned properties	2.5% to 5% per year based on estimated useful lives
Capital leases	Initial lease periods
Furniture and equipment:	
Located in owned properties	10% to 25% per year based on estimated useful lives
Located in leased properties	Over the lesser of initial lease periods or estimated useful lives
Leasehold improvements	Over the lesser of initial lease periods or estimated useful lives.

Fully depreciated items are removed from property and equipment and accumulated depreciation.

Maintenance, repairs and minor renewals and replacements are charged to expense when incurred. Betterments and major renewals are capitalized. Interest and financing costs related to the construction of properties or major additions to existing properties are capitalized as costs of these properties.

Premiums earned under The Netherlands "Investments Incentives Act of 1978" ($90,000, $197,000 and $48,000 in 1985, 1984 and 1983, respectively) are applied as a reduction of the cost of the related asset. Premiums earned under this Act are refundable if the related assets are not held for stipulated periods.

Pre-Opening Expenses. Pre-opening expenses are charged to operations as incurred.

Pension Plans. The Company and certain of its subsidiaries have or participate in pension plans covering substantially all of their employees. Pension expense includes amortization of prior service costs over forty-year periods and includes payments under the terms of union contracts to union pension funds financed by industry employers. The Company funds pension costs accrued.

Income Taxes. The Company and its United States subsidiaries file a consolidated federal income tax return. Where appropriate, federal and foreign income taxes are provided on earnings of foreign subsidiaries which are intended to be remitted to the parent company. Unremitted earnings of foreign subsidiaries which have been, or are intended to be, permanently reinvested to finance future expansion, aggregated approximately $24,725,000 at December 31, 1985.

Investment tax credits are applied using the flow-through method.

Per Share Amounts. Income per share of common stock is computed using the average number of shares outstanding (1,522,032, 1,535,762 and 1,581,563 in 1985, 1984 and 1983, respectively) and allows for preferred dividends.

INSURANCE—LIFE, ACCIDENT, AND HEALTH CARRIERS

ÆTNA LIFE AND CASUALTY COMPANY AND SUBSIDIARIES
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include Ætna Life and Casualty Company ("Company") and its domestic insurance and principal financial services subsidiaries (collectively, "Ætna Life & Casualty"). Investments in foreign insurance companies and all noninsurance subsidiaries and affiliates in which Ætna Life & Casualty has at least a 20% interest are reported on the equity basis.

Basis of Presentation. The Company's business segments were revised in 1985 to reflect the sales of major diversified businesses. The investment of sales proceeds and the operation of remaining diversified businesses support the insurance and financial services businesses and, accordingly, are allocated to these businesses. The results of international insurance and financial services continue to be reported separately.

Investments. Fixed maturity investments include bonds and redeemable preferred stocks generally carried at amortized cost. Bonds and mortgage loans are frequently purchased pursuant to forward investment commitments and are generally intended to be held to maturity. Bonds and redeemable preferred stocks are recorded as purchases on the trade date. Mortgage loans are recorded as purchases on the closing date. Redeemable preferred stocks are expected to be retired as a result of regular sinking fund payments by the issuer.

Common stocks, other than investments in subsidiaries and affiliates, and nonredeemable preferred stocks are carried at market value. Purchases are recorded on the trade date. Mortgage loans and policy loans are carried at unpaid principal balances. Real estate investments are carried at depreciated cost. The accumulated depreciation for these investments was $38.3, $43.0 and $38.9 million, respectively, at December 31, 1985, 1984 and 1983. Invested cash, consisting primarily of money market instruments and other debt issues maturing within one year, is stated at amortized cost.

Realized capital gains and losses are the difference between cost and sales proceeds of specific securities sold and are reported in income, net of applicable taxes. An allowance for investment losses is deducted from investment carrying values, and the current provision is included in realized capital gains and losses.

Deferred Policy Acquisition Costs. Acquisition costs, which consist primarily of commissions, certain underwriting and agency expenses and the cost of issuing policies, vary with, and are primarily related to, the production of new and renewal insurance business. Annuity and individual life business acquisition costs are deferred and amortized over the expected premium-paying periods of the related policies. Acquisition costs of other lines of business are deferred and amortized over the life of the insurance contract. Deferred acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. If the deferred costs are not recoverable, they are expensed. Capitalized and amortized deferred costs were $1.1 and $.9 billion for 1985, $.9 and $.8 billion for 1984, and $.8 and $.7 billion for 1983, respectively. The 1984 amortized amount includes a $19.4 million writedown ($12.3 million after tax) as a result of the "fresh start" reserve adjustment (see also Note 9).

Property and Equipment. Property and equipment are reported at depreciated cost. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. The accumulated depreciation for property and equipment was $195.5, $161.0 and $117.8 million, at December 31, 1985, 1984 and 1983, respectively.

Goodwill. Goodwill, which represents the excess of cost over the fair value of net assets of acquired subsidiaries and affiliates, is amortized on a straight-line basis over periods not exceeding 40 years. Total unamortized goodwill was $437.8, $430.9 and $660.3 million at December 31, 1985, 1984 and 1983, respectively. The 1984 balance reflects a net decrease of $209.0 million in goodwill related to the sale of Geosource Inc. and the Company's investment in Gearhart Industries, Inc. ("Gearhart"). The 1985 balance reflects an increase of $38.1 million associated with the acquisition of the remaining 13% of Federated Investors, Inc.; a net increase of $32.3 million associated with the sale of the 40% interest in Samuel Montagu & Company (Holdings) Ltd. and simultaneous purchase of MIM Ltd.; a $34.0 million decrease related to the sale of Satellite Business Systems; and a decrease related to the writedown of Gearhart common stock in the amount of $34.2 million.

Separate Accounts. Separate Accounts assets and liabilities generally represent policyholder funds maintained in accounts to meet specific investment objectives and are carried at market value.

Deposits and net investment income of Separate Accounts are included in revenues, with corresponding liability increases included in benefits and expenses. Realized and unrealized capital gains and losses on Separate Accounts assets are not reflected in the financial statements of the Company. Long-term guarantee pension funds of $1.0 billion and $7.3 billion previously in Separate Accounts were transferred at book value to the general account of Ætna Life Insurance Company, effective January 1, 1985 and 1984, respectively. These transfers represent a realignment of resources for portfolio management purposes and had no effect on total assets, liabilities or operating results. Generally, net transfers of reserves between the combined life companies and the Separate Accounts are reflected in the statements of changes in financial position as changes in insurance reserve liabilities.

Insurance Reserve Liabilities. Life, health and annuity policy reserves are computed on the basis of assumed or guaranteed investment yield, and assumed mortality, morbidity, withdrawals and expenses. These assumptions include provision for adverse deviation and generally vary by such characteristics as plan, year of issue, policy duration and date of receipt of funds. Reserve interest rates are graded and range from 13.75% to 2.25%. Mortality, morbidity and withdrawal rate assumptions are based on Ætna Life & Casualty experience, periodically reviewed against industry standards and experience. Individual life and health insurance reserves are computed using a level premium method. Universal life insurance reserves are provided such that income is recognized over the term of the contract in proportion to the risk and functions under the contract. Group life, health and pension insurance reserves on coverages subject to experience rating reflect the rights and expectations of plan participants, group policyholders and Ætna Life & Casualty.

Reserves for unpaid claims and claim expenses include provisions for payments to be made on reported losses, losses incurred but not reported and for associated settlement expenses. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liabilities for unpaid claims. Casualty-property insurance policy reserves include unearned premiums calculated on a pro rata basis. Such unearned premiums, net of provisions for premium adjustments under retrospectively rated policies, were $1.9, $1.5 and $1.3 billion for 1985, 1984 and 1983, respectively.

Reinsurance. Ætna Life & Casualty utilizes reinsurance agreements to minimize its exposure to large losses in all aspects of its insurance business. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of Ætna Life & Casualty as direct insurer of the risks reinsured. However, Ætna Life & Casualty treats risks reinsured with other companies as though they are not risks for which it is liable. Deductions from policy and claim reserves for reinsurance ceded were $1.4, $1.3 and $1.2 billion for 1985, 1984 and 1983, respectively. Reinsurance premiums ceded were $1.5, $1.3 and $1.1 billion for 1985, 1984 and 1983, respectively. Reinsurance premiums assumed were $1.3, $1.0 and $.8 billion for 1985, 1984 and 1983, respectively.

During 1983, Ætna Life & Casualty entered into a reinsurance agreement for a portion of its medical malpractice business. Under the agreement, Ætna Life & Casualty will receive reimbursement for certain paid losses up to $90.0 million between 1994 and 2003. The agreement allowed Ætna Life & Casualty, for a reinsurance premium of $21.9 million, to reduce its existing liabilities for unpaid claims carried at ultimate costs on this business by $79.7 million. This agreement benefited 1983 operating earnings by $57.8 million. Also in 1983, American Re-Insurance Company, a consolidated subsidiary, entered into similar transactions which benefited operating results by $21.2 million.

Financial Guarantees. The Company underwrites municipal bond insurance through its participation in the Municipal Bond Insurance Association ("MBIA") and is a direct writer of corporate debt guarantees. Premium income received from such products is recognized pro rata over the contract coverage period. The aggregate net par value (net principal amount of liability retained) of such MBIA and direct writer guarantees outstanding at December 31, 1985, 1984 and 1983 was $13.8, $9.1 and $5.6 billion, respectively. In addition, American Re-Insurance Company, a consolidated subsidiary, reinsures financial guarantee programs. The aggregate net par value of those guarantees outstanding at December 31, 1985, 1984 and 1983 was $1.2, $.3 and $.1 billion, respectively. Case loss reserves for this business are established only when a default has occurred or when there is knowledge of a potential default, and at December 31, 1985, 1984 and 1983 there were no such case loss reserves. Total reserves for this business, substantially unearned premium reserves, at December 31, 1985, 1984 and 1983 were $244, $138 and $75 million, respectively.

Revenue Recognition. Premiums are recorded as revenue when due for individual and group life and health contracts and when received for universal life and annuity contracts, and pension and other fund deposits. Casualty-property premiums are generally recognized as revenue on the date the policy becomes effective. Related policy benefits, including the change in unearned premium reserves, are recorded in relation to the associated premium revenue to result in recognition of profits over the expected lives of the contracts.

Federal Income Taxes. Ætna Life & Casualty is taxed at regular corporate rates after deducting certain items, primarily a special life insurance company deduction of 20% of taxable income, tax-exempt interest and excludable dividends, from income reported for financial statement purposes. The Company files a consolidated federal income tax return under which the Internal Revenue Code limits the amount of nonlife insurance company losses that may offset life insurance company taxable income. Foreign subsidiaries and U.S. subsidiaries operating outside of the United States are taxed under applicable foreign statutes. Deferred federal income taxes result from reporting various revenues and expenses in different periods for financial statement and income tax purposes.

AMERICAN FIRST CORPORATION
Notes to Consolidated Financial Statements
December 31, 1985, 1984 and 1983

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of American First Corporation (the Company) and its subsidiaries conform to generally accepted accounting principles and to applicable industry practices. The following represents the more significant of those policies and practices.

Principles of Consolidation and Basis of Presentation. The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries after elimination of all significant intercompany accounts and transactions. Certain prior years' amounts have been reclassified to conform to the current year's presentation.

Investments. Bonds are stated at cost, adjusted where appropriate for amortization of premium or discount, except those held in the trading inventories of the two securities brokerage subsidiaries which are stated at market. Preferred and common stocks are carried principally at market. Mortgage loans and policy loans are carried at the aggregate of the unpaid balances. Management believes that there has been no permanent impairment in the value of the bond and mortgage portfolios and intends to hold them to maturity. The cost of securities sold is identified on a specific share basis and the resulting gain or loss is included in the statement of income.

Deferred Policy Acquisition Costs. The Company has deferred the costs of acquiring new insurance business, principally commissions and certain variable underwriting, agency and policy issuance expenses. These deferred acquisition costs are being amortized to income over the premium-paying period of the related policies in proportion to the ratio of the annual premium income to the total premium income anticipated. Such anticipated premium income was estimated using assumptions as to interest, mortality and withdrawals consistent with those used in calculating reserves for future policy benefits.

Property and Equipment. Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed principally by the straight-line method over the estimated useful life of each asset. Leasehold improvements are amortized over the life of the asset or the period of the lease, whichever is shorter.

Maintenance and repairs are expensed as incurred and major expenditures for renewals and betterments are capitalized.

When property and equipment is retired or otherwise disposed of, the cost thereof and applicable depreciation are removed from the respective accounts, and the resulting gain or loss is recognized in the statement of income.

Intangible Assets. Included in other assets is unamortized goodwill applicable to acquisitions. These balances were $6,506,000 at December 31, 1985 and $6,643,000 at December 31, 1984. Amortization of such goodwill charged to income amounted to $374,000 and $451,000 in the years ended December 31, 1985 and 1984, respectively. Goodwill is being amortized over periods ranging from 5 to 40 years.

Insurance Benefits. Liabilities for future policy benefits for major life insurance plans have been computed by use of a net level premium method based upon estimated future investment yield, mortality and withdrawals. For the composition of policy liabilities and the more material assumptions pertinent thereto, see Note 6. The policy and contract claims liability includes reported claims on a case basis and an estimate of incurred but not reported claims based on past experience.

Income Taxes. The Company and its subsidiaries, other than the life insurance subsidiary, file consolidated income tax returns. The life insurance subsidiary files a separate consolidated return with its subsidiaries.

Certain items are accounted for differently for financial reporting purposes than for income tax purposes. Provisions for deferred income taxes are made in recognition of these timing differences. In computing the provision for Federal income taxes, investment tax credits, which are not significant, are recognized in the year the assets are placed in service, unless limited by earnings, then in the year realized.

Revenue Accounting. Life insurance premiums, other than credit premiums, are recognized as revenue when due. Credit life and accident and health premiums are recognized as revenue over the period to which the premiums relate. Benefits and expenses are associated with related premiums so as to result in recognition of profits as premiums are recognized as revenue.

Securities transactions and the related commission revenues and expenses are recorded on a settlement date basis.

Net Income Per Common Share. Net income per common share is based on net income, after deducting preferred dividends, divided by the weighted average number of shares outstanding during the year after giving effect to stock transactions. Stock options have been excluded since their dilutive effect is not material. All references to per share data have been restated for the effect of stock splits and stock dividends.

INSURANCE—FIRE, MARINE, CASUALTY, AND SURETY CARRIERS

MOTOR CLUB OF AMERICA AND SUBSIDIARIES &
MOTOR CLUB OF AMERICA INSURANCE COMPANY AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

(a) Principles of Consolidation. The consolidated financial statements of Motor Club of America ("MCA") include its accounts and those of its subsidiary companies. The consolidated financial statements of MCA's 96%-owned subsidiary, Motor Club of America Insurance Company ("MCAIC"), a fire and casualty insurance company, include the accounts of MCAIC and its wholly-owned real estate subsidiary. All material intercompany items and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which vary from reporting practices prescribed or permitted by regulatory authorities.

(b) Insurance Premiums. Unearned insurance premiums are credited to income principally by the straight-line method over the unexpired terms of the contracts. The liability for unearned premiums is determined after deducting a proportionate share for reinsurance transactions.

(c) Motor Club Operations. Motor club membership fees are credited to income by the straight-line method over the terms of the contracts. Commission expense is deferred and amortized in the same manner as the related unearned membership fees. Other costs relating thereto are charged to expense as incurred.

(d) Investments. Gains and losses on investments are recognized when investments are sold or redeemed on a specific certificate basis. Unrealized gains and unrealized losses on marketable equity securities are credited or charged to stockholders' equity. It has been and is management's policy to hold substantially all fixed maturity investments to maturity.

(e) Other Income. Other income consists principally of finance charges and interest and insurance agency commissions. Finance charges and interest are recorded as income over the terms of the related notes, based on the effective yield method, computed on the original monthly maturities thereof; commissions are recorded as income at the time insurance is placed with the carrier.

(f) Losses and Loss Expenses. The estimated liability for losses is based on (i) the accumulation of cost estimates for unpaid losses reported prior to the close of the accounting period with respect to direct business of the company, (ii) estimates of incurred but unreported losses based upon past experience and (iii) less the estimated amount of reinsurance recoverable from other insurance companies. The liability for loss expenses are based on estimates of expenses to be incurred in the settlement of claims.

(g) Deferred Policy Acquisition Costs. Deferred policy acquisition costs are costs that vary with and are directly related to the production of new and renewal business. Such costs include commissions, premium taxes and certain underwriting and policy issuance costs which are deferred when incurred (subject to a maximum) and are amortized to income as the related written premiums are earned.

(h) Fixed Assets. Depreciation on the building is computed principally by the straight-line method over forty years. Depreciation on furniture and fixtures, automobiles and other equipment, is computed by the straight-line method over the estimated useful lives, ranging from three to twenty years.

Expenditures for major renewals and betterments are capitalized, and expenditures for maintenance and repairs are charged to income as incurred. When property units are retired, or are otherwise disposed of, the cost thereof and related accumulated depreciation are eliminated from the accounts. Any gain or loss on sale is credited or charged to income.

Federal Income Taxes. Investment tax credits are accounted for under the "flow-through" method as a reduction in the provision for Federal income taxes.

INSURANCE—TITLE CARRIERS

THE FIRST AMERICAN FINANCIAL CORPORATION AND SUBSIDIARY COMPANIES
Notes to Consolidated Financial Statements

Note 1—Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of The First American Financial Corporation and all subsidiaries in which its ownership exceeds 50%. All significant intercompany transactions and balances have been eliminated. The Company's investments in less than 50% owned companies are accounted for by the equity method.

Revenue Recognition. Title premiums are recognized on the effective date of the title policy and escrow fees are recorded upon close of the escrow. Revenues from title policies issued by independent agents are recorded net of the amount retained by the agents.

Title Plants. Title plants are carried at original cost which includes the cost of producing or acquiring interests in title plants or the appraised value at date of acquisition for purchased subsidiaries. The costs of daily maintenance (updating) of these plants are charged to expense as incurred. Since a properly maintained title plant has an indefinite life and does not diminish in value with the passage of time, no provision has been made for depreciation of these plants.

Reserve for Known and Incurred But Not Reported Claims. The Company provides for title insurance losses and other claims and loss adjustment expenses based upon current evaluations and historical loss experience. The resulting reserve reflects the estimated costs to settle all claims reported to the Company as well as claims incurred but not reported. Although not a significant component of the Company's operations, the Company distributes ("ceded reinsurance") or assumes ("assumed reinsurance") a portion of certain large title policies on an individual agreement basis, and also has agreements with certain independent title insurance companies to automatically reinsure risks within specified parameters. The primary purpose of the Company ceding reinsurance is to distribute that portion of total policy risk which the Company prefers not to retain. Title insurance losses and other claims for assumed reinsurance are provided for in the same manner as described above. Title insurance losses and other claims associated with ceded reinsurance are not provided for; however, the Company remains contingently liable for such losses in the event that the reinsurer does not satisfy its obligations.

Assets Acquired in Connection With Claim Settlements. In connection with settlement of asserted title insurance and other claims, the Company sometimes makes advances and purchases mortgages, deeds of trust or fee interests in real property. These assets are carried at the lower of cost or estimated realizable value net of any indebtedness thereon.

Property and Equipment. Depreciation on buildings and furniture and equipment is computed using the declining balance and straight-line methods over estimated useful lives of 25 to 45 and 3 to 15 years, respectively. Major replacements and betterments are capitalized; maintenance and repairs are charged to operations as incurred. When property is sold or retired, the cost and applicable accumulated depreciation are eliminated from the accounts and the resulting gain or loss is credited or charged to operations.

Income Taxes. The provision for taxes on income is based on income for financial reporting purposes and includes deferred income taxes applicable to timing differences between financial and taxable income. Investment tax credits are accounted for under the flow-through method.

Excess of Cost Over Equity in Net Assets of Acquired Subsidiaries. The excess of cost over equity in net assets of acquired subsidiaries is amortized over periods not in excess of 40 years.

Fiduciary Assets and Liabilities. Assets and liabilities of the trusts and escrows administered by the Company are not included in the consolidated balance sheets.

INSURANCE—AGENTS, BROKERS, AND SERVICES

BALDWIN & LYONS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

Basis of Presentation. The consolidated financial statements include the accounts of Baldwin & Lyons, Inc. and its wholly owned subsidiaries (the Company). The investment in a 48% owned real estate development company is accounted for by the equity method. All significant intercompany transactions and accounts have been eliminated in consolidation.

The financial statements of property/casualty insurance subsidiaries, included in the consolidated financial statements, have been prepared on the basis of generally accepted accounting principles, which differ in some respects from accounting practices prescribed or permitted by regulatory authorities ("statutory basis").

Investments. Fixed maturities (bonds, notes and redeemable preferred stocks) are carried at cost or at cost adjusted for amortization of premium or accrual of discount. Equity securities (nonredeemable preferred stocks and common stocks) are carried at market prices, and related unrealized net gains (net of applicable tax effect) or losses are reflected directly in shareholders' equity. Short-term investments are carried at cost which is equal to market value. Realized gains and losses on disposals of investments are determined by specific identification of cost of investments sold and are included in income.

Property and Equipment. Property and equipment is carried at cost. Provisions for depreciation are computed substantially by the straight-line method.

Reserves for Losses and Loss Expenses. The reserves for losses and loss expenses are determined using case basis evaluations and statistical analyses and represent estimates of the ultimate net cost of all reported and unreported losses which are unpaid at year end. These reserves include estimates of future trends in claim severity and frequency and other factors which could vary as the losses are ultimately settled. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the reserves for losses and loss expenses are adequate. The estimates are continually reviewed and as adjustments to these reserves become necessary, such adjustments are reflected in current operations.

Certain loss reserves related to permanent total disability claims under workers' compensation coverages are discounted to present value using pretax interest rates of 3.5%. Certain other loss reserves relating to reinsurance assumed are discounted to present value using an effective pretax interest rate of approximately 5%.

Recognition of Revenue and Costs. Premiums are earned over the period for which insurance protection is provided. A reserve for unearned premiums, computed by the monthly pro-rata method, is established to reflect amounts applicable to subsequent accounting periods. Commissions to unaffiliated companies and other acquisition costs applicable to unearned premiums are deferred and expensed as the related premiums are earned. The Company considers anticipated investment income in determining deferred acquisition costs.

Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsured business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other insurers have been reported as a reduction of premium income. Amounts applicable to reinsurance ceded for unearned premium and claim loss reserves have been reported as reductions of these liabilities. Certain reinsurance contracts provide for additional or return premiums and commissions based upon profits or losses to the reinsurer over prescribed periods. Estimates of additional or return premiums and commissions are adjusted quarterly to recognize actual loss experience to date as well as projected loss experience applicable to the various contract periods.

Federal Income Taxes. A consolidated federal income tax return is filed by the Company and includes all wholly owned subsidiaries. The investment tax credit, which is not material in amount, is accounted for by the flow-through method.

Employee Pension Plan. A noncontributory trusteed pension plan was in effect until December 31, 1985 which covered employees who met certain requirements as to age and length of service. Pension expense was actuarially determined to provide for normal costs and amortization of past service costs over forty years. The defined benefit pension plan was replaced by a defined contribution plan under Internal Revenue Code Section 401(k).

Earnings Per Share. Earnings per share of Common Stock is based on the average number of shares of common stock outstanding during the year adjusted for the effect, if any, of options outstanding.

ALEXANDER & ALEXANDER SERVICES INC. AND SUBSIDIARIES
Notes to Financial Statements
(In Millions, Except Per Share Amounts)

1. Significant Accounting Policies

Consolidation. The accompanying consolidated financial statements include the accounts of Alexander & Alexander Services Inc. and its subsidiaries ("the Company") engaged in insurance broking and consulting services. The Company's unconsolidated subsidiaries and affiliates are accounted for on the equity method (see Note 5). Intercompany transactions and balances between consolidated subsidiaries have been eliminated. Reference is made to Note 3 for discussion of the Company's discontinued operations.

Foreign Currency Translation. Assets and liabilities of the Company's international operations are translated at current exchange rates. Operating results are translated at average rates of exchange prevailing during the year. Unrealized gains or losses resulting from translation, including transactions which hedge a foreign currency investment or long-term intercompany investment, are included as a separate component of stockholders' equity. Net transaction gains (losses), amounting to $(3.0) million, $4.2 million and $2.0 million for the years ended December 31, 1985, 1984 and 1983, respectively, are included in the determination of income from continuing operations.

Property and Depreciation. The cost of property and equipment is depreciated over the estimated useful lives of the related assets which range up to fifty years for buildings and ten years for equipment. Leasehold improvements are capitalized and amortized over the lease term. Maintenance and repairs are charged to operations when incurred.

Intangible Assets. Intangible assets resulting from acquisitions, principally goodwill and expiration lists, are amortized on a straight-line basis over periods not exceeding forty years. The costs of non-compete agreements are amortized on a straight-line basis over the terms of the agreements.

Income Taxes. Deferred income taxes are provided on revenue and expense items recognized for financial accounting purposes in different periods than for income tax purposes. Income taxes are provided on undistributed earnings of foreign subsidiaries which are not considered to be permanently invested to the extent that distribution of such earnings would not be offset by foreign tax credits. Investment tax credits are included as a reduction of federal income tax expense in the year the asset is placed in service.

Fiduciary Funds. Premiums receivable from insureds are reported as assets of the Company and as corresponding liabilities, net of commissions, to the insurance carriers. Premiums received from insureds not yet remitted to the carriers are held as cash or investments in a fiduciary capacity subject to regulation by various jurisdictions in which the Company operates.

Minority Interest. The minority interest in subsidiary companies is included in other long-term liabilities in the Consolidated Balance Sheets and other non-operating income (expenses) in the Statements of Consolidated Income.

Revenue Recognition. Commissions are recognized generally on the effective date of the policies with any subsequent premium adjustments, including policy cancellations, recognized upon notification from the insurance carriers. Contingent commissions, commissions on policies billed and collected directly by insurance carriers and profit-sharing commissions from Lloyd's syndicates are recognized when received. Fees for services rendered are generally recognized when earned.

Presentation. The accompanying consolidated financial statements have been restated to include the accounts of Reed Stenhouse Companies Limited, acquired in a transaction accounted for as a pooling of interests. Unless otherwise indicated, all amounts are stated in millions of U.S. dollars.

Per Share Data. Earnings per share data are based on the weighted average number of shares and their economic equivalents (See Note 9) outstanding during each period, adjusted for shares issued in poolings and, if dilutive, shares issuable under stock option plans or debenture conversion rights. Dividends per share data are based on the Company's common shares outstanding at each record date.

MANUFACTURING COMPANIES

PALM BEACH INCORPORATED AND SUBSIDIARIES

Summary of Significant Accounting Policies

Basis of Presentation. On December 11, 1985, the Company became a wholly owned subsidiary of Palm Beach Holdings, Inc., as the result of the acquisition and merger of Palm Beach Incorporated. (See Note 1 of the Notes to Consolidated Financial Statements.) Palm Beach Incorporated before the merger is referred to herein as "Predecessor"; Palm Beach Incorporated after the merger is referred to as "Palm Beach."

For financial reporting purposes, the transaction is assumed to have been effective on December 28, 1985, the fiscal year-end. Accordingly, the accompanying 1985 Consolidated Balance Sheet of Palm Beach has been prepared to reflect the transaction as a purchase as of December 28, 1985, with the assets and liabilities of the Predecessor adjusted to their fair values at that date. The effect of recording the transaction as of the fiscal year-end instead of December 11, 1985, was not material. The accompanying Consolidated Statements of Income for the three years ended December 28, 1985, have been prepared to reflect the results of operations of the Predecessor. As a result of the fair value adjustments, financial statements for periods subsequent to the merger will not be directly comparable to financial statements prepared on the historical cost basis prior to the merger.

Change in Accounting. During 1985, the Predecessor changed its method of valuing wholesale inventories for consolidated financial reporting purposes from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method. This change was made to more closely match current costs with current revenues. The effect of this change on the 1985 results of operations was not material. It was not practicable to account for the cumulative effect of the change as of the beginning of 1985 or to disclose the pro forma amounts for 1984.

Consolidation. The consolidated financial statements include the accounts of Palm Beach and the Predecessor and all of their subsidiaries. All intercompany transactions and balances have been eliminated.

Fiscal Year. The fiscal year is the 52 or 53 week period ending the Saturday nearest to December 31. Fiscal years 1985, 1984 and 1983 ended on December 28, 1985, December 29, 1984 and December 31, 1983, respectively.

Inventories. Inventories are carried at their fair value at December 28, 1985, and the lower of FIFO cost or market at December 29, 1984.

The fair value of finished garments and garments in process inventories was determined giving consideration to estimated selling prices, reduced as appropriate for costs to complete, costs of disposal and a reasonable profit. For cloth and trimmings inventories, fair value was based on current replacement costs.

Property, Plant and Equipment. Property, plant and equipment are carried at their fair value based upon an independent appraisal at December 28, 1985, and at their historical cost at December 29, 1984.

Depreciation of plant and equipment is provided generally on the straight-line method over the estimated useful lives of the assets. Additions and improvements are capitalized. Maintenance and repairs are charged to expense as incurred.

Palm Beach leases certain manufacturing, warehouse and sales facilities under long-term agreements which expire at various dates through 2004, subject to various renewal options. Annual rentals under operating lease agreements are charged to operations as incurred.

Trademarks. Trademarks acquired from the Predecessor are carried at their fair value based upon an independent appraisal at December 28, 1985, and at their historical cost at December 29, 1984, and are amortized over forty years on a straight-line basis.

Excess of Cost Over Equity in Net Assets of Businesses Acquired. The excess of the Predecessor's cost over equity in net assets of businesses acquired is included in Other Assets in the 1984 Consolidated Balance Sheet. The excess which arose subsequent to 1970 was being amortized over forty years on a straight-line basis. The excess which arose prior to 1970 was not being amortized since, in the opinion of management, there had been no diminution in the value of those acquired businesses. The excess which arose as a result of the merger is included in Other Assets in the 1985 Consolidated Balance Sheet and will be amortized over forty years on a straight-line basis.

Redeemable Preferred Stock. The difference between the liquidation value ($8.00) and the fair market value ($3.125) of the Redeemable Preferred Stock, at the date of issue, will be amortized over ten years, the period to its mandatory redemption, using the interest method, as a direct charge to retained earnings.

Retirement Plan. Pension costs include the cost of current service and the amortization of unfunded past service costs over thirty years, and is funded in accordance with actuarial requirements.

Income Taxes. The provision for income taxes includes the tax effects of revenue and expense transactions as reported in the Consolidated Statements of Income. Where such transactions are included in the determination of taxable income in a different year, the related tax effects are classified as deferred. Investment tax credits are recognized as reductions of the income tax provision in the period in which the equipment is placed in service.

Palm Beach elected for Federal income tax purposes to retain the Predecessor's tax basis of assets and liabilities and not record its net assets at their fair value at the date of the merger. Accordingly, the excess of the purchase price over the net assets acquired will result in charges against income which are not deductible for tax purposes.

Earnings Per Share. Earnings per share data are omitted because Palm Beach's common shares are no longer publicly held.

DMI FURNITURE, INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

The Company. The consolidated financial statements include the accounts of DMI Furniture, Inc. (DMI) and its subsidiaries (the Company).

The Company operates in one industry—the Company manufactures, imports, and sells low to medium priced furniture principally to furniture retailers.

Inventories. Inventories are valued at the lower of cost (first-in, first-out method) or market.

Depreciation. Depreciation is provided on the basis of estimated useful lives of the property, plant and equipment, using the straight-line method.

Excess of Cost Over Net Assets Acquired. The excess of cost over net assets acquired is amortized on the straight-line method over 38½ years.

Income Taxes. Investment tax credits are applied to the provision for income taxes under the flow-through method only in the year utilized on the tax return.

Pensions. Annual pension funding is based on normal pension costs plus amortization of prior service costs over 30 years. Amounts funded are charged to operations.

Earnings (Loss) Per Common Share. Earnings (loss) per common share are based on the weighted average number of common and common equivalent shares outstanding during the period (1985—2,009,735; 1984—1,973,214; 1983—2,154,910) and gives effect to preferred dividends. Included in the computation of earnings (loss) per common share were five quarters and two quarters of Carlson Furniture Industries, Inc. (Carlson) preferred dividends for fiscal 1984 and fiscal 1983, respectively.

BORG-WARNER CORPORATION AND CONSOLIDATED SUBSIDIARIES

Summary of Accounting Policies

The following paragraphs briefly describe the company's significant accounting policies. Certain amounts in the 1983 and 1984 financial statements have been reclassified to conform to the 1985 presentation.

Principles of Consolidation. The consolidated financial statements include all subsidiaries except those in Mexico and South America, which are carried at cost due to political and economic uncertainty, the Air Conditioning operations and the Financial Services companies. Borg-Warner intends to distribute the shares of its Air Conditioning subsidiary to shareholders and therefore has reported it as a discontinued operation. Investments in the Financial Services companies are carried at equity in underlying net assets. Investments in affiliated companies, at least 20 percent owned by Borg-Warner, and in the Hughes Tool Company are carried at cost plus equity in undistributed earnings which generally approximates equity in underlying net assets.

Marketable Securities. Marketable securities are valued at cost, which approximates market.

Inventories. Inventories are valued at the lower of cost or market. Cost of substantially all inventories worldwide is determined by the last-in, first-out (LIFO) method.

Property, Plant and Equipment and Depreciation. Property, plant and equipment is valued at cost less accumulated depreciation. Expenditures for maintenance, repairs and renewals of relatively minor items are generally charged to earnings as incurred. Renewals of significant items are capitalized.

Depreciation is computed generally on a straight-line basis over the estimated useful lives of related assets. For income tax purposes, accelerated methods of depreciation are generally used.

Income Taxes. For financial accounting purposes, investment tax credits generally are used to reduce income tax provisions over a seven-year period. For federal income tax purposes, investment tax credits are recognized currently.

Parent company income taxes have not been provided on undistributed net earnings of subsidiaries and affiliates to the extent these earnings are intended to be reinvested in those companies.

Deferred taxes have been provided on timing differences in reporting certain transactions for financial accounting and tax purposes.

Earnings Per Share. Earnings per common share are based on average outstanding common shares and common share equivalents. Common share equivalents recognize the dilutive effects of common shares which may be issued in the future upon conversion of preferred stock and upon exercise of certain stock options.

Retirement Benefit Plans. All eligible Borg-Warner domestic employees participate in noncontributory pension plans and substantially all non-U.S. employees participate in contributory or noncontributory pension plans. The related expenses are substantially all funded currently and are based on independent actuarial valuations. Expenses include amortization of prior service costs over periods not exceeding 40 years.

In addition, a number of employees are covered by noncontributory retirement benefit plans providing life insurance and medical benefits. Related expenses are accrued based on actuarial valuations and paid as incurred.

ADVANCE CIRCUITS, INC.
Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Advance Circuits, Inc. (the Company) and its wholly-owned subsidiary, ACI Components, Inc. All significant intercompany transactions have been eliminated.

Inventories. Inventories are stated at the lower of first-in, first-out cost or market.

Equipment, Improvements and Depreciation. Depreciation and amortization are determined on the straight-line method for financial reporting purposes over useful lives ranging from 3–10 years for equipment and the term of the lease for leasehold improvements.

Restricted Cash. Restricted cash represents undisbursed proceeds of Industrial Development Revenue Bond offerings, which is restricted for equipment purchases and is classified as long-term, except to the extent of amounts included in accounts payable for installed equipment.

Goodwill. Goodwill represents the difference between the purchase price of acquired companies and the related values of net assets acquired and accounted for by the purchase method and is being amortized over a 40 year period.

Income Taxes. Income taxes include deferred income taxes which result from timing differences between depreciation for financial reporting and tax purposes. Tax credits are reflected as reductions of income taxes in the year the credits are realized.

Net Income Per Common and Common Equivalent Share. Net income per common share is computed by dividing net income by the weighted average number of common and common equivalent shares outstanding.

Fiscal Year. The Company's year ends on the last Saturday of August. Fiscal year 1985 contained 53 weeks, while the fiscal years 1984 and 1983 contained 52 weeks.

FAIRCHILD INDUSTRIES, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Consolidation. The consolidated financial statements include the accounts of the Company, its majority-owned subsidiaries, other than the accounts of wholly owned finance subsidiaries, and until termination of the joint venture (as described in Note 3), a proportionate share of the accounts of the Saab-Fairchild 340 aircraft program. All material intercompany transactions and accounts are eliminated. Investments in finance subsidiaries and other affiliates where the Company has the ability to exercise significant influence are accounted for by the equity method.

Inventories. Inventoried costs relating to long-term contracts and programs are stated at the lower of cost or estimated realizable value and consist of direct costs and applicable overhead (excluding general and administrative expenses) less estimated costs of deliveries determined by applying the estimated cost-of-sales percentage for the total contract or program to revenues recognized. Where title to work-in-process passes when progress payments are received, as is normally the case with U.S. Government contracts, the stated value of inventories is net of progress payments.

In accordance with industry practice, inventoried costs relating to long-term contracts and programs are classified as current assets, even when deliveries are not expected within one year.

Inventories not related to long-term contracts and programs are valued at the lower of cost or market, with cost determined primarily on the last-in, first-out (LIFO) basis.

Property, Plant and Equipment. Generally, new assets acquired are depreciated by applying accelerated methods. Used assets are depreciated under the straight-line method.

Costs in Excess of Net Assets Acquired. The excess of cost of purchased businesses over the fair value of their net assets (goodwill) at acquisition dates is being amortized by the straight-line method over 40 years.

Revenue Recognition and Program Accounting. Sales under fixed-price and fixed-price incentive contracts are recorded as deliveries are made or upon attainment of performance milestones on those contracts for which this method provides a more accurate measure of progress toward completion. Sales under cost reimbursement contracts are recorded as costs are incurred and include a proportional amount of the fee expected to be realized on the contract. For those contracts that contain cost or performance incentive fees, such fees are included in sales at the time the amounts to be awarded can be reasonably determined. Profit expectations are based on periodic estimates of total sales value and costs at completion. Such estimates are reviewed periodically, and adjustments are recorded on contracts as they are identified. Provisions for estimated losses on uncompleted contracts are made in the period such losses are determined. On government fixed-price incentive and cost-reimbursement type contracts, costs are subject to customer audit.

The program method of accounting was used for the Saab-Fairchild 340 aircraft program until the joint venture was terminated. The program method of accounting requires that management estimate the number of units to be produced and sold in a program, the period over which the units can reasonably be expected to be produced and their expected selling prices, production costs and the gross profit margin for the total program. Under this method, the selling price of a unit is recognized as revenue when the unit is completed and accepted by a customer. Cost-of-sales is determined by applying the estimated cost-of-sales percentage for the total program (expected total inventoriable program costs divided by expected total program revenue) to the amount recognized as revenue. Since the termination, the contract method of accounting has been applied to the Saab-Fairchild 340 subcontract as described in the preceding paragraph. Sales are now reported as completed assemblies of the aircraft are delivered to Saab-Scania.

Income Taxes. Investment tax credits are accounted for by the flow-through method.

Earnings Per Share. Earnings per common share is based on weighted average common shares outstanding and equivalent shares from dilutive stock options and convertible preferred shares. When the assumed conversion of the convertible preferred stock becomes antidilutive, the preferred dividend is deducted from net earnings, and earnings per share is computed excluding the common shares issuable on conversion of the preferred stock. The following are included in the earnings per share calculations:

Period	Average Shares	Preferred Dividends Deducted from Net Earnings (In thousands)
1985	13,631,784	$12,370
1984	13,459,124	12,465
1983	13,378,826	12,893

MEDICAL AND OTHER HEALTH SERVICES

GERIATRIC & MEDICAL CENTERS, INC.
Notes to the Financial Statements

1. Summary of Significant Accounting Policies

(a) Principles of Consolidation. The consolidated financial statements include the accounts of Geriatric & Medical Centers, Inc. and its subsidiaries, hereafter referred to as the Company. All significant intercompany transactions and accounts have been eliminated in consolidation.

(b) Investments. Investments in common and preferred stocks are stated at the lower of aggregate cost or market. Investments in money markets and certificates of deposit are stated at cost which approximates market. Gain or loss on the sale of investments is determined using cost on the first-in, first-out method.

(c) Property, Equipment and Related Depreciation. Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The annual depreciation rates are 2.5% to 10% for buildings and improvements and 5% to 33% for equipment and fixtures. The cost of normal maintenance and repairs is charged against earnings. Major expenditures for renewals and betterments are capitalized. In the case of retirement or other disposition, the asset and related accumulated depreciation accounts are removed from the accounts and the resulting gain or loss is recognized in earnings.

For income tax purposes, Management has elected different useful lives and depreciation methods in conformity with current tax regulations.

(d) Other Assets. Invested funds for property improvements represent unrestricted funds designated by the Company for refurbishment of facilities and other capital expenditures.

Goodwill is generally being amortized on a straight-line method over 40 years. Goodwill in the amount of $565,000 is not being amortized because it relates to acquisitions prior to November 1, 1970, and, in the opinion of Management, there has been no impairment in the value of such assets.

Deferred charges and other assets principally consist of financing costs, bond trust funds and preopening costs. Costs incurred in securing long-term borrowings are amortized over the period of the borrowings. Preopening costs, which are incremental costs incurred in connection with the expansion of existing facilities or with the construction of new facilities, are amortized over a five-year period.

(e) Income Taxes. The provision for income taxes is based upon income as reported for financial statement purposes. Such provision differs from amounts currently payable because certain items are reported for income tax purposes in periods different from those in which they are reported in the financial statements. The tax effects of these timing differences are reflected as deferred income taxes.

Investment tax credits are accounted for on the flow-through method as a reduction of the provision for Federal income taxes in the year credits are available.

FAMILY HEALTH SYSTEMS, INC.
Notes to Financial Statements

Note 1—Summary of Significant Accounting Policies

Nature of the Business. Family Health Systems, Inc. ("FHS") was organized to provide comprehensive administrative, marketing and consulting services to group dental and medical practices and began operations on May 1, 1983. During the years ended August 31, 1985 and 1984, all of the operating revenues were from related parties in accordance with the administrative-marketing agreements discussed in Note 5.

Net Income (Loss) Per Share. Net income (loss) per share has been computed using the weighted average number of shares of common stock outstanding during the applicable period.

Depreciation and Amortization. Depreciation is provided by the straight-line method. Estimated useful lives are five years for furniture and equipment. Leasehold improvements are amortized over the lesser of the life of the improvement or the expected term of the related lease. For tax purposes, depreciation is computed in accordance with the accelerated cost recovery system method.

Short-Term Investments. Short-term investments are carried at the lower of cost or market. Cost is determined by the specific identification method.

AMERICAN SHARED HOSPITAL SERVICES
Notes to Financial Statements

1. Significant Accounting Policies

Basis of Presentation. American Shared Hospital Services (the Company) provides medical diagnostic imaging equipment to hospitals and other major medical care providers on a shared service delivery basis which enables a number of facilities to use the same piece of equipment without substantial investment.

The Company, incorporated on September 30, 1983, is the successor corporation to Ernest A. Bates, M.D., Ltd., d/b/a American Shared Hospital Services (the Partnership) which was formed as a California limited partnership on June 26, 1980 with Dr. Ernest A. Bates as the general partner. Effective June 1, 1983, the Partnership repurchased the limited partner's interest.

On October 31, 1983, the Board of Directors of the Company authorized the issuance by the Company of 1,481,481 shares of common stock in exchange for all of the assets and liabilities of the Partnership as of October 1, 1983 in a transaction accounted for as a pooling of interests. On April 17, 1984, Dr. Bates and directors of the Company agreed to cancel a total of 320,000 shares of the Company's outstanding common stock. Dr. Bates was the sole shareholder prior to the public offering of shares of common stock of the Company in July 1984.

The accompanying financial statements include the operations as a corporation commencing October 1, 1983 and prior thereto, the operations of the Partnership (for the separate financial statements of the Company and the Partnership in 1983 see Note 8). Certain reclassifications have been made to the 1984 statement of operations, as previously reported, to be consistent with the 1985 statement of operations.

Revenue Recognition and Major Customers. Revenue is recognized on a fee for service basis when the service is delivered. One customer accounted for approximately 36% and 22% of the Company's revenues for the years ended December 31, 1985 and 1984 respectively (two customers accounted for 17% and 14% of the Company's revenue in 1983).

Depreciation. Equipment, principally mobile scanning units which include scanners, mobile vans/trailers, and trucks, is stated at cost and is depreciated on the straight-line method over estimated useful lives of five to seven years. Leasehold improvements are amortized over the shorter of the lease terms or the estimated useful lives.

Investment Tax Credits. Investments tax credits are accounted for under the "flow-through" method.

Earnings (Loss) Per Share. Per share information has been computed based on the weighted average number of common and dilutive common equivalent shares (consisting of warrants and stock options) outstanding (2,138,981 shares in 1985; 1,663,000 in 1984).

MINING COMPANIES

THE NORTH AMERICAN COAL CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Period of Three Years Ended December 31, 1985

Note A—Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Intercompany accounts have been eliminated. Investments in a venture capital partnership, a lift truck leasing company and a manufacturing joint venture are accounted for by the equity method.

Inventories. Inventories are stated at the lower of cost or market. Cost has been determined under the first-in, first-out method (FIFO) with respect to coal mining related inventories and principally under the last-in, first-out (LIFO) method for manufacturing inventories.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization are provided in amounts sufficient to amortize the cost of related assets (including assets recorded under capital leases) over their estimated useful lives and are calculated by the following methods: equipment and certain plants—straight-line method; remaining mine plants, coal lands and leaseholds—units-of-production method based on estimated recoverable tonnages determined by Company engineers.

Pension Plans. The Company has noncontributory defined benefit pension plans covering substantially all of the salaried employees of the Company's coal mining segment and the union employees of the Company's lignite mine. Pension costs accrued, including the amortization of prior service cost over 30 years, are funded.

Investment Credit. The investment credit is accounted for by the flow-through method.

Black Lung Benefits. The Company and its subsidiaries are liable under the Federal Coal Mine Health and Safety Act of 1969, as amended, to pay coal workers' pneumoconiosis (black lung) benefits to eligible employees, former employees and dependents, with respect to claims filed by such persons on or after July 1, 1973. The companies are also liable under various states' statutes for black lung benefits. Certain of the companies are self-insured for the cost of black lung benefits and have established irrevocable black lung trusts. Contributions to these trusts are deductible for federal income tax purposes.

Provisions, included in the selling price of coal sold under long-term agreements of the companies, have been made in amounts sufficient to amortize the actuarially computed liability for black lung benefits over periods not exceeding the estimated lives of the various coal sales agreements.

Foreign Currency Translation. The financial statements of the Company's operations outside of the United States are translated into United States dollars at year-end exchange rates as to assets and liabilities and at weighted average exchange rates as to revenues and expenses. The resulting translation adjustments are recorded in a separate component of shareholders' equity.

Unearned Compensation. The trustees of the Yale Materials Handling Corporation (see Note C) Employee Profit Sharing and Stock Ownership Plan and the Yale Materials Handling Limited Employees' Share Purchase Trust ("ESOPs") purchased 8% and 2%, respectively, of Yale's outstanding common stock with the proceeds of bank loans which are guaranteed by Yale.

Yale has established minimum contribution levels to the ESOPs sufficient to enable the ESOPs to repay the bank loans. The ESOP bank obligations are included as a liability in the consolidated balance sheet. Amounts equal to such obligations, which are considered unearned compensation, have been recorded as a reduction of stockholders' equity. These amounts will be reduced as the ESOPs repay their bank loans in amounts equal to such payments. Maturities of the ESOP obligations are 1986—$365,000; 1987—$283,000 and 1988—$361,000.

Earnings Per Common Share. Net income per share of Common Stock has been calculated on the weighted average number of shares outstanding during each year.

Reclassification. Certain amounts for 1984 have been reclassified to conform to 1985 classifications.

AMERICAN NUCLEAR CORPORATION
Notes to Financial Statements
For the Years Ended May 31, 1986, 1985, and 1984

1. Summary of Significant Accounting Policies

Going Concern. The accompanying 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. As shown in the financial statements, during the years ended May 31, 1986, 1985, and 1984 the Company had net income (losses) of $(287,349), $9,496,241, and $(10,529,718), respectively, and the Company's current liabilities exceeded its current assets by $112,225 and $1,171,545 at May 31, 1986 and 1985, respectively. Net income for the year ended May 31, 1985 was due primarily to a gain realized on the exchange of certain mineral properties of $11,463,641 without which the Company would have incurred a loss of $1,967,400 (see Note 2). Due to current unfavorable uranium market conditions, the Company has suspended virtually all activities relating to the exploration and development of mining properties. These factors among others indicate that the Company may 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 amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing or refinancing as may be required, and ultimately to attain successful operations.

Mining Properties. Mining properties consist of unrecovered acquisition, exploration, and development costs, including interest capitalized after May 31, 1979. The Company capitalized costs directly attributable to the exploration for minerals and development of mining operations through November 28, 1984, when exploration and development activities were suspended due to current unfavorable uranium market conditions. During the year ended May 31, 1985 the Company incurred total interest costs of $1,112, 339 of which $741,217 was capitalized. All interest costs incurred during the year ended May 31, 1984 of $1,404,707 were capitalized by the Company. Ultimate realization of the investment in mining properties is dependent upon the disposition of such properties or the discovery and disposition of mineral reserves (see Notes 2 and 11).

Depreciation. The Company provides for depreciation of plant and equipment on a straight-line basis over the estimated useful lives of the assets which vary from 2 to 20 years.

Investment in Partnership. The Company accounts for its investment in Federal-American Partners (FAP), a mining partnership, at cost, adjusted for equity in Partnership income or loss as of April 30, the close of the Partnership's fiscal year (see Note 3).

Per Share Amounts. Per share amounts are computed on the weighted-average number of shares outstanding during the respective periods. Shares under option and warrants (Note 9) and shares obtainable upon conversion of redeemable preferred stock (Note 8) are considered outstanding where appropriate.

FOOTE MINERAL COMPANY AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 1985, 1984 and 1983

1. Summary of Significant Accounting Policies

Consolidation Policy. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. During 1985, steps were taken to terminate the separate existence of the two inactive subsidiaries of the Company. As of December 31, 1985, Lorraine Quartzite, Ltd. was the only subsidiary where such liquidation had not been completed. The presentation of the Consolidated Balance Sheets has been changed from that of the prior year in order to conform with current year presentation.

Inventories. The cost of substantially all finished goods, work-in-process and raw material inventories is determined on a last-in, first-out (LIFO) basis, while supplies are determined on an average cost basis. If inventories costed on the last-in, first-out method were costed on the first-in, first-out (FIFO) method, inventories at December 31, 1985 and 1984, would have been higher by approximately $12,517,000 and $13,500,000, respectively. During 1985 the Company liquidated certain LIFO inventories. The effect of the liquidation was to decrease the loss before taxes by $332,000. During 1984 and 1983 the Company liquidated certain LIFO inventories that were carried at higher costs than their current replacements. The effect of the liquidations was to increase the loss before taxes by $1,042,000 and $1,274,000, respectively.

Property, Plant and Mine Development. Expenditures for new facilities or expenditures which extend the useful lives of existing plant and equipment are capitalized. Maintenance and repair costs are expensed as incurred. Depreciation is provided using straight-line and accelerated methods over the estimated useful lives of depreciable assets, which for buildings range from 10 to 50 years and for machinery and equipment from 3 to 20 years. When assets are retired and disposed of, the asset cost and related reserves are eliminated from the accounts and any resultant gain or loss is included in net income.

Construction in progress at December 31, 1985 and December 31, 1984 includes $200,000 and $7,200,000, respectively, for the conversion of the New Johnsonville Electrolytic Manganese Dioxide facility.

Mine development costs incurred either to expand the capacity of operating mines or to develop new ore bodies are deferred and charged to operations on the unit-of-production method based on the estimated ore reserves to be recovered.

Interest Costs. Interest costs incurred in acquiring qualifying assets are capitalized. Total interest cost for the years ended December 31, 1985, 1984 and 1983, was $2,426,000, $2,859,000 and $3,317,000, respectively, of which $44,000, $985,000 and $750,000, respectively, was capitalized.

Income Taxes. Deferred income taxes result from timing differences in the recognition of accounting transactions for tax and financial reporting purposes. The principal timing differences relate to depreciation and mine development costs. The Company follows the practice of accounting for investment tax credits using the flow-through method. The Company's taxable income (loss) is included in the consolidated Federal income tax return filed by Newmont Mining Corporation. The Company's share of the consolidated tax is computed on a separate return basis. All Federal income tax amounts are due to or from Newmont Mining Corporation. Included in other assets are cumulative tax benefits of $542,000 and $3,083,000 and related accrued interest of $1,157,000 and $813,000 at December 31, 1985 and 1984, respectively. Interest on such tax benefits of $344,000, $285,000 and $76,000 for the years 1985, 1984 and 1983, respectively, is included in interest and other income in the Consolidated Statements of Operations.

CALLAHAN MINING CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include all companies in which voting control of more than 50% is held. Intercompany balances and transactions are eliminated. The equity method of accounting is used for affiliated companies in which significant voting control, normally 20% but not more than 50%, is held. The financial statements also include the Company's proportionate share of the accounts of joint ventures in which it participates.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined substantially by the average cost method although the first-in, first-out method is also used.

Property, Plant and Equipment. Property, plant and equipment are stated at cost. The depleted cost of mineral properties should not be considered indicative of the current value of the properties. Major plant and equipment additions and betterments are capitalized and maintenance and repairs are expensed.

Depreciation and Depletion. Generally, for producing mining and oil and gas properties, depreciation and depletion are provided on the unit of production method so as to write off the cost of property, plant and equipment over the estimated commercial lives of the properties based upon reserve estimates. The straight-line method is used for other assets; such assets are written off over their estimated useful lives (buildings, 10 to 45 years and machinery, equipment, furniture and fixtures, 3 to 15 years).

Exploration and Development. Exploration expenditures are charged to earnings. For some projects, facilities expenditures may be necessary before exploration expenses are incurred. Such costs are capitalized and, if exploration is successful, are depreciated over the estimated life of reserves using the unit of production method. If exploration is not successful, remaining capitalized costs are written down to estimated net realizable value. Development costs are those incurred after reserves are shown to exist in commercially marketable quantities but prior to the commencement of production. Such costs are capitalized and when production commences are amortized over the estimated life of the reserves.

Revenue Recognition. Galena and Coeur Mines: Revenues from the Galena and Coeur mines are accrued upon deliveries of concentrates to smelters. The basis of such accrual is an estimate of the average price of silver which may prevail during the financial settlement period—the third calendar month following delivery. Upon settlement, any difference between estimated and actual revenues is charged or credited to income. The Company earns 50% of the "cash flow" from Galena operations which is determined by deducting from gross proceeds of sales, capital expenditures as well as operating and development costs. With respect to the Coeur mine, the Company is entitled to 5% of mine profits.

Ropes Mine: Revenue is recognized upon entry into a contract of sale of the fine ounces of gold and silver contained in gold doré shipped to refineries.

Investment Tax Credits. Investment tax credits are applied currently as a reduction of the provision for Federal income taxes.

Earnings Per Share. Earnings per share are based upon the weighted average number of shares outstanding during the year adjusted for stock dividends and stock splits.

MOTION PICTURE PRODUCTION AND DISTRIBUTION COMPANIES

UNITEL VIDEO, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended August 31, 1985, 1984 and 1983

A. Summary of Significant Accounting Policies:

(1) Business. The Company provides a full range of services to the video communications industry for the production, editing and duplication of television commercials and programs in its New York City and Hollywood facilities. In addition, through its mobile video subsidiary, the Company provides "on-location" services for videotape recording and live telecasting of sports, theatrical and other events throughout the United States.

(2) Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, UNV, Inc. All significant intercompany accounts and transactions have been eliminated.

(3) Depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets which are 30 years for buildings; 10–30 years for building improvements; 5–7 years for video equipment; 7 years for furniture and fixtures; and 3–5 years for transportation equipment.

(4) Interest Cost. The Company has capitalized construction period interest costs of $94,000, $253,000 and $215,000 in the years ended August 31, 1985, 1984 and 1983, respectively.

(5) Deferred Financing Costs. Costs incurred in obtaining long-term debt financing are included in other assets. These costs are being amortized straight-line over the term of the related obligations.

(6) Investments in less than majority owned companies in which there is a 20% or greater ownership are recorded at cost plus equity in their undistributed earnings (losses).

(7) Income Taxes. Deferred income taxes arise primarily from the use of different depreciation methods and lives for tax and financial statement purposes.

Investment tax credits are recognized to the extent that they would be realized on the Company's tax return if taxes payable had been based upon pretax accounting income.

(8) Earnings (Loss) Per Common Share and Common Equivalent Share. Earnings per common share and common equivalent share are computed by dividing net earnings by the weighted average number of common shares outstanding and common share equivalents (options and warrants), where applicable. In the loss year, the antidilutive effect related to the options and warrants is not included in the computation.

Earnings (loss) per common share and weighted average number of common equivalent shares outstanding where applicable have been restated to reflect the 10% Common Stock dividends paid on March 1, 1983 and March 1, 1984.

(9) The financial statements for 1983 have been reclassified to conform to the current year's presentation.

THE CANNON GROUP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of The Cannon Group, Inc. and its subsidiaries (the "Company") all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated.

In 1984, the Company acquired all of the outstanding shares of Cannon City B.V. ("City") and Cannon Tuschinski Beheer B.V. ("Tuschinski"). In 1983, the Company acquired all of the outstanding shares of Y&M Productions, Inc. These acquisitions are accounted for as purchases and the operations of these subsidiaries are included in the consolidated financial statements from the date of acquisition (see note 9).

In 1985, the Company acquired the cinema assets and certain rights of Gaumont S.p.A. in Italy and of the Star Group in England and 896 of the outstanding shares of Cineac Group in Holland. These additions are accounted for as purchases and their operations are included in the consolidated financial statements from the date of acquisition (see note 9).

Accounting Period. The Company's fiscal year ends on the Saturday nearest December 31. There are 52 weeks in the fiscal years ended December 31, 1983, December 29, 1984 and December 28, 1985.

Revenue Recognition. Theatrical revenues from domestic markets are recognized as motion pictures are exhibited. Revenues from television and video licensing agreements and foreign contracts are recognized as motion pictures become available for exhibition or broadcast.

Accounting for Film Costs. Inventories of film costs consist of story rights, screen plays, production and certain exploitation costs and are stated at the lower of cost or estimated realizable value. Current assets include unamortized costs allocated to theatrical markets of films released and films completed and not released. Costs classified as non-current assets are those allocated to the secondary market of films completed or released and costs of films still in production.

Advances to and/or guarantees of loans to producers and participants are accounted for by the Company as film costs and the related liability is reflected in the financial statements.

Interest costs incurred were $6,837,000 in 1983, $11,868,000 in 1984 and $19,949,000 in 1985 of which $2,654,000, $4,061,000 and $7,075,000, respectively, were capitalized in film costs and property and equipment.

In accordance with the provisions of Statement of Financial Accounting Standards No. 53, film costs are amortized on the ratio that the revenue earned for the year bears to management's estimate of total gross revenue to be realized. Under these provisions each picture is valued taking into account the ultimate revenue to be received from all sources, including theatrical distribution, cable and pay, network and syndication television licensing, and video cassette and video disc licensing. Such estimates are revised periodically and estimated losses, if any, are provided for in full.

Depreciation and Amortization. Depreciation and amortization are computed primarily by the straight-line method at rates adequate to allocate the cost of applicable assets over their expected useful lives.

Income Taxes. The Company and its domestic subsidiaries file a consolidated federal income tax return.

Income taxes provided include deferred taxes due to timing differences between financial statements and tax reporting. The timing differences are principally related to differences in film cost capitalization and amortization and the recognition of revenues from licensing agreements on the installment basis for tax purposes.

During 1983 the Company formed a subsidiary (Cannon Productions N.V.) ("N.V.") in the Netherlands Antilles to produce and distribute motion pictures outside the United States. The Company's current intention is that all undistributed earnings of N.V. and N.V.'s foreign subsidiaries will be reinvested indefinitely outside the United States and the Company will not transfer these earnings back to the United States because of its foreign investment plans. Accordingly, domestic income taxes will not be accrued on these undistributed earnings. Through December 28, 1985, undistributed earnings of N.V. and its subsidiaries were $22,082,000.

It is the policy of the Company to accrue appropriate U.S. income taxes on undistributed earnings of foreign subsidiaries, other than N.V. and its subsidiaries, exclusive of those amounts which if remitted would result in little or no such tax by operation of relevant statutes currently in effect.

Federal investment tax credits are recorded as reductions of the provision for income taxes in the year of qualified property additions. Certain foreign tax credits on investments in film costs are recorded as reductions of the cost of the asset.

Earnings Per Common Share. Earnings per common share are computed by dividing net income by the weighted average number of common and common share equivalents outstanding during the year.

The calculation of earnings per share (both primary and fully diluted) for 1985 assumes that certain proceeds on the assumed conversion of options and warrants were used to reduce outstanding debt and is computed after adding back the after-tax interest on that debt. This computation would have been anti-dilutive for 1984.

The calculation of fully diluted earnings per common share assumes, in addition to the average shares outstanding as defined above, that convertible debentures were converted to common shares at the date of issue and adding back the after-tax interest on convertible debentures. Warrants issued in connection with senior subordinated notes were anti-dilutive for 1984.

Foreign Currency. The Company translates the accounts of the foreign subsidiaries using current exchange rates for all balance sheet accounts and average exchange rates during the year (or period included) for revenue and expense accounts. Translation gains or losses (net of income tax) are accumulated in shareholders' equity.

Foreign currency translation gains or losses reflected on the balance sheet will not be recognized for income statement purposes until any consolidated foreign subsidiary is either sold or liquidated.

Cash and amounts owed by or to the Company denominated in a foreign currency are adjusted to reflect the current exchange rate.

Transaction gains and losses are included in the consolidated statement of income. The aggregate transaction gains (losses) included in determining net income are $99,000, $(132,000) and $1,020,000 for 1983, 1984 and 1985, respectively.

Debenture and Note Issue Costs. In 1984 the Company incurred original issue discount of $10,500,000 and issue costs amounting to $4,421,000 in connection with the issuance of its subordinated debt (see note 5). These amounts will be amortized over the terms of the debentures and notes based on the amounts outstanding.

PETROLEUM REFINING

SHELL OIL COMPANY
Notes to Consolidated Financial Statements

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2. Accounting Policies

This summary of the major accounting policies of Shell Oil Company and its consolidated subsidiaries (hereinafter referred to as Shell Oil) is presented to assist the reader in evaluating Shell Oil's financial statements and other data contained in this report. The accounting policies employed by Shell Oil are in conformity with generally accepted accounting principles.

Principles of Consolidation. The financial statements include the accounts of Shell Oil Company and its majority-owned subsidiaries, except for a finance subsidiary, an insurance subsidiary, and a foreign operating oil and gas subsidiary which are carried on an equity basis. Investments in companies in which Shell Oil has a voting stock interest of 20%, but not more than 50%, are carried at equity in underlying net assets. Investments in less than 20% owned companies are carried at cost with dividends recorded in income as received.

Inventories. Inventories of oils and chemicals are valued at cost predominantly on a last-in, first-out (LIFO) basis which is lower than market. Materials and supplies are carried at average cost or less.

Exploration and Development. Exploration and development expenditures are accounted for according to the "successful efforts" method of accounting.

Property Acquisition Costs. Direct costs of acquiring developed or undeveloped leasehold acreage including lease bonus, brokerage and other fees are capitalized. The cost of undeveloped properties which become productive is transferred to a producing property account.

Exploratory Costs. Exploratory expenses, including geological and geophysical expenses and annual delay rentals on oil and gas leases, are charged to income as incurred. Exploratory drilling costs are initially capitalized, but should the efforts be determined to be unsuccessful, they are then charged to income.

Development Costs. Costs incurred to drill and equip development wells, including dry holes, platform costs, well equipment costs, and attendant production facilities costs are capitalized.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization of the capitalized cost of producing properties, both tangible and intangible, are provided for on a unit of production basis. Developed reserves are used in computing unit rates for drilling and development costs, and total proved reserves are used for depletion of leasehold costs. In all cases the unit determination is by field. Amortization of unproven lease costs from date of acquisition is based primarily upon experience in establishing rates to fully amortize over the holding period those leases that may be unproductive. Estimated dismantlement, restoration, and abandonment costs and estimated residual salvage values are taken into account in determining amortization and depreciation provisions.

Other plant and equipment are depreciated on a straight-line basis over their estimated useful lives. On a cycle basis, asset lives are reviewed for propriety of estimated useful life. Changes in depreciation rates, if any, are applied prospectively.

Non-Mineral Leases. Obligations under noncancelable leases and the accounting practices with respect thereto are set forth in Note 13.

Deferred Income Taxes. Transactions which affect book income and taxable income in different periods are adjusted by inter-period tax allocation to eliminate the effect of such timing differences. Tax allocation for differences pertaining to capitalized costs and associated write-offs, including intangible drilling and other costs associated with the exploration for and development of oil and gas reserves, is reflected in Deferred Credits—Income Taxes in the Consolidated Balance Sheet. For other differences, the net cumulative effect is reflected in Receivables and prepayments in the Consolidated Balance Sheet.

Investment Tax Credit. Investment tax credits are applied to reduce federal income taxes in the year realized.

Foreign Currency Translation. The U.S. Dollar is the "functional" currency for each of Shell Oil's foreign operations. Gains and losses arising from foreign currency transactions are recognized as prescribed by Statement of Financial Accounting Standards No. 52.

Capitalization of Interest. The capitalization of interest is limited to projects where construction of the asset takes considerable time, entails substantial expenditures and involves a significant amount of interest cost.

MURPHY OIL CORPORATION AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Murphy Oil Corporation and all significant majority-owned subsidiaries. Investments in unconsolidated subsidiaries and jointly owned companies (20% to 50% owned) are accounted for by the equity method. All significant intercompany accounts and transactions have been eliminated.

Marketable Securities. Marketable securities are short-term investments in government securities and/or with government securities as collateral, recorded at cost plus accrued interest.

Inventories. Inventories of crude oil and refined products are generally valued at cost applied on a last-in, first-out (LIFO) basis which in the aggregate is lower than market. Refined products owned by a foreign subsidiary in the United Kingdom are valued at the lower of first-in, first-out (FIFO) cost or market. Raw materials and lumber are stated at the lower of average cost or market. Materials and supplies are valued at the lower of average cost or estimated value.

Exploration and Development. The Company uses the "successful efforts" method of accounting for exploration and development expenditures. Direct acquisition costs of developed and undeveloped leases are capitalized. Cost of undeveloped leases on which proved reserves are found is transferred to producing oil and gas properties. Each undeveloped lease with significant acquisition cost is reviewed periodically and a valuation allowance provided for any estimated decline in value. Cost of all other undeveloped leases is amortized over the estimated average holding period of the leases. Costs of exploratory drilling are initially capitalized, but if proved reserves are not found, the costs are subsequently expensed. All other exploratory costs are charged to expense as incurred. All costs incurred to drill and equip development wells, including dry holes, platforms, well equipment, and attendant production facilities, are capitalized.

Depreciation and Depletion. Depreciation and depletion of producing oil and gas properties are provided under the unit-of-production method on a property-by-property basis. Developed reserves are used to compute unit rates for unamortized tangible and intangible development costs, and proved reserves are used for unamortized leasehold costs. Estimated costs (net of salvage value) of dismantling oil and gas production facilities are computed and included in depreciation and depletion using the unit-of-production method. Depreciation of refining and marketing facilities is calculated using the composite straight-line method. Depletion of timber is based on board feet cut. Depreciation of each drilling barge and related equipment is determined by dividing the cost less accumulated depreciation and salvage value by the estimated remaining useful life of the barge. Diving equipment, office buildings, a tanker, pipelines, and other properties are depreciated by individual unit based on the straight-line method.

Asset Retirements. Gains and losses on disposals or retirements which are abnormal or include an entire depreciable or depletable property unit are included in income. Costs of dismantling oil and gas production facilities are charged against the related reserve. All other dispositions, retirements, or abandonments are reflected in accumulated depreciation, depletion, and amortization.

Major Repairs. Provisions are made for refinery turnarounds and major repairs to drilling barges by monthly charges to expense. Costs incurred are charged against the related reserve. All other maintenance and repair costs are charged to expense. Renewals and betterments are capitalized.

Mobilization Costs. Costs incurred when mobilizing a drilling barge are charged to expense unless the barge is leased to a customer under a term contract. If leased under a term contract, any unreimbursed amount is amortized to expense over the term of the contract.

Income Taxes. Provision is made in the accounts to reflect interperiod allocation of income taxes resulting from certain revenues and expenses affecting financial and taxable income in different years. Principal timing differences are petroleum revenue tax; accelerated depreciation; amortization of undeveloped leasehold costs; asset dispositions and write-downs; intangible development costs; equity in undistributed earnings of foreign subsidiaries and jointly owned companies not permanently invested; and provisions for dismantlements, turnarounds, and major repairs. Provision for petroleum revenue taxes payable to the U.K. government is based on the estimated effective tax rate over the life of the field. Investment tax credits are accounted for under the flow-through method.

Employee Retirement Plans. Retirement benefits for substantially all employees of the Company are funded by contributions to trustees. Prior service cost is amortized and funded over varying periods up to 20 years. Actuarial gains and losses are amortized over 10 years.

Excise Taxes on Refined Products. Taxes collected on the sale of refined products and remitted to governmental agencies are not included in revenues or costs and expenses.

Net Income Per Common Share. This amount is computed by dividing the weighted average number of Common and Common equivalent shares outstanding during each year into net income.

ATLANTIC RICHFIELD COMPANY
Notes to Consolidated Financial Statements

1. Accounting Policy

Atlantic Richfield's accounting policies conform to generally accepted accounting principles and the "successful efforts" method of accounting for oil and gas producing activities as set forth by the Securities and Exchange Commission (SEC).

Principles of Consolidation. All subsidiaries are fully consolidated except for finance and insurance subsidiaries, which are accounted for on the equity basis. The Company also consolidates its interest in undivided interest pipeline companies, oil and gas and coal mining joint ventures, and generally in other ventures and partnerships in which a controlling interest is held. The Company uses the equity method of accounting for companies where our ownership is between 20 and 50 percent, and for other ventures and partnerships in which less than a controlling interest is held.

Reclassifications. Certain previously reported amounts have been restated to conform to classifications adopted in 1985.

Oil and Gas Leasehold Costs. Unproved leasehold costs are capitalized and amortized for financial statement purposes on a composite basis, considering past success experience and average lease life. In general, costs of leases surrendered or otherwise disposed of are charged to accumulated amortization. Costs of successful leases are transferred to developed properties.

Dismantlement, Restoration and Reclamation Costs. The estimated costs, net of salvage value, of dismantling facilities or projects with limited lives—such as TAPS, the Prudhoe Bay Unit and offshore platforms—or facilities which are required to be dismantled by contract, regulation or law, and the estimated cost of restoration and reclamation of land associated with such projects and land associated with mining operations are accrued during operations and classified as a long-term liability. Such costs are taken into account in determining the cost of production in all operations, except oil and gas production, in which case such costs are considered in determining amortization and depreciation.

Fixed Assets. Fixed assets are written off over their estimated lives on either a straight line or unit-of-production method. Rates under the straight line method are based upon the expected lives of individual plant items or groups of plant items.

Disposal of Facilities. Upon disposal of facilities depreciated on an individual plant item basis, residual cost less salvage is included in current income. Upon disposal of facilities depreciated on a group basis, unless unusual in nature or amount, cost less salvage is charged against accumulated depreciation.

Maintenance and Repairs. Maintenance and repairs are expensed, except that occasional substantial renewals, which prolong the life of the facility beyond the date previously contemplated, are charged to accumulated depreciation; betterments are capitalized as plant additions.

Investment Tax Credits. Investment tax credits are accounted for under the flow-through method in the current year as offsets against provisions for current and deferred federal income taxes.

Short-Term Investments. Short-term investments consist primarily of time deposits and certificates of deposit and include marketable securities stated at cost, which approximates market value.

RADIO AND TELEVISION BROADCASTING COMPANIES

UNITED TELEVISION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies:

(a) Organization. The Company is a 50.3% owned subsidiary of BHC, Inc. (BHC) which is a majority owned subsidiary of Chris-Craft Industries, Inc. (CCI). The Company owns and operates five television stations: KMSP in Minneapolis/St. Paul, KTVX in Salt Lake City, KMOL in San Antonio, KBHK in San Francisco, and KUTP in Phoenix. KUTP commenced broadcasting in December 1985. The Company, through subsidiaries, has interests in the cellular radio-telephone industry.

(b) Principles of Consolidation. The accompanying consolidated financial statements include the accounts of the Company and its wholly and majority-owned subsidiaries after elimination of all significant intercompany accounts and transactions.

As of December 31, 1985, the Company owned approximately 2.8% of the outstanding common shares of Warner Communications Inc. (WCI), and three directors of the Company have been elected to the Board of WCI. BHC and its subsidiaries, including the Company, together currently own convertible preferred and common shares of WCI which represent approximately 29.3% of the voting power of all WCI securities. Accordingly, the Company accounts for its investment in WCI common shares under the equity method. Should all WCI common stock equivalents be converted, the Company's pro rata share of equity in WCI would be reduced to approximately 2.3%.

(c) Film Contract Rights and Film Contracts Payable. The Company owns film contract rights which allow limited showings of films and syndicated programs. Film contract rights and related liabilities are recorded at the contractual amounts when the programming becomes available for telecasting.

Contract values are amortized over the estimated number of showings using straight-line or accelerated methods as programming is used, based on management's estimate of the relative flow of income. The estimated costs of recorded film contract rights to be charged to income within one year are included in current assets; payments due within one year on those contracts are included in current liabilities.

(d) Depreciation and Amortization. Depreciation and amortization of property, plant and equipment is provided using the straight-line method over the estimated useful lives of the assets unless, in the case of leased properties, the term of the lease is a shorter period.

Television station licenses, contracts and network affiliation agreements represent the excess of cost over the net identifiable tangible assets at the respective dates of acquisition or commencement of operations. Television station licenses, contracts and network affiliation agreements applicable to KTVX and KMOL, acquired in 1975, are being amortized using the straight-line method over 40 years, as are station licenses and contracts of KBHK, acquired in 1983, and station licenses applicable to KUTP, which was constructed in 1985. Station licenses and contracts applicable to KMSP, acquired in 1959, are being amortized using the straight-line method over 27 years.

Deferred debt expense is being amortized over the term of the related debt.

(e) Barter Transactions. The Company records all barter (nonmonetary) transactions at the time such agreements are consummated. The estimated fair value of goods or services received is recognized as revenue when the air time is used by the advertiser.

(f) Income (Loss) Per Share. Per share amounts were compued by dividing income (loss) by the weighted average number of common shares outstanding adjusted by common stock equivalents (stock options).

(g) Reclassifications. Certain amounts for 1984 and 1983 have been reclassified to conform to 1985 presentation.

WESTWOOD ONE, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies:

Principles of Consolidation. The consolidated financial statements include the accounts of all wholly-owned subsidiary companies. All significant intercompany transactions have been eliminated.

Revenue Recognition. Revenue is recognized when the Company's programs are broadcast.

Marketable Securities. Marketable securities consist principally of interest bearing certificates of deposit and United States government obligations scheduled to mature within one year. All such investments are stated at cost, which approximates market.

Depreciation. Depreciation is computed using the straight line method over the estimated useful lives of the assets.

Production Costs. The current portion of deferred production costs includes expenditures for recorded material not broadcast as of the balance sheet date and the portion of costs related to aired programs when the Company expects to re-broadcast the material within twelve months.

Long-term production costs are amortized using the straight line method over the period of expected benefit, not to exceed five years.

Income Taxes. Deferred taxes are provided for timing differences, resulting principally from deferred production costs and various subsidiaries preparing their tax returns on the cash basis of accounting. Investment tax credit is recorded using the flow through method as a reduction of the current tax provision.

Earnings Per Share. Earnings per share in fiscal 1983, 1984 and 1985 is based upon the weighted average number of common shares outstanding during each period which were 2,100,000 shares in fiscal 1983; 2,464,000 shares in fiscal 1984; and 2,972,000 shares in fiscal 1985, after adjustment for the reorganization (see Note 2).

TAFT BROADCASTING COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(In Thousands, Except Share Data)

(1) Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All material intercompany amounts are eliminated. Investments in partnerships and other investees over which the Company has significant influence are carried on the equity basis. Investments in partnerships and investees with respect to which the Company does not have significant influence over the operating policies are carried at cost.

Film Production. Program production costs are stated at the lower of amortized cost or market. The current portion of program production costs includes the unamortized costs of films in release allocated to the primary market and television films in production which are under license agreements to the networks. Other costs related to film production are classified as non-current assets.

The costs of the films produced by the Company and its subsidiaries are amortized by charges to earnings in the proportion that the net revenues received by its production entities bear to the estimated total of such revenues to be received. Estimates of net revenues are reviewed periodically and amortization is adjusted accordingly.

Revenues received from the television networks and off-network revenues from films produced by the Company are recorded when the films are available to the licensee for initial exhibition and when certain other conditions are met. Revenues from feature films in theatrical release are recorded as the films are exhibited.

The majority of program production costs are incurred in the production of programs for the U.S. television networks, and a substantial portion of these costs are recouped from network license fees in the same fiscal year. Accordingly, the Company reflects only the net change in this asset in the consolidated statements of changes in financial position.

Television Film Distribution. The Company's share of revenues from the distribution of television programs and films is recognized as amounts are billed to the users under the terms of the licensing agreements.

Broadcast Program Rights. The rights to broadcast non-network programs on the Company's television stations are stated at cost, less amortization. These costs are charged to operations on a straight-line basis over the contract period or on a per showing basis, whichever results in the greater aggregate amortization. The cost of broadcast program rights estimated to be charged to operations during the next fiscal year has been classified as a current asset.

Property and Equipment. Approximately 86% of the depreciable assets are depreciated on the straight-line method and the remainder on accelerated methods. Depreciable lives are: land improvements, 8–20 years; buildings, 8–40 years; operating and other equipment, 3–20 years; and leasehold improvements, over the life of the lease.

Maintenance, repairs and minor renewals are charged to operations. Additions and betterments are capitalized. Normal retirements or disposals of amusement park assets depreciated using composite rates are removed from the accounts and no gain or loss is recognized. Disposals or retirements of all other property and equipment are eliminated from the accounts and any gain or loss is reflected in the consolidated statements of earnings.

Contracts, Broadcasting Licenses and Other Intangibles. Contracts, broadcasting licenses and other intangibles represent the excess of the consideration paid for the purchase of businesses over the amounts assigned to the net tangible assets acquired, and over 95% of these amounts relate to acquisitions of broadcast properties. Intangibles arising prior to November 1, 1970, are stated at cost and are not reduced until such time as a decrease in their value becomes evident. Intangibles, aggregating $638,123 at March 31, 1986, related to businesses purchased after October 31, 1970, are stated at cost, less amortization, and are amortized over periods ranging from 1 to 40 years.

Pension Plan. The Company's defined benefit pension plan covers substantially all of the Company's employees meeting eligibility requirements. Current costs are accrued and prior service costs are amortized and funded over 30 years.

Income Taxes. The provision for income taxes includes the tax effects of revenue and expense transactions included in the determination of financial statement income. Where such transactions are included in the determination of taxable income in a different year, the related tax effects are classified as deferred. Investment tax credits are recognized as reductions of the income tax provision in the period in which the equipment is placed in service or in the case of films in the period in which the films are first exhibited.

Foreign Currency Translation. Assets and liabilities are translated at the exchange rates prevailing at the translation date. Revenues, expenses, gains and losses are translated using the weighted average exchange rate for the period. Gains and losses resulting from exchange transactions are included in net earnings. Adjustments due to translation of foreign currency are included in a separate component of stockholders' equity.

Earnings Per Share. Earnings per common and common equivalent share are computed on the basis of the weighted average number of common shares outstanding during the year, plus the assumed exercise of all dilutive stock options, warrants, and the conversion of the Series A Cumulative Convertible Preferred Shares prior to actual conversion. Stock options are reflected on the "treasury stock" method, and warrants on the "if converted" method. Fully diluted earnings per share are not set forth separately because the resulting per share amounts would not be materially different from earnings per common and common equivalent share.

Reclassification. Certain amounts have been reclassified in the 1985 and 1984 consolidated financial statements to conform with the current year presentation.

SCRIPPS HOWARD BROADCASTING COMPANY

Notes to Consolidated Financial Statements
(Amounts in Thousands, Except Share Data)

1. Summary of Significant Accounting Policies

Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiary companies (Company). Investments in affiliated cable television (CATV) systems, owned 20% to 50%, are included using the equity method of accounting. All material intercompany transactions and balances are eliminated.

Goodwill and Other Intangible Assets. Goodwill represents the cost of acquisitions in excess of tangible and identifiable intangible assets received. Goodwill acquired after October 1970 is amortized using the straight-line method over forty years. Goodwill acquired before November 1970 ($6,526) is not amortized.

Other intangible assets consist principally of the costs of non-competition contracts, CATV franchises, and other identifiable intangible assets associated with acquisitions. Such assets are amortized using the straight-line method over their contractual or estimated lives.

Income Taxes. The consolidated financial statements are prepared on the accrual basis of accounting. The general books are maintained principally on the cash receipts and disbursements basis. Deferred income taxes arise principally from (1) transactions reportable in different periods for such cash-basis tax purposes than for accrual-basis accounting purposes, (2) using accelerated methods of depreciation and amortization for tax purposes, and (3) recognizing for tax purposes percentages of CATV affiliates' losses which are greater than the Company's equity percentages.

Investment tax credits are recognized in the year the related assets are placed in service.

Program Rights. Program rights represent license agreements for the right to broadcast programs and are stated at cost less amortization. Program rights are amortized generally using accelerated methods based on program usage. The portion of the unamortized balance expected to be amortized within one year is classified as a current asset. The liability for program rights fees is not discounted for imputed interest.

Property, Plant and Equipment. Depreciation is computed using the straight-line method over estimated useful lives.

Interest costs related to major construction projects and costs of connecting new CATV subscribers are capitalized and classified as property, plant and equipment.

Pension Expense. Substantially all employees are covered by a pension plan. Contributions to the plan are made in amounts, as actuarially determined, sufficient to fund benefits.

Reclassification. For comparison purposes certain 1984 and 1983 items have been reclassified to conform with 1985 classifications.

REAL ESTATE—AGENTS, BROKERS AND MANAGERS

COLDWELL BANKER REAL ESTATE GROUP
Notes to Summarized Financial Statements

Summary of Significant Accounting Policies

Basis of Presentation. The financial statements of Coldwell Banker Real Estate Group include real estate development, management, brokerage and related financial services. The Group carries its investment in joint ventures at cost plus its undistributed share of earnings and losses since inception.

Real Estate. Real estate commissions on sales are credited to income upon close of escrow or upon transfer of title. Real estate leasing commissions are credited to income generally upon occupancy by tenant. Sales and leasing commissions expense are recorded concurrently with the income transactions to which they relate. Percentage rental revenue is based on tenant sales and is recognized in the period in which the sales occur. Initial leasing costs applicable to company-owned real estate are deferred and amortized over the average life of the related leases on a straight-line basis.

REAL ESTATE—INVESTMENT TRUSTS

MORTGAGE AND REALTY TRUST
Notes to the Financial Statements

1. Significant Accounting Policies

Income Taxes. The Trust has elected to be taxed as a real estate investment trust under Section 856-860 of the Internal Revenue Code of 1954, as amended. The Trust intends to continue to qualify and to distribute substantially all of its taxable income to its shareholders. Accordingly, no provisions have been made for Federal income taxes in the financial statements.

Interest Income. Interest income on each loan is recorded as earned. Interest income is not recognized if, in the opinion of the Trustees, collection is doubtful. The Trust generally considers loans as delinquent if payment of interest and/or principal, as required by the terms of the note, is more than 60 days past due. At this point, accrual of interest income is generally terminated and foreclosure proceedings are started.

The Trust invests in participating mortgage loans which permit the Trust to receive: interest at fixed interest rates; additional interest as a participation (ranging from 35% to 50%) in gross income above a predetermined base rental amount; a portion of the net proceeds upon the sale or refinancing of the subject property; and an option to convert the participating loans into an ownership interest (ranging from 30% to 70%). To the extent that the borrower's equity during the construction and development phase is not significant, from an accounting policy standpoint, in relation to the total loan, the loans are accounted for on the equity method, similar to a real estate partnership. The Trust has deferred approximately $398,000 of interest income during the construction and development phase of certain participating loans. Such amounts will be recognized in income over the remaining terms of the subject loans when the borrower's equity is significant in relation to the total loan.

Loan Fee Income. Loan fees are recorded as income using the "interest method." Accordingly, loan fees are deferred when received and are recorded as income over the term of the loan in relation to outstanding loan balances.

Allowance for Losses on Mortgage Loans and Related Investments. The allowance for losses on mortgage loans and related investments is determined in accordance with the AICPA Statement of Position on Accounting Practices of Real Estate Investment Trusts, as amended. This statement requires adjustment of the carrying value of mortgage loans and properties acquired through foreclosure and held for sale to their estimated net realizable values. Estimated net realizable value is the estimated selling price of a property offered for sale in the open market allowing a reasonable time to find a buyer, reduced by the estimated costs to complete and hold the property (including the estimated cost of capital), net of estimated cash income. The Trustees do not expect losses to exceed the allowance established; however, the need for further additions may be necessary in the event of future deterioration of the real estate market or a significant increase in the cost of capital.

Net Income Per Share. Net income per share is computed using the weighted average common shares outstanding during each period. Equivalent common shares issuable upon conversion of debentures and stock options would not materially dilute net income per share and exercise of warrants would be anti-dilutive.

Properties Acquired Through Foreclosure and Held for Sale. Properties acquired through foreclosure and held for sale are recorded at the lower of cost or fair value at acquisition. Such properties are thereafter accounted for in the same manner as any similar asset acquired by cash investment as to depreciation and gain or loss upon sale.

Original Issue Discount and Issuance Expense. Original issue discount and issuance expense on the Senior Notes due 1995 are amortized over the life of the issue.

Depreciation. Depreciation is computed on the straight-line method over an estimated useful life of 40 years for buildings and 5 to 10 years for other property.

GOULD INVESTORS TRUST AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Significant Accounting Policies

(a) Principles of Consolidation. The consolidated financial statements include the accounts of the Trust, its majority-owned subsidiaries, and certain majority-owned affiliates. Material intercompany items and transactions have been eliminated in consolidation. Investments in 20% to 50% owned entities are accounted for by the equity method.

(b) Income Recognition. The Trust conducts periodic evaluations of its mortgage loans, and ceases to accrue interest income at such time as collection of the interest is deemed to be uncertain, or receipt of the monies is more than 90 days past due.

(c) Allowance for Possible Losses. Mortgage investments are valued at the lower of cost or net realizable value, on an individual basis. In arriving at an estimated allowance for possible loan losses numerous factors are considered, including market evaluations, underlying collateral, and the cost of money and operating cash flow from the property during the projected holding period. There can be no assurance that future events will materialize as projected. The adequacy of the allowance is predicated on the assumption that the Trust will be able to dispose of the investments in the ordinary course of business. Adjustments may be necessary in the event that effective interest rates, rent-up periods, future economic conditions, and other relevant factors vary significantly from those assumed in estimating the allowance for possible loan losses.

(d) Rental Properties. Rental properties are depreciated by the straight-line method, at rates calculated to amortize cost over estimated useful lives of 25 to 35 years for buildings and 2 to 30 years for building improvements. Expenditures which increase useful life are capitalized, while the cost of normal repairs and maintenance not chargeable to tenants is reflected in operations as incurred.

(e) Deferred Costs. Mortgage costs and leasing commissions are deferred, and amortized on a straight-line basis over the respective mortgage and lease periods.

(f) Pension Plan. The Trust maintains and pays the entire cost of several defined contribution pension plans covering eligible employees, and follows the policy of funding pension costs as accrued. Total pension expense amounted to $73,104, $104,699 and $36,023, respectively, in 1985, 1984 and 1983.

(g) Income Taxes. The Trust has elected to be taxed and qualifies for treatment as a real estate investment trust under the provisions of the Internal Revenue Code. Accordingly, the Trust is not required to pay federal income taxes on ordinary income if it distributes at least 95% of such income. The Trust presently intends to distribute all ordinary taxable income and capital gains to its shareholders. Differences exist between amounts reported for financial accounting and income tax purposes with respect to realized capital gains and the operating results of an investee partnership (Note 6). Accordingly, taxable income exceeded accounting income by approximately $900,000 in 1985, while accounting income exceeded taxable income by approximately $1,200,000 in 1984.

At September 30, 1985, a subsidiary of the Trust had net operating loss carryforwards approximating $2,379,000 available to it for application against future taxable income. The operating loss carryforwards expire as follows: $296,000 in 1994, $927,000 in 1996, and $1,156,000 in 1997.

(h) Per Share Data. Earnings per share of beneficial interest are based upon the weighted average number of such shares outstanding during the respective years, after giving appropriate effect in each year to the dividend requirements ($941,827 in 1985, $852,274 in 1984, and $8,588 in 1983) of the Trust's various series of outstanding preferred shares. The assumed conversion of the outstanding Series B preferred shares would be anti-dilutive in all years.

Subsequent to September 30, 1985, the Trust called its Series B convertible preferred shares for redemption (Note 9(b)). If conversion of the Series B preferred shares were assumed to have occurred on October 1, 1984, supplemental earnings per share of beneficial interest for the year ended September 30, 1985 would have been $3.23. Such calculation is based upon the historical weighted average number of Series B preferred shares outstanding during fiscal 1985, and reflects an adjustment to available earnings for the dividend requirement of the preferred shares.

REAL ESTATE—OPERATORS AND LESSORS

NEW MEXICO AND ARIZONA LAND COMPANY
Notes to Consolidated Financial Statements

Note 1—Summary of Accounting Policies:

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions have been eliminated.

Inventories. Supply inventories are stated at the lower of cost or market, cost being determined by the first-in, first-out method.

Properties. Properties are recorded at cost. Depreciation over the estimated useful lives is determined on the straight-line method.

Maintenance and repairs are charged to income as incurred and renewals or betterments are capitalized.

When assets are retired, the asset and accumulated depreciation are removed from the respective accounts and any profit or loss on the disposition is credited or charged to income.

Interest and other carrying costs relating to property under development are capitalized as part of the asset cost and amortized over its estimated useful life. No significant interest was capitalized in 1985, 1984 or 1983.

Investments in Joint Ventures. The Company's investments in joint ventures are accounted for on the equity method.

Land Sales and Deferred Revenue. Profits on land dispositions are recognized, subject to the collectibility of the related receivables, when the buyer's investment amounts to at least 20–25% of the sales price and the buyer remains obligated to increase this investment by a minimum amount annually. Gains on sales that do not meet these provisions are recognized on the installment basis.

Deferred revenue consists of land sales being accounted for on the installment basis and rents collected in advance. Rents collected in advance represent annual rental payments in advance of the lease year and are considered earned ratably over the lease year for financial statement purposes.

Mineral Bonuses. Bonuses are sums received from others as consideration for signing various mineral options, leases or other agreements. They are recognized as income in the year the agreement is executed.

Income Taxes. Deferred income taxes are provided primarily to recognize the difference between financial and tax reporting relating to depletion on lease bonuses received, depreciation and recognition of gains on land sales.

Investment tax credits are recorded under the flow-through method as a reduction of the current provision for income taxes.

Pension Costs. Pension costs charged to current earnings include charges for current service costs plus 10% of prior service costs as computed by independent actuaries. It is the Company's policy to fund pension costs as accrued.

Earnings per Share. The Board of Directors declared a five percent stock dividend on September 28, 1984. Earnings per share computations are based upon the weighted average number of shares outstanding during the year of 2,264,620 shares in 1985, 1984, and 1983.

Reclassifications. Certain reclassifications of prior year numbers have been made for comparative purposes.

GRUBB & ELLIS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1—Summary of Significant Accounting Policies:

Principles of Consolidation. The consolidated financial statements include the accounts of Grubb & Ellis Company, its wholly-owned subsidiaries and controlled partnerships (the Company). All significant intercompany transactions and transactions with unconsolidated real estate joint ventures accounted for under the equity method of accounting are eliminated.

Business. The Company's predominant business activity is providing real estate services and managing its real estate assets. No other business activity represents a material segment of its operations.

Basis of Revenue Recognition. Real estate sales commissions are generally recognized at the earlier of receipt of payments or close of escrow; real estate leasing commissions are generally recognized at the earlier of receipt of payments or occupancy, assuming all significant contingencies have been removed. All other commissions and fees are recognized at the time the related services have been performed by the Company, unless significant future contingencies exist.

Costs and Expenses. Commissions expense, representing salespersons' participations, is recognized concurrently with the recording of the related revenue. All other costs and expenses are recognized when incurred.

Purchase Accounting for Tax Benefits. On February 27, 1981, GMR Properties (GMR), a Massachusetts business trust, was merged into the Company. Tax benefits realized from utilization of GMR tax operating loss carryforwards or from the differences in financial and tax reporting bases of assets acquired in the GMR merger are applied pro rata as retroactive reductions of the estimated fair values of all mortgage loans receivable and real estate owned balances as of the merger date. Upon dispositions of these assets, gains or losses are determined based on the reduced bases at the times of disposition of the specific assets. As additional tax benefits are realized in years beyond the disposition dates of specific assets, the Company retroactively adjusts the bases of the assets, and therefore the gains or losses recognized, for the years of disposition. To the extent these realized tax benefits reduce the bases of acquired assets, retroactive adjustments of depreciation and amortization are made, which results in positive restatements of the results of operations, until the tax benefits have been fully utilized.

Real Estate Joint Ventures. Real estate joint ventures in which the Company has the ability to exercise significant management influence are accounted for under the equity method of accounting. Other real estate joint ventures are accounted for under the cost method of accounting. The Company records losses in excess of its carrying values in equity real estate joint ventures when it is contingently liable or intends to fund such losses. Such amounts are classified as current liabilities in the accompanying consolidated balance sheets.

Real Estate Owned. Real estate owned is carried at the lower of cost or net realizable value and includes the following:

(1) Rental properties include land, buildings and improvements. Buildings and improvements are depreciated by the straight-line method over estimated useful lives of 10 to 25 years.
(2) Real estate held for sale includes land, buildings and improvements.
(3) Land held for development and land under development include capitalized interest, property taxes and other direct costs of holding land during the development stage.

Equipment and Improvements. Equipment and improvements are carried at cost. Depreciation of equipment is computed by straight-line and accelerated methods over estimated useful lives ranging from 3 to 10 years. Improvements are amortized over the terms of the leases. Maintenance and repairs are charged to expense as incurred.

Excess of Cost Over Net Assets of Acquired Companies. Excess of cost over net assets of acquired companies, which includes additional consideration paid to the principals of these companies in the form of earn-outs, is amortized using the straight-line method over 15 to 40 years.

Taxes on Income. The Company reports certain transactions at different times for financial and tax reporting purposes, which results in deferred taxes on income when such transactions occur in years subject to income taxes. The Company uses the flow-through method in accounting for investment tax credits, whereby the provision for income taxes is reduced in the year the tax credits first become available.

Earnings per Common Share and Equivalents. Earnings per common share and equivalents computations are based on the weighted average number of common shares outstanding after giving effect to potential dilution from common stock options and common stock purchase agreements.

Reclassifications. Certain reclassifications of the 1984 and 1983 consolidated financial statements have been made to conform to the 1985 presentation.

INTERNATIONAL INCOME PROPERTY INC.
Notes to Financial Statements

1. Significant Accounting Policies

a. Percentage Rental Income. The majority of the shopping center leases provide for additional rentals based on percentages of the gross revenues of the respective tenants. The Company accrues percentage rental income based on tenants' sales for the most recent twelve-month period as reported monthly by the tenants.

b. Depreciation. Depreciation of buildings and improvements is computed on the straight-line method for financial reporting and Federal income tax purposes. Such property is depreciated over the estimated useful lives of its components, ranging from 10 to 30 years. Tenant improvements are capitalized and amortized over the terms of the leases. Maintenance and repairs are charged to property operating expenses. Additions and improvements are capitalized. Gain on disposition of buildings and improvements is credited to profit and loss in the period of disposition.

c. Share Offering Costs. Costs incurred in connection with the sale of shares of the Company are deducted from the proceeds of such sale.

d. Acquisition Costs. Costs associated with the acquisition of investments including legal fees, title costs and brokerage fees are capitalized.

e. Investments in Joint Ventures. Investments of 50% or less in joint ventures are accounted for on the equity method of accounting. Under the equity method, the initial investment is recorded at cost; thereafter, such carrying value is increased by the Company's share of current earnings and additional investments and decreased by the share of current losses and cash distributions.

f. Income Taxes. The Company has elected to file its income tax returns on the cash basis rather than the accrual basis used for financial reporting purposes.

REAL ESTATE—SUBDIVIDERS, DEVELOPERS AND OPERATIVE BUILDERS

ORIOLE HOMES CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Oriole Homes Corp. (the Company) and all of its subsidiaries which are wholly-owned except South Florida Mortgage Company, a wholly-owned mortgage subsidiary which is accounted for by the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

Inventories. Land and houses and apartment inventories are carried at cost, plus accumulated development and construction costs, (including interest and real estate taxes) and estimated costs to complete. Houses and apartments include $7,593,507 in 1985 and $12,547,489 in 1984, which are complete and being held for sale. The accumulated costs of land and houses and apartments are not in excess of estimated net realizable value.

Depreciation. The Company provides for depreciation of property and equipment principally by the straight-line method over the following estimated useful lives of the various classes of depreciable assets:

Buildings	25 to 30 years
Furniture, fixtures and equipment	3 to 5 years

Revenues. The Company records revenues from sales of real estate in accordance with Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate."

Debt Issuance Costs. Costs incurred in connection with the issuance of senior sinking fund and subordinated debentures have been deferred and are being amortized by the straight-line method over the terms of the debentures.

Reclassification of Financial Statements. Certain amounts reported in previous financial statements have been reclassified for years prior to 1985 to conform to the current presentation.

Earnings per Share. In 1985, 1984 and 1983, earnings per common share were computed by dividing net income by the weighted average number of shares outstanding each year, 3,940,667 shares in 1985, 3,954,267 shares in 1984 and 3,992,342 shares in 1983. Common stock equivalents did not enter into the computation as the effect would be insignificant.

MAJOR REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Consolidation. The consolidated financial statements include the accounts of Major Realty Corporation and all subsidiaries more than 50% owned ("Company"). Significant intercompany accounts and transactions have been eliminated.

Business Operations. The Company operates within the State of Florida in the real estate industry. The Company is engaged in the development, brokerage, leasing and sale of real estate.

Recognition of Sales. Sales of real estate generally are recorded under the accrual method. Under this method, profit is not recognized until the collectibility of the sales price is reasonably assured and the earnings process is virtually complete. When the sale does not meet the requirements for recognition of income, profit is deferred until such requirements are met.

Generally, collectibility of the sales price is considered assured for this purpose if there is a cash down payment of 20% or more. The earnings process generally is considered virtually complete when the sale has closed, the cash down payment has been received, the mortgage note receivable is not subject to existing or future subordination and the Company has no continuing involvement in the property that results in the retention of substantial risks or rewards of ownership.

Change in Fiscal Year. Effective December 31, 1985, the Company changed its fiscal year-end from May 31 to December 31.

Cost of Real Estate Held. Real estate is carried at cost, including capitalized interest and real estate taxes, but not in excess of management's estimate of net realizable value. Real estate and real estate development costs are allocated to individual parcels and charged to cost of real estate sold on a basis approximating the relative sales value method.

Capitalization of Interest. The Company capitalizes interest on real estate undergoing development activities in accordance with the provisions of the Statements of Financial Accounting Standards Nos. 34 and 58.

Depreciable Property. Real estate held for lease is carried at cost and is depreciated based on the straight-line method over the estimated useful life of 18 years.

Property and equipment are carried at cost and are depreciated based on the straight-line method over the estimated useful lives of the assets ranging from 5 to10 years. Upon retirement or sale, the original cost of the asset and the related accumulated depreciation are relieved from the accounts and the resulting gain or loss is reflected in operations. Expenditures for maintenance, repairs, and minor renewals are charged to operations when incurred.

Deferred Debt Expense. Debt expense is being amortized over the life of the related debt on a basis approximating the interest method.

Earnings or Losses Per Common Share. Primary earnings or losses per common share are computed by dividing net income or loss by the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Common stock equivalents include shares issuable upon the exercise of employee stock options net of shares assumed to have been purchased from the proceeds. For the years ended December 31, 1985, and May 31, 1985 and 1984 the effect of the outstanding stock options is dilutive but is not material and has not been included in the computation. The weighted average number of shares used in calculating primary earnings or loss per common share were 5,937,950 for the year ended December 31, 1985; 5,941,354 for the seven months ended December 31, 1985; and 5,913,350, 5,878,016 and 5,853,540 for the years ended May 31, 1985, 1984 and 1983, respectively.

Fully diluted earnings per common share for the year ended May 31, 1984 assumes, in addition to the above, that the 10¾% convertible subordinated debentures were converted into common stock at the date of issuance, with net income being increased for interest cost not capitalized thereon, net of taxes, in the amount of approximately $396,500 and the additional dilutive effect of stock options. The number of shares used in calculating fully diluted earnings per common share in 1984 was 6,998,574 shares.

For the year ended December 31, 1985; for the seven months ended December 31, 1985; and for the years ended May 31, 1985 and 1983 the effects of the outstanding options and the convertible debentures are antidilutive or immaterial and have not been included in the computation of fully dilutive earnings per share.

Income Taxes. The Company files consolidated federal and state income tax returns. The provision for income taxes recognizes the tax effects of transactions in the year they enter into the determination of net income or loss, regardless of when they are recognized for tax purposes. Investment tax credits reduce applicable federal income taxes for the period in which the property is put into service.

SELIGMAN & ASSOCIATES, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Financial Statements

Note 1. The Activities and Related Accounting Policies of the Company:

The company and its subsidiaries are engaged in construction of rental apartments, single-family and multiple-family residential construction, rental property management, mortgage banking and savings and loan operations. In addition to construction and sale of single-family homes, the company develops and sells multiple-family rental projects to affiliated partnerships in which it is the general partner and operates such projects after sale for a management fee.

Consolidation. The consolidated financial statements include the accounts of all subsidiaries, except the wholly owned mortgage banking subsidiary, Mid-States Mortgage Corporation (see Note 11), and the 95.5 percent owned savings and loan subsidiary, Sterling Savings and Loan Association, formed in fiscal 1984 (see Note 12), which are included on an equity basis. All significant intercompany transactions among consolidated subsidiaries have been eliminated.

Revenue Recognition. Sales of single-family homes are recorded when construction is completed and title passes. Income from sales of multiple-family rental projects is recognized on the installment basis. Income from construction under long-term contracts for construction of multiple-family rental projects is recognized on the percentage of completion basis. Under this method, the allocable portion of total estimated income on a project, based on work performed and costs incurred, is recorded as income. Substantially all revenues from sales of multiple-family rental projects and property management are derived from transactions with affiliated entities.

Multiple-Family Housing. The company commenced construction on an apartment complex located in Chesterfield Township, Michigan in August 1984. The project is owned by a limited partnership in which a subsidiary of the company is the general partner and private investors, including officers of the company, are the limited partners. No income has been recognized to date as the project is not sufficiently complete to allow reasonable estimation of the ultimate profit.

Inventories. Inventories are stated at the lower of cost or net realizable value (estimated selling price less costs of completion and disposal). Costs of homes and improved lots in production are determined by accumulating the costs of raw acreage, land improvements, direct construction costs and related interest and property taxes. Amounts are removed from inventories by specific identification.

Property Taxes and Interest. The company capitalizes property taxes and interest on inventories from the date development commences through the completion of development and construction. Interest capitalized in 1983 was $18,900.

Income Taxes. The company provides for deferred income taxes on timing differences between financial and tax reporting. These differences primarily result from expensing for tax purposes certain interest and property tax costs capitalized for financial reporting, limited partnership losses recognized for tax but not financial reporting and differences between the reporting of gains on the sale of apartment complexes for tax and financial reporting purposes.

Investment tax credits are treated as a reduction of tax expense in the year in which they are utilized.

The company joins with its subsidiaries in filing consolidated income tax returns. The income tax provisions for the company's unconsolidated subsidiaries are determined by applying the U.S. federal statutory income tax rate to financially reported pre-tax income after considering non-taxable items.

RETAILING COMPANIES

F.W. WOOLWORTH CO.

Summary of Significant Accounting Policies

Consolidation. The consolidated financial statements include the accounts of the Company and all wholly owned domestic and foreign subsidiaries. All subsidiaries' results are based on fiscal years ending January 31, except for the German and Australian subsidiaries whose fiscal years end December 31.

Earnings Per Share. Primary earnings per share is computed on the basis of the weighted average number of shares outstanding giving effect to dilutive stock options. Fully diluted earnings per share gives effect to the assumed conversion of convertible preferred stock and the effect of dilutive stock options.

Foreign Currency Translation. In accordance with Statement of Financial Accounting Standard No. 52, all assets and liabilities have been translated at the exchange rates prevailing at the respective balance sheet dates, and all income statement items have been translated using the weighted average exchange rates during the respective years. The gains and losses resulting from translating assets and liabilities at current rates are reported in shareholders' equity. Gains and losses from foreign currency transactions are reported in income.

Merchandise Inventories. Inventories are valued at the lower of cost or market using the retail method for merchandise in stores and warehouses. Cost is determined on the last-in, first-out (LIFO) basis for most domestic inventories, and the first-in, first-out (FIFO) basis for foreign inventories.

Properties. Significant additions and improvements to properties are capitalized; maintenance and repairs are charged to current operations as incurred.

Depreciation and Amortization. Owned buildings and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. The principal annual rates of depreciation are 2% to 3% for buildings and 7% to 33% for furniture, fixtures, and equipment. Leased properties under capital leases and improvements to leased premises are amortized on a straight-line basis over the lesser of the life of the asset or the term of the lease.

Store Preopening Costs. Store preopening costs are charged to expense in the year incurred.

Income Taxes. United States investment tax credits are accounted for under the "flow-through" method and are thus applied as a reduction of income tax expense for the period in which expenditures create the tax benefit.

Leases on Closed Facilities. Estimated future costs of leases on closed facilities are recognized in the period in which the determination to close is made. These costs represent the present value of expenditures for rents, real estate taxes, and other occupancy costs, reduced by the present value of estimated income from subtenant leases.

Discontinued Operations. In 1982 the Company discontinued its U.S. Woolco operations and sold its 52.6% interest in its British subsidiary. These businesses have been accounted for as discontinued operations since September 24, 1982 and October 31, 1982, respectively.

SAFEWAY STORES, INCORPORATED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

Fiscal Year. The fiscal year for Safeway Stores, Incorporated (the company) and its Canadian subsidiary ends on the Saturday nearest December 31. The fiscal year of the company's United Kingdom subsidiary ends on the Saturday nearest September 30, to allow sufficient time to gather information for U.S. reporting purposes.

Basis of Consolidation. The consolidated financial statements include the accounts of all significant subsidiaries. All intercompany transactions have been eliminated in consolidation. Investments in affiliates which are not majority owned are included in the financial statements at the company's equity therein.

Translation of Foreign Currencies. Assets and liabilities of the company's foreign subsidiaries are translated into U.S. dollars at fiscal year-end rates of exchange, and income and expenses are translated at average rates during the year.

Translation adjustments are included in "cumulative translation adjustments," a separate component of stockholders' equity. Gains or losses from foreign currency transactions (transactions denominated in a currency other than the entity's local currency) are included in income. In 1985, foreign currency transactions resulted in a gain of $0.9 million compared with losses for 1984 and 1983 of $2.4 and $2.5 million, respectively.

Provision for Income Taxes. The provision for income taxes recognizes the tax effect of all transactions entering into the determination of income for financial statement reporting purposes irrespective of when such transactions are reportable for income tax purposes. Deferred income taxes are provided to recognize differences in the timing of income and expense for tax and financial reporting purposes. Investment tax credits reduce the provision for income taxes in the year in which the credits arise.

Merchandise Inventories. Approximately 68 percent of consolidated merchandise inventories are valued on a last-in, first-out (LIFO) basis at December 28, 1985. Inventories not valued on a LIFO basis are valued at the lower of cost on a first-in, first-out (FIFO) basis or replacement market. Inventories on a FIFO basis include meat and produce in the U.S. and all inventories of foreign subsidiaries.

Application of the LIFO method resulted in a $5.6 million credit to cost of sales in 1985, a $29.3 million charge in 1984 and a $0.4 million credit in 1983. In all three years, fourth-quarter adjustments reduced the LIFO charges accumulated through the first 36 weeks of the year to reflect the actual impact of applying the LIFO method for the full year as determined at year-end. The adjustments increased fourth quarter pretax earnings by $29.8 million in 1985, $2.4 million in 1984 and $23.8 million in 1983.

Property and Depreciation. Property is stated at historical cost. Interest incurred in connection with construction in progress is capitalized. Depreciation is computed for financial reporting purposes under the straight-line method using the following lives:

Stores and other buildings	20–40 years
Fixtures and equipment	3–20 years
Transport equipment	6–14 years

Leasehold improvements include buildings constructed on leased land and improvements to leased buildings. Buildings and major improvements are amortized under the straight-line method over the shorter of the remaining period of the lease or the estimated useful lives of the assets.

Property under capital leases is amortized under the straight-line method over the terms of the leases. Accumulated amortization of property under capital leases was $493.9, $515.2 and $502.9 million at year-ends 1985, 1984 and 1983, respectively.

Depreciation and amortization expense for property of $331.3 million in 1985, $293.7 million in 1984 and $263.4 million in 1983 included amortization of property under capital leases of $53.8, $54.9 and $55.2 million, respectively.

Pre-Opening Costs. Costs related to opening new stores are expensed as incurred.

Self-Insurance. The company is self-insured for workers' compensation, automobile and general liability costs. The self-insurance liability is based upon a review by the company and an independent actuary of claims filed and an estimate of claims incurred but not yet filed.

The company is also self-insured to provide post-retirement health care and death benefits to retirees. The cost of these benefits is recognized as expense as claims are paid.

Net Income Per Share. Net income per share is determined by dividing consolidated net income by the average number of common shares outstanding during the year.

Reclassifications. Certain amounts for 1984 and 1983 have been reclassified to conform with 1985 presentation.

THE GAP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

The Company is a nationwide specialty retailer selling casual and contemporary wearing apparel. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany accounts have been eliminated.

Marketable securities consist of short-term positions in tax exempt municipal bonds, and approximate market value.

Inventories are stated at the lower of FIFO (first-in, first-out) cost or market.

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the asset or lease terms.

Goodwill is being amortized over periods ranging from 10 to 20 years. Lease rights and interests acquired are being amortized over the lives of the respective leases.

Costs associated with the opening of new stores are charged against earnings as incurred.

Deferred income taxes result primarily from timing differences in the deduction for tax purposes of state income taxes, rent expense under capital lease obligations and Voluntary Employee Beneficiary Association contributions; and from the use of accelerated depreciation for tax purposes. Investment tax credits reduce taxes in the year in which they are realized.

Earnings per share are based upon the average number of shares of Common Stock and, when material, common stock equivalents outstanding during the period. Common stock equivalents are the shares contingently issuable upon exercise of stock options. The number of shares outstanding has been restated to reflect the two-for-one split of the Company's Common Stock to shareholders of record on December 6, 1985.

Certain reclassifications have been made to the fiscal 1984 financial statements to conform to classifications used in fiscal 1985.

CRAZY EDDIE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

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2—Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all of its subsidiaries (collectively referred to as Crazy Eddie, Inc. or the Company), all of which are wholly owned.

Inventories. Merchandise inventories are stated at the lower of cost, using the first-in, first-out (FIFO) method, or market. Purchase discounts and trade allowances are recognized when received.

In accordance with industry practice, a substantial portion of the merchandise inventory has been purchased from suppliers under credit terms which grant the creditor a security interest in the inventory through the use of trust receipts.

Property, Plant and Equipment. Property, plant and equipment are carried at cost. Depreciation and amortization are computed using the straight-line method, based on the estimated useful lives of the assets. The rates used are as follows:

Building	5%
Furniture and fixtures including capitalized equipment leases and warehouse equipment	10%–20%
Automobiles and trucks	33⅓%
Leasehold improvements	Lesser of life lease or useful life of improvement

Pensions. The Company funds currently the costs of its noncontributory pension plans, which cover eligible employees.

Unearned Service Contract Revenue. Payments received from customers for service contracts are deferred and amortized into income over the terms of the respective contracts, which generally do not exceed five years. Service costs relating to the service contracts are charged to operations as incurred.

Income Taxes. The Company files a consolidated federal income tax return with its subsidiaries.

Investment tax credits are accounted for as a reduction of income tax expense in the year in which such credits are allowable for income tax purposes. Deferred income taxes are provided for timing differences between financial and tax reporting primarily with respect to the reporting of unearned service contract revenue and deferred compensation in connection with the granting of nonqualified stock options.

Pre-Opening Costs. Costs incurred in connection with the opening of new stores are expensed as incurred.

Earnings Per Share. Earnings per share were computed by dividing net income by the weighted average number of shares of outstanding common stock, after giving retroactive effect to the two for one stock split effected in the form of a dividend approved by the stockholders on July 16, 1985.

RITE AID CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Fiscal Year. The corporation's fiscal year ends on the Saturday closest to February 29 or March 1. The fiscal years ended March 1, 1986 and March 2, 1985 contained 52 weeks whereas the fiscal year ended March 3, 1984 contained 53 weeks.

Principles of Consolidation. The consolidated financial statements include the accounts of the corporation and all of its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. The investments in and operating results of 50% or less owned companies are included in the statements on the basis of the equity method of accounting.

Inventories. Inventories are stated at the lower of cost or market. The corporation uses the last-in, first-out (LIFO) method of accounting for substantially all retail inventories. Other inventories are determined on a first-in, first-out (FIFO) method.

Intangible Assets. The excess of cost over underlying equity in subsidiaries (goodwill) purchased after October 31, 1970, is being amortized on a straight-line basis over 40 years. Goodwill purchased prior to November 1, 1970 ($1,834,000), is considered to have continuing value over an indefinite period and is not amortized. Lease acquisition costs incurred principally for the purchase of new and existing store locations are generally being amortized over the terms of the leases on a straight-line basis.

Pre-Opening Expenses. Expenditures of a non-capital nature incurred prior to the opening of a new or remodeled store are charged against earnings as administrative and general expenses when incurred.

Income Taxes. Provision for federal and state income taxes is based on income recorded in the financial statements. The provision includes deferred income taxes arising from timing differences between amounts reported for financial accounting and income tax purposes. Investment tax credits reduce the provision for federal income tax in the fiscal period in which the credit is realized. Purchased tax credits and deductions are off-set against the purchase cost.

Retirement Plans. The corporation's policy is to fund pension costs accrued. Pension costs charged to operations include current year service costs and the amortization of prior years' service costs over periods ranging from 30 to 40 years.

Net Income Per Share. Net income per common share has been computed based on the weighted average number of shares of common stock outstanding during the period (41,235,000 in 1986, 41,279,000 in 1985 and 42,169,000 in 1984).

TELEPHONE COMMUNICATION COMPANIES

THE OHIO BELL TELEPHONE COMPANY
Notes to Financial Statements
(Dollars in Millions)

The Company is a wholly-owned subsidiary of Ameritech. Ownership of the Company was transferred from AT&T effective January 1, 1984. The transfer was made pursuant to the terms of a consent decree requiring AT&T to divest those parts of the Bell System operating telephone companies that provide exchange telecommunications, network access and printed directory advertising services.

(a) Accounting Policies

The financial statements of the Company reflect the application of the accounting policies described in this Note and in Note (c) to Financial Statements.

Purchases from Affiliates. The Company purchases certain equipment and services from Ameritech Services, Inc. ("ASI"), a centralized procurement subsidiary in which the Company has a 21% ownership interest. During 1985 and 1984 purchases from ASI were $80.7 and $63.9, respectively.

Telephone Plant and Depreciation. Telephone plant is stated at original cost. The original cost of telephone plant acquired from ASI includes a return on investment to ASI.

The provision for depreciation is based principally on the straight-line remaining life method of depreciation, which provides for the full expensing of the investment in telephone plant over its useful life. Rates are determined for various plant categories using either vintage group or equal life group procedures.

When depreciable plant is retired, the amount at which such plant has been carried in telephone plant in service is charged to accumulated depreciation.

The cost of maintenance and repairs of plant is charged to expense.

Investments. The Company's investments in ASI (21% ownership), Ohio Bell Communications, Inc. (100% ownership) and The Champaign Telephone Company (50% ownership) are carried at equity. All other investments are carried at cost.

Material and Supplies. Inventories of new and reusable material and supplies are stated principally at average original cost, except that in the case of certain large individual items cost is determined on a specific identification basis. Non-reusable material is carried at estimated salvage value.

Interest Charged Construction. Regulatory authorities allow the Company to accrue interest as a cost of constructing certain plant and as an item of income, i.e., interest charged construction. Such income is not realized in cash currently but will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

Federal Income Taxes. The Company is included in the consolidated Federal income tax return filed by Ameritech and its subsidiaries. Consolidated income tax currently payable has been allocated to the Company based on the Company's contribution to consolidated taxable income and tax credits.

Deferred income tax expense is provided on differences in the timing of reporting income and expense for book and tax purposes except when such income taxes are not treated as current expenses for rate-making purposes. Timing differences relate principally to the deferral of certain construction related expenses in accordance with regulatory accounting practices, the use of accelerated depreciation methods and lives and the recording of vacation pay, deferred compensation, certain property taxes and a portion of Ohio gross receipts tax. As of December 31, 1985, the cumulative timing differences for which deferred income tax expense has not been provided amount to $173.9 and relate principally to the deferral of construction related expenses.

Reductions in tax expense resulting from investment tax credits are deferred and amortized as reductions in tax expense over the life of the plant which gave rise to the credits.

Under provisions of the Federal tax law, a portion of the Company's current tax liability is reduced and the amounts involved are contributed currently to an employee stock ownership plan ("ESOP").

CONTINENTAL TELECOM INC.
Notes to Financial Statements

1. Summary of Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Continental Telecom Inc. ("the Company") and all significant subsidiaries, except for Contel Credit Corporation, a wholly owned finance and leasing subsidiary, which is accounted for on the equity basis. Condensed financial information for Contel Credit Corporation is shown in Note 5.

The consolidated statements give retroactive effect to companies acquired in transactions accounted for as poolings of interests. Revenues and expenses for prior periods have been reclassified to conform with 1985 classifications.

Other Investments. Investments in 20 percent to 50 percent owned companies are accounted for on the equity basis. Prior to the acquisition of the remaining 50% interest in American Satellite Company ("ASC") and Space Communications Company ("Spacecom"), the Company's investment in these partnerships was accounted for by the equity method. As a result of the acquisition, the 1985 financial statements reflect the accounts of ASC and Spacecom since acquisition on a fully consolidated basis. The purchase of ASC and Spacecom is discussed more fully in Note 3.

Goodwill. At December 31, 1985, the Company's cost of investments in subsidiaries was $75,409,000 in excess of underlying book values at dates of acquisition and is classified as such under "Investments and Other Assets" in the accompanying consolidated balance sheets. Such cost applicable to acquisitions initiated prior to November 1970 ($45,079,000) is not being amortized since, in the opinion of management, there has been no diminution in value. The remaining cost is being amortized on a straight-line basis over twenty to forty-year periods.

Long-Term Contracts. Income on long-term contracts is recognized on the percentage-of-completion basis. Accordingly, revenue is recognized in the ratio of costs incurred to estimated total costs. Costs to complete are reviewed periodically and revised as required. Provisions are made for the full amount of losses, if any, on all contracts in the period in which they are determined.

Long-term contract receivables consist of the following:

(Thousands of Dollars) December 31,	1985	1984
Accounts Receivable:		
Billed	$ 32,364	$17,873
Unbilled	47,595	22,464
Retainage	3,840	1,888
	83,799	42,225
Other Assets (non-current receivables)	31,144	—
	$114,943	$42,225

The 1985 balances reflect the consolidation of Spacecom. Substantially all retained balances are collectible within one year.

Affiliated Transactions. Revenues reported by non-telephone operations include sales to the telephone subsidiaries which amounted to $141,493,000, $158,270,000 and $134,758,000 for 1985, 1984 and 1983, respectively. In management's opinion, prices billed to the telephone subsidiaries compare favorably with prices the subsidiaries could obtain from other sources under comparable conditions.

Depreciation. The telephone operating subsidiaries provide for depreciation using composite straight-line rates which amounted to 7.1 percent, 7.0 percent and 6.9 percent of average depreciable property for 1985, 1984, and 1983, respectively. Other subsidiaries also record depreciation on a straight-line basis.

Earnings Per Share. Earnings per common share have been computed using the weighted average number of common shares outstanding, adjusted for common stock equivalents. Fully diluted earnings per share give effect to the conversion of all convertible securities.

Cost of Funds Used During Construction. The cost of funds used during construction, which amounted to $4,319,000, $1,944,000 and $1,203,000 for the years 1985, 1984 and 1983, respectively, represents the approximate current cost of new funds and historical cost of embedded funds applicable to construction of property, plant and equipment. The rate used to capitalize the cost of funds varies by company based upon the cost of such funds for each company.

MCI COMMUNICATIONS CORPORATION AND SUBSIDIARIES
Notes to Financial Statements

Note 1. Significant Accounting Policies

Principles of Consolidation. The financial statements include the consolidated accounts of MCI Communications Corporation and its subsidiaries (collectively, the Company). All significant intercompany transactions are eliminated in the financial statements.

Revenue. The Company records as revenue the amount of communications services rendered as measured by the minutes of traffic processed after deducting an estimate of the traffic which will either not be billed or collected.

Communications System. The investment in communications system is recorded at cost including material, interest, labor and overhead. The costs of construction and equipment are transferred to communications system in service as construction projects are completed and/or equipment is placed in service. Depreciation is recorded commencing with the first full month that the assets are in service and is provided using the straight-line method over their estimated useful lives. The weighted average depreciable lives of the assets comprising the communications system in service approximate twelve years. Other property and equipment includes land, buildings and other assets that are depreciated using lives up to twenty-five years. The cost of equipment retired in the ordinary course of business, less proceeds, is charged to accumulated depreciation. Maintenance and repairs are charged to expense as incurred.

Provision for Decline in Value of Communications Equipment. During 1985 and 1984, the Company recorded a provision against pretax earnings of $153.8 million and $49.8 million, respectively, reflecting the decline in value of certain of its communications equipment. The provision recognizes the equipment's diminution in value caused by the accelerated pace of technological change and aggressive capacity expansion brought about by increasing competition in the telecommunications industry. These events require that certain equipment will need to be replaced sooner than originally anticipated. The provision has been included in accumulated depreciation.

Capital Leases. Certain of the Company's lease obligations meet the criteria of a capital lease. These obligations are recorded for financial reporting purposes at the present value of the future lease payments, including estimated bargain purchase options, discounted at the approximate interest rate implicit in the leases. A corresponding amount is capitalized as the cost of the equipment and depreciated over the estimated useful lives of the equipment, which are generally longer than the terms of the leases.

Income Taxes. The Company files a consolidated Federal income tax return on a March 31 year end basis. Deferred income taxes are provided on transactions which are reported in the financial statements in different periods than for income tax purposes. Investment tax credits are recorded under the flow-through method of accounting.

Earnings Per Common Share. Primary earnings per share are computed on the basis of the weighted average number of shares of common stock outstanding during each year, plus common stock equivalents arising from the assumed exercise of warrants and stock options, if dilutive. The weighted average number of shares used in the primary computation for each of the years was: 1985—234,920,727; 1984—234,025,124 and 1983—229,163,427.

Fully diluted earnings per share include additional adjustments for the assumed exercise of stock options and shares applicable to convertible subordinated debt securities that were converted during 1983. Convertible subordinated debt securities outstanding at the end of 1985, 1984 and 1983 are not classified as common stock equivalents and have not been included in the computations since their effect is not dilutive. The weighted average number of shares used in the fully diluted computation for each of the years was: 1985—235,181,777; 1984—234,025,124 and 1983—232,210,304.

TRANSPORTATION COMPANIES—AIR

AMERICA WEST AIRLINES
Notes to Financial Statements

1. Summary of Significant Accounting Policies

The Company was incorporated in Delaware on September 4, 1981 and was engaged in development stage and preoperating activities until August 1, 1983, when scheduled airline service began.

Expendable Spare Parts and Supplies. Flight equipment expendable spare parts and supplies are valued at average cost. Allowances for obsolescence are provided, over the estimated useful life of the related aircraft and engines, for spare parts expected to be on hand at the date the aircraft are retired from service.

Property and Equipment. Property and equipment is stated at cost, including interest capitalized on advance payments for aircraft acquisitions and on expenditures for aircraft improvements during reconfiguration. Property and equipment is depreciated to residual values over the estimated useful lives using the straight-line method. Interest capitalized was $503,000 in 1985 and $1,074,000 in 1984. No interest was capitalized in 1983.

The estimated useful lives for the Company's property and equipment range from three to twelve years for owned property and equipment and fourteen to sixteen years for owned aircraft, jet engines, flight equipment and rotable parts. The Company's general office facility is depreciated over a thirty-year period. Leasehold improvements relating to flight equipment and other property on operating leases are amortized over the life of the lease or the life of the asset, whichever is shorter. In 1984, the Company amended its estimates of useful life and residual value for owned aircraft, spare jet engines and rotable parts which had no material effect on the results of operations.

Routine maintenance and repairs are charged to expense as incurred. The cost of scheduled airframe and engine overhauls are capitalized and amortized over the periods benefited. Additionally, provision is made over the lease term for the estimated cost of scheduled airframe and engine overhauls required to be performed on leased aircraft prior to their return to lessors.

Revenue Recognition. Passenger revenue is recognized when the transportation is provided. Ticket sales for transportation which has not yet been provided are reflected in the financial statements as air traffic liability.

Passenger Traffic Commissions. Passenger traffic commissions are expensed when the transportation is provided and the related revenue is recognized. Passenger traffic commissions not yet recognized are included as a prepaid expense.

Income Taxes. For all significant items where there is a timing difference between financial and income tax reporting, deferred taxes will be provided after benefits resulting from net operating loss carryforwards are utilized.

The Company will recognize investment tax credits by use of the flow-through method.

Per Share Data. Primary net income (loss) per common share is based on the weighted average number of common shares outstanding during the period. To the extent that they are dilutive, outstanding options and warrants are included in the calculation. Net income (loss) applicable to common stock has been adjusted for preferred stock dividends of $2,377,000 in 1985, $2,019,000 in 1984 and $218,000 in 1983.

Fully diluted net income (loss) per common share is not presented since it is anti-dilutive or immaterial.

Reclassification. Certain 1984 and 1983 amounts have been reclassified to conform to the 1985 presentation.

ALASKA AIR GROUP, INC.
Notes to Consolidated Financial Statements
December 31, 1983, 1984 and 1985

Note 1. Summary of Accounting Policies

Basis of Presentation. The consolidated financial statements include the accounts of Alaska Air Group, Inc. (Air Group) and Alaska Airlines, Inc. (the Airline). All significant intercompany transactions have been eliminated.

Property, Equipment and Depreciation. Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives, which are as follows:

Buildings	10–30 years
Capitalized leases and leasehold improvements	Term of lease
Flight equipment—	
Boeing 727-100 (B727-100)	10 years
Boeing 727-200 (B727-200)	10–14 years
Boeing 737-200C (B737-200C)	14 years
McDonnell Douglas-83 (MD-83)	18 years
Other equipment	3–15 years

Assets and related obligations for equipment under capital leases are initially recorded at an amount equal to the present value of the future minimum lease payments using interest rates implicit within the leases. Interest expense is accrued on the outstanding balance of capital lease obligations.

Costs of airframe and engine overhauls are capitalized when incurred and amortized over their estimated period of use. Costs of ordinary maintenance and repairs are expensed as incurred.

Capitalized Interest. Construction period interest is capitalized on flight equipment purchase deposits and ground facilities progress payments as an additional cost of the related asset and is depreciated over the useful life of the asset.

Expendable Parts. An allowance for obsolescence of flight equipment expendable parts is accrued on a straight-line basis over the useful lives of the aircraft.

Deferred Charges. Deferred charges include costs applicable to long-term debt, which are amortized over the debt term, and training costs related to the introduction of MD-83's, which are being amortized over three years ending in January 1988.

Deferred Credits. Deferred credits include gains of $6,043,000 on the sale of purchase agreements to lessors covering four MD-83's in 1985, which are being amortized over 15½ to 18 years.

Passenger Revenues. Passenger revenues are considered earned at the time transportation service is provided. Tickets sold but not yet used are included in Air traffic liability.

Earnings Per Share. Primary earnings per share is calculated by dividing net income by the average number of common shares and dilutive common equivalent shares outstanding during the year. Common equivalent shares result from the assumed exercise of stock options and warrants. Fully diluted earnings per share also reflects the conversion of convertible subordinated debentures.

Income Taxes. Income taxes are provided at current tax rates in the consolidated statement of income regardless of the years when income and expenses are reported for tax purposes. The flow-through method of accounting is used for investment tax credit.

Reclassifications. Certain reclassifications have been made in prior years' consolidated financial statements to conform to the 1985 presentation.

Segment Information. Air Group's only subsidiary, the Airline, operates within one industry (air transportation). Accordingly, no segment information is provided.

WABASH RAILROAD COMPANY
(A Majority-Owned Subsidiary of Norfolk and Western Railway Company)
Notes to Financial Statements
(The Following Notes Are an Integral Part of the Financial Statements.)

1. Summary of Significant Accounting Policies

Income from Lease of Road and Equipment. The Wabash Railroad Company (Wabash) railroad facilities and certain other properties are leased to Norfolk and Western Railway Company (NW). Revenue from this lease is recognized as it accrues over the life of the lease under the operating method.

Operations of the Company. All railway operations pertaining to Wabash's railroad facilities, including taxes and depreciation, are recorded in the accounts of NW through the settlement account. Depreciation is based on the straight-line method at rates established by the Interstate Commerce Commission (ICC). Capital expenditures on Wabash's properties by NW become the property of Wabash and an indebtedness of Wabash to NW. Other income and expense, principally that arising from sale of property and interest expense, are recorded in the accounts of Wabash.

NW's Ownership of Capital Stock. Pursuant to authorization of the ICC, NW issued 671,692 shares of its common stock to Pennsylvania Company on March 31, 1970, in exchange for 595,255 shares of Wabash Common Stock (99.5 percent of the outstanding common shares). NW's ownership had increased to 597,223 and 597,204 shares, or 99.8 percent, at December 31, 1985 and 1984, respectively.

NW owned 6,500 shares of Wabash Preferred Stock (2.0 percent of the outstanding preferred shares) at December 31, 1985. The preferred stock is cumulative with respect to preference on common stock dividends.

BURLINGTON NORTHERN, INC.

Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Burlington Northern Inc. (the "Company") and its majority-owned subsidiaries, except for Southland Royalty Company ("Southland") and a wholly owned commercial real estate development subsidiary, which are accounted for by the equity method. All significant intercompany transactions have been eliminated. Results of operations for 1983 include The El Paso Company ("El Paso") on the equity method of accounting.

Recoverable Excess Gas Costs. The differences between actual purchased gas costs and the averages of these costs included in currently effective gas sales rates of El Paso Natural Gas Company ("EPNG") are deferred and amortized to income in the period in which they are recovered through surcharges in gas sales rates permitted by the Federal Energy Regulatory Commission ("FERC"). The surcharges are adjusted at six-month intervals by filings with the FERC.

Property. Railroad properties are depreciated over estimated service lives using a composite units-of-production method based on gross ton miles for rail and other track materials and straight-line for all other transportation properties. Railroad equipment is depreciated on a straight-line basis over its estimated useful life. Included in the cost of natural gas transmission properties, as permitted by FERC regulations, is an allowance for both debt and equity funds used during construction. These properties are depreciated on a straight-line composite method over their estimated useful lives. All properties are stated at cost. Additions are capitalized and repairs and maintenance expenditures are charged to operations. When transportation and natural gas transmission properties are sold or retired, the cost less net salvage value is deducted from accumulated depreciation. Gains or losses from disposal of all other properties are recognized currently, except for oil and gas properties.

Oil and Gas. The Company uses the full cost accounting method for all oil and gas properties. Under full cost accounting, all exploration and development costs for evaluated properties are capitalized and amortized by the units-of-production method based on the properties' total proved oil and gas reserves.

Material, Supplies and Inventories. Materials and supplies, which account for approximately 61 percent of material, supplies, and inventories, are valued at the lower of average cost or market. Inventories held for sale, other than gas in storage, are valued at the lower of "first-in, first-out" cost or market. Gas in storage inventories are valued on the "last-in, first-out" basis.

Forest Products. Property taxes and costs of maintaining forests are charged to expense as incurred. Reforestation costs are capitalized and included as a cost of timber when harvested.

Income Taxes. Income taxes are provided based on earnings reported for financial statement purposes. The provision for income taxes includes deferred taxes resulting from items reported in different periods for tax and financial statement purposes. Investment tax credits are accounted for under the "flow-through" method.

Earnings Per Common Share. Earnings per common share are based on the weighted average number of common shares outstanding during each year. The dilutive effect of stock options outstanding and the convertible subordinated notes assumed in the El Paso merger is not significant.

NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
The Following Notes are an Integral Part of the Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include Norfolk Southern Corporation (Norfolk Southern) and its majority-owned and controlled subsidiaries (collectively NS). The significant subsidiaries are Norfolk and Western Railway Company (NW) and Southern Railway Company (SR). All significant intercompany balances and transactions have been eliminated in consolidation.

Properties. Properties are stated principally at cost. Rail is primarily depreciated on the basis of use measured by gross ton miles. The effect of this method is to write off these costs over 43 years on average. Other properties are depreciated generally using the straight-line method over estimated service lives at rates that range from approximately 1.0 percent to 19.0 percent and average approximately 2.1 percent for roadway and 3.8 percent for equipment. NS capitalizes interest on major capital projects during the period of their construction. Maintenance expense is recognized when repairs are performed. When properties other than land are sold or retired, the cost of the assets less the sale proceeds or salvage is charged to accumulated depreciation. Gains and losses on disposal of land are included in other income.

Income Taxes. Deferred income taxes are provided when certain revenues and expenses are reported in different periods in financial statements than are reported in income tax returns. Investment tax credits are recorded under the flow-through method as a reduction of federal income tax expense in the year the assets are placed in service.

Revenue Recognition. Revenue is recognized proportionally as a shipment moves from origin to destination.

Retirement Plans. It is NS policy to accrue as pension expense the current service costs and amortization of prior service costs over initial periods ranging from 15 to 40 years.

Materials and Supplies. Materials and supplies, which consist mainly of fuel oil and items for maintenance of road property and equipment, are stated at average cost.

Earnings Per Common Share. Earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the respective periods.

TRANSPORTATION COMPANIES—TRUCKING AND FREIGHT FORWARDING

MAYFLOWER CORPORATION
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany items have been eliminated.

B. Property and Equipment. Property and equipment is stated on a cost basis. Depreciation is provided primarily by the straight-line method at annual rates considered adequate to amortize the costs over the estimated useful lives of the assets. The lives used in computing depreciation during the periods were:

Buildings and improvements	3 to 40 years
Revenue equipment	3 to 10 years
Other operating equipment and improvements	2 to 10 years

The classification of fleet operating buses as property and equipment is based upon the Company's requirements for fleet buses to fulfill existing contract requirements including an estimate of reserve buses necessary to ensure continuity of service based on historical maintenance records and experience. The remaining buses are classified as equipment and inventory held for resale.

C. Federal Income Taxes. Mayflower Corporation and its U.S. subsidiaries file a consolidated Federal income tax return.

For Federal income tax purposes, depreciation is computed principally by accelerated methods, and property and equipment is adjusted for gains or losses on traded equipment. Deferred Federal income taxes are provided on these timing differences.

Cargo damage claims expenses are provided in advance of the period deductible for income tax purposes. The prepaid tax benefit, which is classified as a current asset, is recognized in the period the provision is recorded.

The investment tax credit is included in income in the period in which it reduces the tax liability.

D. Recognition of Operating Revenues. The Company's principal subsidiary, which is primarily involved in the shipment of household goods, recognizes revenue and associated transportation costs when the order has been unloaded at the shipper's residence. Product sales for the Consumer Products unit are recognized at the time of delivery to the customer. Contract revenues and related direct expenses for the Contract Services unit are recognized over the period during which the service is rendered, which generally corresponds with the typical school year.

E. Inventories. Inventories are stated at the lower of cost or market. For school bus inventory, which represents approximately one-half of total inventory, cost is determined for each specific unit. For the remaining inventory, cost is determined principally using the first-in, first-out (FIFO) method.

F. Goodwill. The excess of cost over the fair value of net assets acquired is amortized on a straight-line basis over 20 years.

J. B. HUNT TRANSPORT SERVICES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 1983, 1984 and 1985

(1) Summary of Significant Accounting Policies

J. B. Hunt Transport Services, Inc., through its wholly-owned subsidiary, J. B. Hunt Transport, Inc., is an irregular route, common motor carrier operating under the jurisdiction of the Interstate Commerce Commission (ICC) and various state regulatory commissions.

(a) Principles of Consolidations. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Tires and Tubes in Service. The cost of tires and tubes placed in service, inclusive of those purchased with new revenue equipment, are capitalized and amortized on the straight-line method over their estimated useful life (see note 6).

(c) Property and Equipment. Property and equipment are stated at cost. Property and equipment under capital leases are stated at the lower of the present value of minimum lease payments at the beginning of the lease term or fair value at the inception of the lease.

Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of 10 to 25 years for structures and improvements, 5 to 7 years for revenue and service equipment (see note 6) and 4 to 10 years for furniture and office equipment. Property and equipment under capital leases are amortized on the straight-line method over the shorter of the lease term or estimated useful life of the asset.

(d) Revenue Recognition. In accordance with industry practice, operating revenues are recognized as of the date the freight is picked up for shipment.

(e) Income Taxes. Deferred income taxes are recognized for income and expense items that are reported in different years for financial reporting purposes and income tax purposes.

Investment tax credits are accounted for as a reduction of income tax expense in the year realized.

(f) Earnings per Share. Earnings per share have been computed based on the weighted average number of shares outstanding during each year (9,821,280 in 1983, 11,054,417 in 1984 and 11,668,135 in 1985) adjusted for the effect of stock splits (see note 4).

ALLIED VAN LINES
Notes to Consolidated Financial Statements
December 31, 1985

Note 1: Summary of Significant Accounting Policies

Basis of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Inter-company balances and transactions are eliminated in consolidation. Certain 1984 and 1983 classifications have been restated to conform to 1985.

Revenues. Transportation and cargo protection revenues, together with associated costs and expenses, are recognized when shipments are loaded. Transportation and related services are purchased from Allied agents, who also receive operational, financial, and marketing services from the Company, at rates established as a percentage of transportation revenue. Transportation revenues and expenses include certain accessorial items of $115,889,000 in 1985, $109,725,000 in 1984 and $95,180,000 in 1983, which are not included in the financial reports filed with the Interstate Commerce Commission. These revenue and expense categories also include fuel allowances of $30,000 in 1985, $386,000 in 1984, and $13,483,000 in 1983. These items have no effect on net income.

Cargo Claims. The Company's liability for physical loss or damage to shippers' property is limited by law, unless a greater value is declared and the appropriate cargo protection charges are paid by shippers. Agents are charged for cargo claims up to a specified maximum amount per claim. Claims in excess of amounts chargeable to agents are included in expense currently. Liabilities are recorded to reflect an estimate for outstanding claims, plus an estimate for claims incurred but not reported, based on past experience.

Amount Due Bodily Injury and Property Damage Fund. The Company administers a program which provides, through charges to its agents, a reserve for bodily injury and property damage claims. The charges to each agent under this program are at rates established by the Company based upon historical loss experience, which includes claims costs, legal expenses, insurance premiums, and administrative costs incurred to support the program.

Income Taxes and Investment Tax Credits. Income taxes are provided on income for financial reporting purposes, regardless of the period in which individual items are reported for tax purposes. Investment tax credits are accounted for on the flow-through method as a reduction of income tax expense.

Depreciation. Depreciation for financial reporting purposes is computed principally by the straight-line method based on the estimated useful lives of the assets.

Purchased Computer Software Rights. Other assets as of December 31, 1985 include $1,000,000 for the cost of purchased computer software rights. Amortization will start when the product is available for general release in 1986. Amortization will be computed on the straight-line method over a five-year estimated life.

TRANSPORTATION COMPANIES—WATER

MARINE TRANSPORT LINES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Significant Accounting Policies

Basis of Presentation. The consolidated financial statements include the accounts of Marine Transport Lines, Inc. and its subsidiaries ("MTL"). All significant intercompany accounts and transactions have been eliminated. A 50% ownership of a joint venture partnership is accounted for on the equity method.

Revenue and Expense Recognition. Charter revenues and expenses are recognized ratably over the lives of the charters. Voyage revenues are recognized ratably over the duration of the voyage. Costs recoverable in connection with escalation provisions are included in operating revenues as the costs are incurred by MTL.

Vessels and Depreciation. Vessels are recorded at cost and depreciated on the straight-line basis over their estimated useful lives generally ranging from fifteen to twenty years to estimated residual values.

Major expenditures for renewals, which are expected to extend useful lives or reduce future operating expenses, are capitalized.

Vessel Repairs and Overhaul. Normal vessel repairs and maintenance costs are charged to income when incurred. Major vessel overhaul costs expected to be incurred at the next periodic inspection for regulatory and insurance purposes are charged to income ratably over the period prior to the overhaul.

Income Taxes. Prior to the spin-off from GATX Corporation ("GATX") (see Note D), income taxes primarily represented amounts payable to or receivable from GATX arising from inclusion of MTL's United States operations in GATX's United States consolidated income tax return. Subsequent to the spin-off, benefit from operating losses has been recognized against deferred income taxes payable.

Deferred income taxes arise principally from differences in the timing of reporting income and expense items for financial statement and income tax purposes.

MTL does not provide United States income taxes on undistributed earnings of foreign subsidiaries because it is intended that these earnings will be permanently reinvested in qualified shipping assets outside the United States.

Investment Tax Credits. Investment tax credits are accounted for by the flow-through method (see Note F).

Income Per Share. 1985 and 1984 per share earnings information are based on 2,902,316 and 2,387,754 shares, the weighted average number of common and common equivalent shares outstanding during each of the years, respectively. In 1985, common equivalent shares relate to shares reserved for issuance under MTL's Incentive Stock Option Plan and outstanding warrants; in 1984, common equivalent shares relate only to shares reserved for issuance under MTL's Incentive Stock Option Plan. For years 1983 and prior, the per share amounts are based on 2,383,775 shares, the number of shares of MTL's Common Stock issued on March 16, 1983, the spin-off date.

Capitalized Interest. Interest costs incurred during construction of vessels are capitalized. Interest capitalized during 1984 amounted to $219,000.

Customer Contracts and Amortization. MTL has followed the purchase accounting method in accounting for its October 18, 1985 acquisition of Rowbotham Tankships Limited ("Rowbotham") (see Note B). Accordingly, the assets of Rowbotham were adjusted at that date to reflect their estimated fair value. To arrive at that adjustment, the valuation of vessels was determined on a charter/contract free basis with a value, in an amount equal to the excess purchase price, being assigned to customer contracts. The majority of Rowbotham's tonnage is carried under evergreen-type contracts of affreightment which, for the most part, have been renewed on an annual basis. The value assigned to customer contracts is being amortized over 20 years.

Foreign Currency Gains and Losses. The assets and liabilities of Rowbotham were translated at the British pound sterling–U.S. dollar exchange rate in effect at year-end and the income statement was translated at the average prevailing exchange rates for the period from October 18, 1985, date of acquisition, to December 31, 1985. The gain resulting from the translation of those financial statements, amounting to $117,000, was deferred and recorded as a separate component of consolidated shareholders' equity. Foreign currency gains and losses incurred in Rowbotham's day to day operations are recognized as incurred and reported in the income statement.

The Spanish peseta portion of the debt owed by International Oil and Bulk Trade Company, Ltd. ("IOBT") on Marine Renaissance (see Notes C and H), was translated at the Spanish peseta–U.S. dollar exchange rate in effect at year-end and the loss resulting from that translation, amounting to $1,088,000, was recognized and reported as an expense in the income statement.

That portion of cash in banks, excluding cash of Rowbotham, which is denominated in currency other than U.S. dollars was translated at the various exchange rates in effect at year-end and the gains or losses resulting therefrom also were recognized and reported in the income statement.

SEAL FLEET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 1985

A. Summary of Significant Accounting Policies

The following are the significant accounting policies followed by Seal Fleet, Inc. in the preparation of consolidated financial statements.

Consolidation. The accompanying financial statements include the accounts of Seal Fleet, Inc. ("Seal Fleet") and all of its subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Materials and Supplies. Materials and supplies are stated at the lower of cost, determined on the first-in, first-out basis, or market.

Drydocking Costs. Drydocking costs are capitalized and amortized over the period benefited, which is deemed to be eighteen months. These costs are expensed as incurred for federal income tax purposes.

Property and Equipment. Property and equipment are stated at cost. For financial reporting purposes, Seal Fleet records depreciation and amortization expenses on the straight-line method over the estimated useful lives of the related assets (ships and related equipment—18–25 years; leasehold improvements—6–25 years; furniture and equipment—3–8 years). For tax purposes, depreciation and amortization expense are computed using straight-line and accelerated methods.

Assets Held for Resale. Assets held for resale are stated at the lower of cost or estimated market value.

Investment Tax Credits. Investment tax credits are accounted for by the flow-through method.

Net Income Per Common Share. Net income per common share is based on the weighted average number of shares outstanding (2,414,167, 2,399,121 and 2,232,375 in 1985, 1984 and 1983, respectively) during each year.

WATER SUPPLY AND OTHER SANITARY SERVICES

CALIFORNIA WATER SERVICE COMPANY
Notes to Financial Statements
December 31, 1985, 1984 and 1983

Note 1. Summary of Significant Accounting Policies

The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the California Public Utilities Commission (Commission).

Revenue. Revenue consists of billings to customers for water service at rates authorized by the Commission. Billings are included in revenue as meters are read on a cycle basis throughout each month or at monthly flat rates.

Utility Plant. Utility plant is carried at original cost when first constructed or purchased, except for certain minor units of property recorded at estimated fair values at dates of acquisition. Costs of depreciable plant retired are eliminated from utility plant accounts and such costs are charged against accumulated depreciation. Maintenance of utility plant, other than transportation equipment, is charged to operating expenses. Maintenance and depreciation of transportation equipment are charged to a clearing account and subsequently distributed primarily to operations.

Intangible assets arising during the period of initial development of the Company and those acquired as parts of water systems purchased are stated at amounts prescribed by the Commission. All other intangibles have been recorded at cost.

Depreciation. Depreciation of utility plant for financial statement purposes is computed on the straight-line remaining life method at rates based on the estimated useful lives of the assets. The provision for depreciation expressed as a percentage of the aggregate depreciable asset balances was 2.2% in 1985 and 2.1% in 1984. For income tax purposes, the Company computes depreciation using the accelerated methods allowed by the respective taxing authorities.

Income Taxes. The Commission has granted the Company customer rate increases to reflect the normalization of the tax benefits of the Accelerated Cost Recovery System (ACRS) and investment tax credits (ITC) as required by the Economic Recovery Tax Act of 1981 for all assets placed in service since 1980. ITC is deferred and amortized over the lives of the related properties. In accordance with the requirements of the Commission, the Company does not provide for deferred taxes on the tax benefits of accelerated tax depreciation on assets placed in service prior to 1981, but instead applies the savings as a reduction to federal income tax expense. The cumulative net amount of federal tax savings from accelerated tax depreciation for which deferred taxes have not been provided was $18,700,000 at December 31, 1985.

Bond Discount and Expense. The discount and expense on first mortgage bonds are being amortized over the original lives of the related bond issues.

Advances for Construction. Advances for construction of main extensions are primarily refundable to depositors over a 20-year or 40-year period. Refund amounts under the 20-year contracts are based on annual revenues from the extension. Unrefunded balances at the end of the contract period are credited to Contributions in Aid of Construction and are no longer refundable. Beginning in June 1982 contracts provide for full refund at a 2½% rate per year for 40 years. Estimated refunds for 1986 for all main extension contracts are $2,700,000.

Earnings Per Share. Earnings per share are calculated using the weighted average number of common shares outstanding during the year after deducting dividend requirements on preferred stock.

Conversion of the outstanding convertible preferred shares would not have a significant effect on the earnings per share as presented. All share and per share data has been adjusted to reflect the 2-for-1 stock split, effective May 1984.

LAIDLAW INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Significant Accounting Policies

(a) Principles of Consolidation. The Company's financial statements are prepared on a consolidated basis and include the Company and its subsidiaries. All intercompany transactions and balances are eliminated.

(b) Property and Equipment. Landfill sites, preparation costs and improvements are carried at cost and to the extent this exceeds end use realizable value, such excess is depreciated using primarily the straight-line method over their estimated useful lives.

Depreciation and amortization of other property and equipment are provided over their estimated useful lives substantially on a straight-line basis.

When property and equipment are retired or otherwise disposed of, related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in income.

(c) Income Taxes. United States federal income taxes are provided for on a consolidated basis under an income tax allocation agreement with other United States subsidiaries of the Company's parent company, Laidlaw Transportation Limited. No consolidated filings are permitted in Canada. Investment tax credits are accounted for using the flow through method of accounting. United States income taxes are provided on the earnings of Canadian subsidiaries to the extent that earnings are expected to be remitted. At August 31, 1985 cumulative earnings of Canadian subsidiaries not expected to be remitted were approximately $29,949,000.

(d) Intangible Assets. The amount of cost over fair value of tangible net assets incurred before November 1, 1970 (approximately $2,739,000 at August 31, 1985) is not being amortized and the amount incurred on or after November 1, 1970 ($32,305,000 at August 31, 1985) is being amortized over periods up to 40 years.

(e) Earnings Per Share. Earnings per share of common stock are computed after the deduction of preferred stock dividends on the basis of the weighted average number of common shares outstanding during each year adjusted for stock splits.

INTERNATIONAL TECHNOLOGY CORPORATION
Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies:

Basis of Presentation. International Technology Corporation was formed in October 1983 as a Delaware holding company for IT Corporation. The components of common stockholders' equity as presented in the accompanying consolidated financial statements and related notes thereto reflect the capitalization of International Technology Corporation. In addition, the consolidated financial statements at March 31, 1985 and for the years ended March 31, 1984 and 1985 have been restated to reflect the acquisition of McKittrick Mud Company, Inc. ("MMC") on February 28, 1986 which has been accounted for as a pooling of interests. International Technology Corporation, both separately and collectively with its subsidiaries, is referred to as "the Company" herein.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of intercompany accounts and transactions.

Revenue Recognition. The Company primarily derives its revenues from providing environmental management services in the United States, principally to large industrial companies, utilities, waste generators and waste transporters and various governmental agencies. Services are performed under time and material, fixed price, and unit-bid contracts.

Revenues from time and material contracts are recorded based on performance. Revenues on fixed price contracts and certain unit-bid contracts are recorded on the percentage-of-completion method. Anticipated losses on contracts are recorded as identified.

Property, Plant and Equipment. Property, plant and equipment (including major renewals and improvements) are recorded at cost. Expenditures for repairs and maintenance are charged to expense as incurred.

The cost of property, plant and equipment is depreciated using the straight-line method over their estimated useful lives.

Capitalization of Interest Costs. Interest costs amounting to $984,000 in 1986, $223,000 in 1985 and $1,110,000 in 1984 were capitalized.

Investment in Affiliate. The Company has a 37% (30% in 1985 and 25% in 1984) investment in an affiliate, Environmental Protection Corporation ("EPC"), which is accounted for on the equity method. During 1986 and 1985 EPC acquired a portion of its own stock which has increased the Company's share in EPC. EPC's fiscal year end is December 31 and the Company's share of EPC's earnings is recorded in the quarter subsequent to the quarter in which they are recorded by EPC. The Company does not expect to receive significant dividends from EPC.

Since November 1985, two of EPC's three facilities have been closed due primarily to its inability to obtain environmental impairment liability insurance. As a result of this closure the Company recorded a valuation allowance of $919,000 to reduce the carrying value of its investment in EPC.

Cost in Excess of Net Assets of Acquired Businesses. Cost in excess of net assets of acquired businesses is amortized over 20 years on a straight-line basis.

Income Taxes. The provision for income taxes includes deferred income taxes resulting from timing differences between financial and taxable income.

Investment tax credits are accounted for as a reduction of the provision for income taxes in the year of the related asset acquisition.

Research and Development Costs. The Company conducts research and development for clients on products, processes and technologies related to the treatment, disposal and destruction of hazardous substances.

Additionally, the Company funds research and development which is expensed as incurred and amounted to $896,000 in 1986, $820,000 in 1985 and $275,000 in 1984.

Net Income Per Common Share Information. Net income per common share is computed by dividing net income by the weighted average number of outstanding common shares and common share equivalents during each period which aggregated 13,309,995 in 1986, 11,353,864 in 1985 and 9,370,435 in 1984.

Common share equivalents include dilutive stock options, stock purchase warrants and stock purchase agreements computed using the treasury stock method, and the assumed conversion into common stock of the convertible subordinated debentures in 1984 and the preferred stock while it was outstanding. The computation of net income per common share for 1984 also includes the add back of interest expense on the convertible subordinated debentures because of their assumed conversion into common stock. The assumed conversions of the stock purchase warrant in 1985 and 1984 were anti-dilutive.

III

INDIVIDUAL ACCOUNTING POLICIES CLASSIFIED BY TOPIC

The requirement under Opinion No. 22 to disclose accounting policies that involve a selection among existing acceptable alternatives, principles and methods peculiar to the industry in which the reporting entity operates, and unusual or innovative applications of generally accepted accounting principles has caused the companies included in NAARS to disclose accounting policies that cover a wide variety of topics. Examples of individual accounting policies pertaining to various topics are presented in this chapter, classified by topic.

ACCOUNTING CHANGES

FOSTER WHEELER CORPORATION
Notes to Financial Statements
(In Thousands of Dollars, Except per Share Amounts)

1. Summary of Significant Accounting Policies

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Principles of Consolidation. Commencing in 1986, the Corporation has changed the composition of its segments (groups) and presentation of its financial statements to reflect the changing nature of its business.

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Effective January 1, 1985 the Corporation changed its annual accounting period to a fiscal year ending the Friday closest to December 31 for domestic operations and December 31 for foreign operations. Each quarter consists of 13 weeks except for those years which will contain 53 weeks. In 53 week years one quarter will contain 14 weeks. The changes did not materially affect the results of operations.

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Retirement Benefits. Adoption of FASB Statement No. 87, Employers' Accounting for Pensions in 1986, reduced expense by $17,600. In 1984 changes in actuarial accounting methods and assumptions which were principally an increase in the weighted average assumed rate of return on pension fund assets from 6% to 8% and changes in the actuarial cost method and amortization period, reduced expense in 1985 and 1984 by $2,300 and $3,400, respectively.

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The actuarial present value of accumulated domestic defined plan benefits as of April 1, 1985 was $116,000, including $111,000 of vested benefits. The amounts were determined under prior pension accounting methods and reflected an assumed return of 8%. Net assets available for plan benefits as of April 1, 1985 were $178,000.

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GENERAL CINEMA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended October 31, 1986, 1985, and 1984

1. Summary of Significant Accounting Policies

Change in Accounting Policy. Effective August 1, 1986 the Company changed its method of accounting for pensions to comply with the provisions of Statements 87 and 88 of the Financial Accounting Standards Board.

The change was adopted retroactively to November 1, 1985 and, accordingly, the first three quarters of fiscal 1986 have been restated. Net income in the first, second and third quarter was increased by $647,000 ($.02 per share), $654,000 ($.02 per share), and $667,000 ($.02 per share), respectively. The effect of this change for the year ended October 31, 1986 was to increase net income by $2,347,000 ($.06 per share).

The decrease in pension expense results principally from changing to the mandated actuarial cost method, applying the Statements' new definition of discount rates and increasing the assumed rate of return.

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TEMTEX INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
August 31, 1986

Note A—Significant Accounting Policies

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Accounting Change (Long-Term Fixed-Price Contracts in Progress). During the fourth quarter of fiscal 1986, the Company changed its method of accounting for long-term fixed-price contracts from the unit-of-delivery method to the percentage-of-completion method. The change to the percentage-of-completion method was made in order to more accurately match costs with related revenues which will enhance comparability of reported periodic income. This accounting change decreased net loss by $733,634 or $.30 per share for fiscal 1986. Because the unit of delivery method approximated the percentage of completion method, there was not a significant effect on the results of operations for fiscal 1985 and 1984 as a result of this change. For income tax purposes, the unit-of-delivery method has been continued.

In applying the percentage-of-completion accounting method, revenue is recorded based upon a ratio of costs incurred to date on the contract to total estimated costs after providing for all known and anticipated costs which include material, direct labor, manufacturing overhead, and allowable general and administrative expenses. Profits expected to be realized are recorded based on estimates of total sales value and cost at completion. These estimates are reviewed and revised periodically throughout the lives of the contracts and adjustments to profits resulting from such revisions are made cumulative to the date of revision. In the period in which it is determined that a loss will result from the performance of a contract, the full amount of the estimated loss is charged against income.

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APPLIED BIOSYSTEMS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Depreciation and Amortization. In fiscal 1986, the Company changed its depreciation method from 150% declining balance to straight line for equipment acquired after fiscal 1985, in order to provide a better matching of revenues and expenses and to conform to the predominant industry practice. The impact of this change was not material in fiscal 1986.

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GRIFFIN TECHNOLOGY INCORPORATED
Notes to Financial Statements

Note 1—The Company and Its Accounting Policies:

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Research and Development Costs and Software Development Costs. In August, 1985, the Financial Accounting Standards Board issued its Statement of Financial Accounting Standard (SFAS) No. 86—Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed.

Effective February 1, 1985, the company changed its method of accounting for research and development costs to comply with the new standard. Under the new method, certain specified software development costs must be capitalized. As a result, a total of $164,700 of such costs have been capitalized in fiscal 1986 and are being amortized over a five-year period. Application of SFAS No. 86 prior to February 1, 1985 is not permitted. However, the effect on prior fiscal years, when all research and development costs were expensed as incurred, would not be material.

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FOREST CITY ENTERPRISES, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands Except Those Stated on a per Share Basis)

A. Summary of Significant Accounting Policies

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2. Principles of Consolidation.

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Effective February 1, 1985 the Company transferred its Real Estate Services Division, which manages rental properties, and Forest City Capital Corporation, which arranges financing for rental property projects, (both previously consolidated) to its wholly-owned unconsolidated Rental Properties subsidiary. As a result of these transfers, all aspects of the development, financing, leasing and management of owned rental real estate are reported by Rental Properties. The consolidated financial statements of the Company and of Rental Properties have been restated for all periods reported herein to reflect this change in the reporting entities from a consolidated basis to the equity method of accounting. The restatement for this change has no effect on the net earnings and shareholders' equity of the Company and the effect on total assets and total revenues is not significant. Earnings before equity in earnings of unconsolidated subsidiaries has been decreased by $682, $431 and $557 for the years ended January 31, 1986, 1985 and 1984, respectively, and the equity in net operating earnings of Rental Properties has been increased by corresponding amounts in those years.

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CABLE TV INDUSTRIES AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Inventories. Inventories are stated at the lower of cost or market, cost being determined principally by the first-in, first-out (FIFO) method. Inventory cost includes purchased parts, direct labor and related overhead. In 1986, the Company changed its method of valuing inventories from last-in, first-out (LIFO) to FIFO (see Note 2).

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2. Accounting Change

In the fourth quarter of 1986 the Company changed its method of determining the cost of its inventories to the first-in, first-out (FIFO) method from the last-in, first-out (LIFO) method used in prior years. A significant portion of the Company's inventories has experienced declining prices during the last few years. As a result, this change was made to more accurately value these inventories.

The new method of accounting has been applied retroactively and financial statements of prior years have been restated.

The accounting change increased the 1986 net loss by approximately $50,000 or $.02 per share and decreased the previously reported net income for 1985 and 1984 by approximately $15,00 or $.01 per share and $156,000 or $.05 per share, respectively.

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EMERSON RADIO CORP.
Notes to Consolidated Financial Statements

Note A—The Company and Its Significant Accounting Policies:

(1) Principles of Consolidation.

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Effective April 1, 1985, the Company began accounting for its investment in Imatron Inc. under the cost method. Prior thereto, it was accounted for under the equity method with the Company's proportionate share of Imatron's undistributed income or loss credited or charged to income.

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BPI SYSTEMS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Accounting Policies

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Software Development Costs. Research and development costs for software applications are charged to earnings in the year incurred ($449,000, $1,394,000, and $1,709,000 in 1986, 1985 and 1984, respectively). Beginning in 1986, costs of producing product masters incurred subsequent to establishing the technological feasibility of a software product are capitalized and amortized over the remaining economic life of the product. In 1986, $308,000 of such costs were capitalized and $14,000 was charged against income. The net pre-tax effect on income was $294,000 ($.05 per share). Unamortized costs included in other current assets and other assets are $173,000 and $121,000, respectively. The above change in accounting method was in compliance with Statement No. 86 of the Financial Accounting Standards Board.

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CLARK CONSOLIDATED INDUSTRIES, INC.
Notes to Consolidated Financial Statements
January 31, 1986, 1985 and 1984

Note A—Summary of Significant Accounting Policies

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Inventories. Inventories are valued at the lower of cost or market. During the year ended January 31, 1986, the Company adopted the last-in, first-out (LIFO) cost method. This change reduces the impact of inflation on inventories by better matching current costs with current revenues. In prior years, cost was determined by the first-in, first-out (FIFO) method.

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SONAT INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Accounting Policies

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Investment Tax Credits. Through the third quarter of 1986, the Company followed the flow-through method of accounting for investment tax credits, except for its regulated subsidiaries, which followed the deferral method. The deferral method was required by the Federal Energy Regulatory Commission (FERC) effective January 1, 1986. Due to the implementation of the Tax Reform Act of 1986, investment tax credits reflected as earned in the first three quarters of 1986 were reversed in the fourth quarter.

During 1985 the Company adopted the flow-through method for all subsidiaries. The effects of this change on the 1985 and 1984 periods were as follows:

	Years Ended December 31, 1985	1984
	(In Thousands, Except Per-Share Amounts)	
As Reported:		
Net income	$ 3,044	$215,697
Earnings per share	$ .08	$ 5.33
Pro Forma Amounts Assuming the "Flow-Through" Method for Investment Tax Credits was Applied Retroactively:		
Net income (loss)	$(60,109)	$206,104
Earnings (loss) per share	$ (1.48)	$ 5.10

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GTE CORPORATION AND SUBSIDIARIES
Notes to Financial Statements

1. Summary of Accounting Policies

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Income Taxes. In 1984, the method of accounting for the investment tax credits of GTE's non-telephone subsidiaries was changed from the deferral method to the flow-through method. The cumulative effect of the change on years prior to 1984 was to increase net income by $45.3 million or $.15 per share. Under the flow-through method, the provision for income taxes is reduced by investment tax credits in the year the related assets are placed into service. For GTE's telephone subsidiaries, investment tax credits have been deferred and are being recognized in income over the lives of the properties giving rise to the credits.

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GULF RESOURCES & CHEMICAL CORPORATION
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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Oil and Gas Accounting and Depreciation, Depletion and Amortization. Effective as of January 1, 1987 GRE changed the method of accounting for its oil and gas operations from the full-cost method to the successful efforts method. Under this method, costs of productive wells, development dry holes and productive leases are capitalized and amortized on a unit-of-production basis over the life of remaining proved reserves. Cost centers for amortization purposes are determined on a field-by-field basis. The estimated future costs of dismantlement, restoration and abandonment are amortized as part of depreciation, depletion and amortization expense.

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The Financial Accounting Standards Board has expressed a preference for the successful efforts method and management believes the successful efforts method is a more appropriate measure of the results of GRE's oil and gas operations under present circumstances. Accordingly, the accompanying financial statements have been restated to comply with the new method. The change in method had the effect of increasing (decreasing) net income by $9.2 million, $(4.3) million and $(4.9) million or $.98, $(.43) and $(.49) per share fully diluted for 1986, 1985 and 1984. The change in method had the effect of increasing (decreasing) income from continuing operations by $9.2 million, $(2.3) million and $(4.3) million or $.98, $(.23) and $(.43) per share fully diluted for 1986, 1985 and 1984. The cumulative effect of the change on retained earnings at December 31, 1986 was a decrease of $14.0 million.

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GENERAL ELECTRIC COMPANY
Notes to Financial Statements

Summary of Significant Accounting Policies

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Restatement of Prior Years' Financial Statements for the Change in Method of Accounting for Oil and Gas Properties. In 1986, the Company changed its method of accounting for oil and gas properties from the "full cost" method to the "successful efforts" method. Management considers this change prudent in view of the weakness of oil and gas prices and the uncertain outlook for prices in the industry. Fewer costs are capitalized under the "successful efforts" method than under the "full cost" method, thus reducing the risk of non-recovery of asset values.

This change in method must be applied retroactively. Accordingly, previously reported net earnings have been restated downward by $59 million (13 cents per share) for 1985 and $41 million (9 cents per share) for 1984. The balance of retained earnings at January 1, 1984, has been restated downward by $133 million (29 cents per share) for the cumulative effect on operations of years before 1984.

HBO & COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Operations and Summary of Significant Accounting Policies:

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Software Development. Prior to 1986, the Company consistently followed the policy of expensing all computer software development costs as incurred. Commencing January 1, 1986, in compliance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," the Company has capitalized a portion of the computer software development costs incurred. The required capitalization and related amortization of computer software development costs totaled $769,000 and $28,000 in 1986, respectively.

Purchased software, included in other assets, is stated at cost, which represents fair market value at the date of acquisition. Amortization is computed using the straight-line method based upon estimated useful lives up to five years.

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DECISION INDUSTRIES CORPORATION
Notes to Consolidated Financial Statements

(1) Accounting Policies:

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Capitalization of Software. In August, 1985, the Company adopted the provisions of Statement of Financial Accounting Standards No. 86, "Accounting for the Cost of Computer Software to Be Sold, Leased or Otherwise Marketed." Software costs are amortized based on the ratio of current revenues to total anticipated revenues for the product or the straight-line method over the estimated economic life of the product, whichever is greater. All costs incurred not meeting the requirements for capitalization are expensed in the period incurred. The total amount charged to expense for amortization of capitalized computer software costs and for amounts written down to net realizable value were $245,000 and $3,741,000 respectively for the period ended November 30, 1986. Software costs incurred prior to adoption of this statement were not material.

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ACCOUNTING METHOD

NORSTAR BANCORP INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(c) Loans and Lease Financing. Loan and lease financing income is recognized on the accrual basis of accounting. When, in the opinion of management, the collection of additional interest is in doubt, the

loan/lease is categorized as nonaccrual. Thereafter, no interest is taken into income unless received in cash or until such time as the borrower demonstrates the ability to make scheduled payments of interest and principal.

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EUROPEAN AMERICAN BANCORP
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

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(d) Loans. Loans are stated at the principal amount outstanding, net of any unearned income. Loan origination fees are recognized in interest income as an adjustment to yield over the life of the loan. When situations occur such as default, renegotiation or delinquency on loans resulting in uncertainty as to their collectibility, income is recognized on a cash basis. Loans are placed on a non-accrual status when interest or principal payments are past due 90 days or more.

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WENDY'S INTERNATIONAL, INC.
Notes to Consolidated Financial Statements

1—Summary of Significant Accounting Policies

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Franchise Operations. Royalties, which are based on a percentage of monthly sales, are recognized as income on the accrual basis. Real estate and construction fees are recorded as income when received.

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JMB REALTY TRUST
Notes to Financial Statements

(1) Summary of Significant Accounting Principles

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Investment income is reported as earned on the accrual basis of accounting; except that, the Trust does not accrue investment income after significant uncertainties as to collectibility become known. The Trust is currently accruing income on all investments except certain revenue related to the participation in the gross receipts of the lessee of the land leaseback investment underlying the West Hollow apartments in Houston, Texas.

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PEOPLES BANCORPORATION
Notes to Financial Statements

Note 1—Summary of Significant Accounting Principles

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Trust Income. Income from trust services is recognized on the cash basis in accordance with predominant industry practice. The results of trust operations would not be materially different if reported on the accrual method.

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TEXAS AMERICAN BANCSHARES INC.
Notes to Financial Statements

Note 1—Summary of Significant Accounting Principles

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Trust Fee Income. Trust fee income is recognized generally on the cash basis, in accordance with customary banking practice. This results in income recognition which is not materially different from accrual basis recognition.

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HIBERNIA CORPORATION

Summary of Significant Accounting Principles

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Other. Trust fees are recognized on the accrual basis.

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CITYTRUST BANCORP INC.
Notes to Consolidated Financial Statements

One—Summary of Significant Accounting Policies

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B. Loans. Loans are carried at their unpaid principal balance, and interest is accrued and included in interest income based on contractual rates applied to principal amounts outstanding utilizing the simple interest method.

Loans are classified as nonaccrual when, in the opinion of management, collectibility becomes uncertain. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged to interest on loans. A nonaccrual loan may be restored to an accrual basis when prospects for future payments are no longer in doubt.

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K. Trust Income. Trust income is recorded on the cash basis in accordance with customary banking practices and would not be significantly different if reported on the accrual basis.

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NBD BANCORP INC.
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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(B) Basis of Presentation. All significant income and expenses are recorded on the accrual basis except for trust fees which are reported on a cash basis.

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(E) Loan Interest Income Recognition. Whenever the collectibility of principal or interest on loans, other than consumer loans, is considered doubtful, or the loan is completely or partially charged off, or whenever payment of principal or interest is 90 days or more past due, previously accrued but unpaid interest is reversed against current earnings and such loans are placed on a cash basis for the future recognition of interest income. The Corporation restores cash basis loans to an accrual basis whenever interest and principal payments are current, and it is believed that the financial condition of the borrower has improved to the extent that future principal and interest payments will be met. For a commercial loan which has been partially charged off, payments are applied in the following sequence: (1) as a reduction of existing principal balance; (2) as a recovery of any charged off portion of principal, and (3) as interest income.

Consumer loans are not placed on a non-accrual basis as they are generally charged off when 120 days past due.

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MICRON TECHNOLOGY, INC.
Notes to Consolidated Financial Statements

Significant Accounting Policies

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Revenue Recognition. The Company recognizes sales when the product sold is shipped to the end-use customer or distributor. Consulting and licensing fees are recognized as the contractual obligations are fulfilled. Provision is made for estimated commissions, discounts and returns when revenue is recognized.

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MORTGAGE GROWTH INVESTORS
Notes to Consolidated Financial Statements

1—Statement of Significant Accounting Policies

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Revenue and Expense Recognition. Revenue and expenses are recorded on the accrual method for financial reporting and tax purposes. Income from real estate partnerships is accounted for by the equity method. It is the policy of the Trust to accrue interest on all loans, including delinquent loans, if after specific evaluation of available data it is the judgment of the Trustees that the Trust will recover its principal and interest.

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CLAREMONT CAPITAL CORPORATION
Notes to Financial Statements
For the Years Ended December 31, 1986 and 1985

Note 1—Significant Accounting Policies

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B. Security Transactions and Related Investment Income. Transactions in marketable securities are accounted for on the trade date (date the order to buy or sell is executed). Transactions in restricted and venture securities are accounted for on the date the Corporation obtains an enforceable right to demand the securities or the payment therefor. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Non-cash dividends are recorded as income at the fair value of the property received. Realized gains and losses on investments sold are computed on the basis of identified cost.

CSX CORPORATION
Notes to Consolidated Financial Statements
(Millions of Dollars, Except Per Share Amounts)

Note 1—Significant Accounting Policies

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Properties. Properties are carried principally at cost. Provisions for depreciation of properties are based on estimated useful service lives, computed primarily on the straight-line, composite method. Under this method, gains and losses on retirements are charged to accumulated depreciation. Oil and gas exploration activities are accounted for under the successful efforts method whereby exploration costs that relate directly to specific oil and gas reserves are capitalized and amortized on the unit of production method. The costs of unsuccessful exploratory drilling, leases abandoned or impaired and nonproductive general exploration are expensed as incurred.

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BLACK HILLS CORPORATION
Notes to Consolidated Financial Statements
December 31, 1986, 1985 and 1984

(1) Summary of Significant Accounting Policies

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Oil and Gas Exploration. The Company accounts for its oil and gas exploration costs using the successful-efforts method. Under this method, exploration costs incurred on properties proved to be uneconomic are charged to current expenses.

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UNION PACIFIC CORPORATION
Notes to Financial Statements

Accounting Policies

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Oil and Gas Accounting Policies. Oil and gas exploration costs are accounted for by the successful efforts method.

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ASARCO INCORPORATED
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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Exploration. Tangible and intangible costs incurred in the search for mineral properties are generally charged against earnings when incurred. When a commercial ore body is discovered, the related exploration costs previously charged against earnings are credited to earnings and capitalized in "Property." Oil and gas activities are accounted for by the successful-efforts method.

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ORANGE AND ROCKLAND UTILITIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies.

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Gas and Oil Exploration and Development. The Company accounts for its oil and gas operations by use of the successful efforts method. Under this method of accounting, those costs which can be related to the discovery and production of proven oil and gas reserves are capitalized. Exploration costs, other than drilling, include geological, geophysical and carrying costs, and are charged against income as incurred. Exploratory drilling costs are initially capitalized. If and when they are determined to be nonproductive, such costs are charged against income. Provisions for depletion and amortization are on a per unit of production method based on the estimated proved reserves for each property.

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ALTEX INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Summary of Accounting Policies and Business Activities

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Property and Equipment. The Company follows the successful efforts method of accounting for oil and gas operations. Under this method, exploration costs, including geological and geophysical costs, annual delay rentals, and exploratory dry hole costs are charged to expense as incurred. Costs to acquire unproved properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip development wells are capitalized.

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ACCOUNTING PERIOD

INTERNATIONAL GAME TECHNOLOGY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

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Change in Fiscal Year. International Game Technology and each of its subsidiaries changed the end of their fiscal year from December 31 to September 30 commencing with the fiscal year ending September 30, 1986. The fiscal year ending September 30, 1986, includes only nine months.

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DESIGNHOUSE INTERNATIONAL, INC.
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Fiscal Year. Effective June 1, 1984, the Company changed its fiscal year-end from May 31 to the Saturday nearest May 31.

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CHANCELLOR CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended March 31, 1986 and 1985, Three Months Ended March 31, 1984 and Year Ended December 31, 1983

A. Significant Accounting Policies:

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Change in Year End. In 1984, the Company and its subsidiaries changed their fiscal year end from a calendar year to March 31.

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HEILIG-MEYERS COMPANY
Notes to Consolidated Financial Statements
Eleven Months Ended February 28, 1986 and Years Ended March 31, 1985 and 1984

(1) Summary of Significant Accounting Policies:

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Change in Fiscal Year. The Company changed its fiscal year-end from March 31 to February 28 (29). The change was made to reflect a more natural business cycle within a twelve-month period. In accordance with this change, the financial statements presented for the fiscal period ended February 28, 1986 reflect operations for the eleven month period beginning April 1, 1985 and ending February 28, 1986.

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WHEREHOUSE ENTERTAINMENT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

a. Change in Fiscal Year. Effective January 31, 1986, the Company changed its fiscal year from June 30 to January 31. Accordingly, fiscal 1986 includes only seven months of operations whereas prior fiscal years consisted of twelve months.

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GENESCO INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

Change in Fiscal Year. Effective January 31, 1985, the Company changed its fiscal year end from July 31 to January 31, to more closely coincide with other companies in its industry. In connection with the fiscal year change, the Company modified its method of allocating payroll taxes within its fiscal periods to record payroll taxes as incurred rather than prorate them over the fiscal period. The effect of the modification in the method of allocating payroll taxes for the six months ended January 31, 1985 was to increase earnings before extraordinary credit by $974,000 and net earnings by $1,146,000, and earnings per common share before extraordinary credit by $.06 and net earnings by $.08.

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JACOBSON STORES, INC.
Summary of Significant Accounting Policies

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Fiscal Year. The Company's fiscal year ends on the last Saturday in January. Fiscal years 1985, 1984 and 1983 each consisted of 52 weeks and ended on January 25, 1986, January 26, 1985, and January 28, 1984, respectively.

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J.C. PENNEY COMPANY, INC.

Summary of Accounting Policies

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Definition of Fiscal Year. J.C. Penney's fiscal year ends on the last Saturday in January. Fiscal year 1985 ended January 25, 1986, 1984 ended January 26, 1985, and 1983 ended January 28, 1984. Each year comprises 52 weeks. The accounts of J.C. Penney Life Insurance Company, J.C. Penney Casualty Insurance Company, and the J.C. Penney National Bank are on a calendar year basis.

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RUSSEL CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended January 4, 1986, December 29, 1984, and December 31, 1983

Note A—Significant Accounting Policies

Fiscal Year. The Company's fiscal year ends on the Saturday nearest to January 1 which periodically results in a fiscal year of 53 weeks which was the case for fiscal 1985.

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ALBERTSON'S INC.

Summary of Significant Accounting Policies

Fiscal Year End. The Company's fiscal year ends on the Thursday nearest to January 31 in each year. Unless the context otherwise indicates, reference to a fiscal year of the Company refers to the calendar year in which such fiscal year commences.

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THE PEP BOYS—MANNY, MOE & JACK AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended February 1, 1986, February 2, 1985 and January 31, 1984

Note A—Summary of Significant Accounting Policies

Fiscal Year End. The Company elected to change its fiscal year in 1984 from a year ending on January 31 to a 52–53 week year ending on the Saturday closest to January 31. Fiscal years 1985, 1984 and 1983 included 364, 368 and 365 days, respectively.

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EAC INDUSTRIES, INC.
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Fiscal Year. References to the years 1986, 1985 and 1984 are to the fiscal years ended January 31, 1986, 1985, and 1984, respectively. Certain reclassifications have been made to prior years' financial statements in order to conform to the 1986 financial statements.

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ADVERTISING SERVICES

G-R-I CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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Note A—Significant Accounting Policies

Advertising and Promotion Costs. Advertising and net costs of enrollment shipments for established programs are deferred for financial reporting purposes and amortized over succeeding periods (not exceeding 21 months) on the basis of estimated sales. Deferred advertising costs applicable to anticipated sales in fiscal 1987 are classified as current assets in the consolidated balance sheet. Recent customer repeat purchase statistics are the principal factors used in estimating future sales. Actual shipments may vary depending upon the advertising media used to obtain enrollments and subsequent events such as the time interval between and the content of each shipment, as well as the general economy. Other advertising and sales promotion expenditures, including those to develop and test market new programs, are charged to operations as incurred.

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LAMAUR INC.
Notes to Consolidated Financial Statements
(Thousands of Dollars, Except Per Share Amounts)

A. Summary of Significant Accounting Policies

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6. Advertising. Advertising expenses are charged to operations in the year in which they are incurred. However, certain advertising costs incurred in 1984 related to a major product introduction in late 1983. These advertising expenses were ratably accrued as sales of the product were made during its introduction period from October 1983 through December 1984. The total advertising expenses for the years ended December 31, 1986, 1985 and 1984 were $23,572, $30,856 and $29,356, respectively.

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FISHER FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

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Store Pre-Opening Costs. Certain store pre-opening costs, primarily employee training, inventory stocking and advertising, are charged to expense as incurred.

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KIMBERLY-CLARK CORPORATION

Accounting Policies

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Advertising and Promotion Expenses. Advertising expenses are charged to income during the year in which they are incurred. Promotion expenses are charged to income during the period of the promotional campaign.

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NATIONAL EDUCATION CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Summary of Accounting Policies

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Revenues and Costs. Education Centers Revenues are recorded ratably over the terms of the courses which range from six to twenty-five months. Course service costs are charged to expense as incurred. Advertising costs and salesmen's commissions are deferred and amortized into expense within nine months of incurrence.

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BEI HOLDINGS, LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies:

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Development and Promotion Expenses. Research and development expenditures, including software development costs, and advertising and promotion expenditures are expensed as incurred. Research and development expenditures were $205,053 in 1985 and $465,217 in 1984. No research and development expenditures were incurred in 1986.

REGIS CORPORATION
Notes to Consolidated Financial Statements

1. Significant Accounting Policies:

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Opening of New Salons. Advertising, sales promotion and expenditures associated with the opening of new stores are charged to operations as incurred.

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ZALE CORPORATION
Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

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Store Preopening Costs are charged to results from operations in the period in which the store is opened. Deferred store preopening costs at each year-end were not significant. Store closing costs are estimated and recognized in the period in which the store is closed. These costs include the present value of expenditures for estimated rentals net of anticipated sublease income, loss on retirement of property and equipment and other related occupancy costs.

Advertising Expenses are charged against earnings when incurred. Amounts charged to earnings were $65.6 million in 1986, $64.0 million in 1985 and $56.9 million in 1984.

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THE PROCTER & GAMBLE COMPANY
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Income Taxes. Investment tax credits are recognized as a reduction of the tax expense in the year in which the related assets are placed in service or earlier where permitted by tax regulations.

Other Expenses. Advertising and research and development costs are charged against earnings in the year incurred.

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BARTER TRANSACTIONS

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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2. Significant Accounting Policies

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F. Barter Transactions. Revenue from barter transactions (advertising provided in exchange for goods and services) is recognized as income when advertisements are broadcast, and merchandise or services received are charged to expense when received or used.

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UNITED TELEVISION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies:

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(e) Barter Transactions. The Company records all barter (nonmonetary) transactions at the time such agreements are consummated. The estimated fair value of goods or services received is recognized as revenue when the air time is used by the advertiser.

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MEDIA GENERAL, INC.
Notes to Consolidated Financial Statements
December 31, 1984, 1985 and 1986

1. Summary of Significant Accounting Policies

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Inventories. Inventories are valued principally at the lower of cost or market. Cost of raw material used in the production of newsprint is determined on the basis of average cost. Cost of newsprint and radio and television time inventories are determined on the first-in, first-out method. Radio and television time acquired in exchange for productions and services offered for sale by the Company is stated at the fair value of time acquired, less estimated costs of disposition and a normal profit margin.

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COMPENSATION TO EMPLOYEES

CHICAGO PNEUMATIC TOOL COMPANY
Notes to Financial Statements

Summary of Significant Accounting Policies

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Incentive Compensation Plan provides for the payment of incentive compensation to certain managerial employees, including officers. Payments under the Plan are based on various formulas recognizing performance to pre-established financial plans and goals.

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Employee Savings and Security Plan provides that eligible employees may contribute up to 6% of their compensation in participating contributions and up to an additional 6% in non-participating contributions. The Plan also provides that the Company make regular monthly contributions in cash or common stock of the Company, to a trustee, equal to 50% of the employees' participating contributions. Employees become fully vested in the Company's contributions upon the expiration of two full calendar years after the year of contribution. Employees' contributions are fully vested at all times.

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FIRST UNION CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 1986, 1985 and 1984

Note 1—Summary of Significant Accounting and Reporting Policies

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Pension and Savings Plans. Substantially all employees with one year of service are eligible for participation in a non-contributory defined benefit pension plan and matching savings plan. Pension cost is determined by an actuarial valuation, which includes amortization of the unfunded prior service liability over approximately a thirty-year period after giving effect to actuarial gains or losses, and it is funded annually. Periodically the actuarial assumptions are evaluated, and if warranted by the experiences and expectations, appropriate changes are made.

The matching savings plan permits eligible employees to make matched basic contributions to the plan of up to 6 percent of base compensation, and unmatched supplemental contributions of up to 9 percent of base compensation. Annually, upon approval of the Board of Directors, employee basic contributions may be matched up to 6 percent of the employee's base compensation. Generally, funds contributed by the companies cannot be withdrawn for a period of two years.

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USLICO CORPORATION—FINANCIALS
Notes to Consolidated Financial Statements

Note 1—Significant Accounting Policies

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Unearned Premiums and Unpaid Losses. Unearned premiums on direct business are determined by prorating policy premiums over the term of the policy. Estimated liabilities with respect to losses on direct business and related litigation and other loss expenses are determined on the basis of an evaluation of individually reported claims for bodily injury, workers' compensation indemnity and medical, fidelity, surety and fire, and on an average claim basis for other types of coverage. Unearned premiums and estimated liabilities on assumed business are based on amounts reported by the ceding insurance companies.

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Stock Grants. Stock grants are recorded as compensation expense at fair value on the date of issue. The common stock issued under grants in 1986 was recorded at 80% of quoted market value on the date of issue reflecting restrictions on subsequent sale of the shares.

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NYNEX CORPORATION
Notes to Consolidated Financial Statements

(A) Accounting Policies

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Compensated Absences. NYNEX accrues a liability for employees' rights to receive compensation for future absences. The telephone subsidiaries, in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("Statement No. 71"), defer such costs in their respective balance sheets until the compensation is paid and recovered through rates. All other subsidiaries expense such costs in the current period.

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RAX RESTAURANTS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Employee Benefits. The Company provides a self-insured medical reimbursement plan and a noncontributory defined contribution retirement plan covering substantially all full-time employees. The Company also has a key employee incentive bonus plan and an executive incentive bonus plan that are based on the attainment of certain predetermined income before income tax levels and net income levels, respectively. No bonuses were earned in fiscal 1986 and 1985. The Company has a store manager incentive bonus program that is based on the attainment of certain predetermined sales increases on a monthly basis. In fiscal 1986, bonuses were $217,000. All Company related expenses, funded currently, are set forth below. Certain contributions were made to the retirement plan in fiscal 1986 and 1985 with 9,000 and 28,000 Rax common shares, respectively.

	Fiscal Year		
	1986	1985	1984
Medical plan	$1,017,000	$1,170,000	$ 719,000
Retirement plan	360,00	721,000	543,000
Bonus plans	217,000		147,000
Total	$1,594,000	$1,891,000	$1,409,000

During fiscal 1986, the Company amended its retirement plan and reduced the Company's annual contribution from 10% to 3% of eligible compensation.

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CULP, INC.
Notes to Consolidated Financial Statements

1. Accounting Policies

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Deferred Compensation. The Company has deferred compensation agreements with several employees. The deferred compensation is accrued over the terms of active employment. Deferred compensation expense was $208,000 in 1986; $211,000 in 1985; and $40,000 in 1984.

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AMERICA'S FIRST SUPERMARKET
Notes to Consolidated Financial Statements

Note A—Summary of Accounting Policies:

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5. *Deferred Compensation Plan.* A liability for the estimated aggregate amount payable to participants in the Company's deferred compensation plan is being provided pro rata over the remaining active years of employment to an estimated retirement date.

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7. *Income Taxes.* Deferred income taxes are provided for the effect of timing differences in reporting transactions for financial and tax purposes. The Company computes depreciation on an accelerated basis for tax purposes and on a straight-line basis for financial statement purposes. In addition, the Company has a deferred compensation plan which is partially deductible for tax purposes.

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CONSOLIDATION AND BUSINESS COMBINATION

MATRIX CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Dollars to Nearest Hundred Thousands)

1. Summary of Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Matrix Corporation and its wholly-owned subsidiaries after elimination of all significant intercompany accounts and transactions. Investments in 50% or less owned companies were accounted for under the equity method. In fiscal 1986, the remaining shares of such companies were acquired and the results of operations (not material) were consolidated from dates of acquisition. The excess of cost over equity in net assets of subsidiaries acquired is being amortized on the straight-line basis over 25–40 years from the dates of acquisition.

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FIRST EMPIRE STATE CORPORATION
Notes to Financial Statements

1. Accounting Policies

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Consolidation. The consolidated financial statements include First Empire State Corporation ("Parent Company") and its subsidiaries, all of which are wholly-owned. All significant inter-company balances and transactions have been eliminated. The financial statements of the Parent Company report investments in subsidiaries under the equity method.

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ECHLIN INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Accounting Policies:

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated. Investments in less than majority-owned companies are accounted for on the equity method.

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PENRIL CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended July 31, 1986, 1985 and 1984

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated. The fiscal year of the Company and its subsidiaries ends July 31, except for certain foreign subsidiaries which have fiscal years ending June 30.

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GORDON JEWELRY CORPORATION
Notes to Consolidated Financial Statements
Years Ended August 31, 1986, 1985 and 1984

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all of its subsidiaries other than two wholly-owned life insurance companies which are stated at equity. All significant intercompany accounts and transactions have been eliminated in consolidation.

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RANGAIRE CORPORATION AND SUBSIDIARIES
Financial Review and Summary of Significant Accounting Policies

Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Rangaire Corporation (Company) and all of its subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

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GELMAN SCIENCES INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
July 31, 1986

Note A—Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of all subsidiaries after elimination of intercompany accounts and transactions. The financial data of non-U.S. subsidiaries is translated using current exchange rates at the end of the year for balance sheet accounts and average exchange rates for operations. Non-U.S. subsidiaries are consolidated on the basis of years ended June 30 in order to allow for timely consolidation.

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VEECO INSTRUMENTS INC. AND SUBSIDIARIES
Notes to Financial Statements

Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all of its subsidiaries, include a 72 percent-owned Japanese subsidiary, NEMIC-Lambda K.K. Material intercompany items and transactions have been eliminated in consolidation.

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CONSOLIDATED PRODUCTS, INC.
Notes to Consolidated Financial Statements
Years Ended September 24, 1986, September 25, 1985 and September 26, 1984

Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements of Consolidated Products, Inc. (the Company) include the accounts of Consolidated Products, Inc. (parent) and its two wholly-owned subsidiaries: Steak n Shake, Inc. and Consolidated Specialty Restaurants, Inc. All significant intercompany items have been eliminated. The Company's fiscal year ends on the last Wednesday in September.

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LOUISIANA GENERAL SERVICES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Three Years Ended September 30, 1986

1. Summary of Significant Accounting Policies:

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of Louisiana General Services, Inc. (LGS) and all its subsidiaries (the Company). All significant intercompany transactions and balances, except for those subject to the requirements of SFAS #71, have been eliminated in consolidation.

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CONTRACTS

FLUOROCARBON
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Long-Term Contracts. Revenues under long-term contracts are recorded under the percentage of completion method, wherein costs and estimated gross margins are recorded in appropriate amounts for each unit delivered relative to the whole contract.

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STEWART & STEVENSON SERVICES, INC.
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

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Inventories. Inventories are valued at the lower of cost or market. Cost is determined as follows:

Work-in-process—Defense Contracts and Certain Commercial orders.

Costs of substantially all defense contracts and most commercial production orders requiring specially purchased equipment and hulls are stated at actual production costs incurred, net of related progress payments and partial billings.

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Contract Revenues and Costs. Contract sales are recorded under the completed contract method. For major multi-unit contracts, principally defense contracts, this method is applied as individual units are completed.

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JETRONIC INDUSTRIES, INC.

Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies:

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Revenue Recognition. Sales of products under long-term contracts are recognized as shipments are made. Progress billings in advance of shipment are credited to inventory.

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KENAI CORP.

Notes to Consolidated Financial Statements

January 31, 1986, 1985 and 1984

1. Summary of Significant Accounting Policies

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Revenue Recognition. Contract drilling revenues and costs applicable to day work contracts are recognized on a daily basis in accordance with the terms of the applicable agreement. Revenues from footage contracts and the related costs of drilling are recognized under the completed contract method; provision is made for the entire amount of expected losses, if any, in the period in which they are initially determinable.

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Property, Plant and Equipment. Property, plant and equipment are generally stated at cost. As of January 31, 1986 contract drilling and related equipment are stated at estimated net realizable value. Depreciation of property, plant and equipment, other than for the drilling rig fleet and oil and gas properties, is computed on the straight-line method (net of salvage) over the estimated useful lives of the related assets.

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LEE DATA CORPORATION

Notes to Financial Statements, March 31, 1986

(In All Tabular Information, Dollars in Thousands, Except Per Share Amounts)

1. Summary of Significant Accounting Policies

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Revenue Recognition. Sales include direct sales to distributors and customers, non-recourse sales under third-party agreements and sales-type lease contracts. Sales are generally recorded when the product is shipped, except that non-recourse sales under third-party agreements and sales-type lease contracts are accounted for as sales when the products are accepted by the customer.

Equipment under all other lease contracts is accounted for under the "operating method," and rental income is recognized during the period the equipment is on lease.

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DEBT AND LIABILITIES

DILLARD DEPARTMENT STORES, INC.
Notes to Consolidated Financial Statements

Note A: Description of Business and Summary of Significant Accounting Policies

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Consolidation. The amount of DIC's borrowing facilities to provide funds for the purchase of accounts receivable from the parent totalled \$275,000,000 at February 1, 1986, consisting of line of credit borrowings of \$150,000,000, commercial paper outstanding of \$75,000,000 and other debt securities of \$50,000,000. At February 2, 1985, line of credit borrowings totalled \$190,000,000 and commercial paper outstanding totalled \$25,000,000.

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GENERAL HOST CORPORATION
Notes to Financial Statements

Note 1: Accounting Policies

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Leases which meet the accounting criteria for capital leases are recorded as property, plant and equipment, and the related capital lease obligations (the aggregate present value of minimum future lease payments, excluding executory costs such as taxes, maintenance and insurance) are included in long-term debt for financial reporting purposes. Depreciation and interest are charged to expense, and rent payments are treated as payments of long-term debt, accrued interest and executory costs. All other leases are accounted for as operating leases, and rent payments are charged to expense as incurred. For income tax purposes substantially all leases are accounted for as operating leases.

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THE STANDARD OIL COMPANY
Notes to Financial Statements

Note A: Major Accounting and Financial Reporting Policies

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Warrants and Indexed Debt Instruments. Proceeds from the issuance of warrants and the contingent payment portion of indexed debt instruments are deferred and recorded as long-term liabilities. Subsequently, the deferred liability is valued at the higher of premium received or market (the difference between the applicable commodity or other market value and the exercise price of the warrant or indexed debt instrument) until the warrant or indexed instrument is either exercised or expires.

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OHIO FERRO-ALLOYS CORPORATION
Notes to Financial Statements

Note A—Summary of Significant Accounting Policies

General. The Corporation's financial statements have been prepared on the going-concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Substantially all current and long-term liabilities existing at the time the petition for reorganization under Chapter 11 of the United States Bankruptcy Code was filed have been reclassified as long-term prepetition liabilities. The financial statements do not include any adjustments or reclassifications that might be necessary should the Corporation be unable to continue in existence.

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SECURITY PACIFIC CORPORATION
Notes to Financial Statements

1. Summary of Significant Accounting Policies:

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F. Classification of Borrowed Funds. See Notes 8 and 9. Long-term debt includes borrowed funds and other obligations with an original maturity of seven years or more. Debt with original maturities of one year or more but less than seven years is reported as intermediate-term debt, while amounts with original maturities of less than one year are considered short-term. Subordinated Capital Notes represent debt that qualifies as primary capital under current regulations of the Federal Reserve Board with respect to the Corporation and Comptroller of the Currency with respect to the Bank. Debt instruments which contain early redemption privileges, exercisable at the option of the security holder, are classified based on the earliest possible redemption date.

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OCEANEERING INTERNATIONAL INC.
Notes to Consolidated Financial Statements

Summary of Major Accounting Policies

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Other Long-Term Liabilities. Other long-term liabilities include $3,334,000 and $4,686,000 at March 31, 1986 and 1985, respectively, for insurance premiums not expected to be paid in the following fiscal year.

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SCOA INDUSTRIES INC.

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Earnings Per Share. Fully-diluted earnings per share assumed, in addition to the above, the conversion of the Predecessor Company's 10% Convertible Subordinated Debentures described in the note regarding long-term debt, as of the beginning of each year. Earnings were increased for the interest expense thereon, net of income taxes. The number of shares used in computing fully-diluted earnings per share in the period ended December 10, 1985 and in fiscal 1984 and 1983 were 18,212,730, 19,020,555 and 20,901,536, respectively.

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Intangible Assets. Amortization was $464,000 at January 25, 1986. Financing costs of $20,304,000 less $378,000 of accumulated amortization, incurred in obtaining long-term debt are capitalized and amortized over the life of the related debt using the effective-interest method.

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ASTROTECH INTERNATIONAL CORPORATION
Notes to Consolidated Financial Statements
(Dollars in Thousands Except Share Data)

1. Summary of Significant Accounting Policies

Basis of Presentation. As described in Note 6, the Company was, at September 30, 1986, in violation of loan covenants with the majority of their lenders and significant portions of long-term debt could have been accelerated under the provisions of the related loan agreements.

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MELRIDGE, INC.
Notes to Consolidated Financial Statements

Note 1: Operations and Significant Accounting Policies

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Other Assets. Other assets consist primarily of the unamortized costs of issuance relating to 1986 debt offerings, long-term deposits and cash restricted for purchase of property, plant and equipment. Debt issuance costs are amortized over the terms of related debts.

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CORDIS CORPORATION
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

a. Principles of Consolidation. The minority interest in Sentron is disclosed in the 1986 and 1985 financial statements as follows: $1,729,000 and $687,000 are included in the Consolidated Balance Sheets in long-term liabilities and $841,000 and $382,000 in the Consolidated Statements of Operations as reductions in other expenses.

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g. Product Warranties. Accrued costs applicable to warranty programs beyond one year are classified as long-term liabilities.

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DEFERRED CHARGES

LEE DATA CORPORATION
Notes to Financial Statements, March 31, 1986
(In All Tabular Information, Dollars in Thousands, Except Per Share Amounts)

1. Summary of Significant Accounting Policies

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Deferred Charges. Costs in excess of the net assets of purchased subsidiaries (goodwill) are amortized on a straight-line basis over ten years.

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NATIONAL HARDGOODS DISTRIBUTORS INC.
Notes to the Consolidated Financial Statements
As of January 25, 1986

Note A—Summary of Significant Accounting Policies

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Pre-Opening Costs. The Company amortizes pre-opening costs in connection with new units over a sixty-month period following commencement of operations. As of January 25, 1986 and January 26, 1985, pre-opening costs of $189,280 and $185,172, respectively are included in deferred charges.

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J. C. PENNEY COMPANY, INC.

Summary of Accounting Policies

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Deferred Charges. Expenses associated with the opening of new stores are written off in the year of store opening, except those of stores opened in January, which are written off in the following fiscal year. Catalog preparation and printing costs are written off over the estimated productive lives of the catalogs, not to exceed six months.

JCPenney Financial Services' policy acquisition costs, which are primarily marketing and underwriting expenses related to generating new insurance policies, are deferred and, subject to recoverability, are amortized over the expected premium paying period of the related policies. The maximum period was 15 years for life and health policies and five years for automobile and homeowners policies.

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INITIO, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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Advertising. Advertising costs associated with test programs are expensed as incurred. Advertising costs related to non-test promotions are initially deferred, then expensed to the extent of gross profits realized until fully recovered. Only after advertising costs have been completely recovered does a promotion make a contribution to operating income. Deferred costs are reviewed for recoverability and adjusted, if necessary.

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PIONEER-STANDARD ELECTRONICS, INC.
Notes to Financial Statements

1. Accounting Policies

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Other Assets. Other assets include: the excess of cost over value assigned to net assets of a purchased business, which is being amortized on the straight-line method over 40 years; cash surrender value of life insurance; security deposits; debt issuance costs, which are being amortized on the straight-line method over 15 years; and certain deferred charges.

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THE PENN TRAFFIC COMPANY
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Other Assets. The costs of leasehold interests and deferred charges classified under other assets are generally amortized over periods of 10 to 15 years using the straight-line method.

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COMP-U-CARD INTERNATIONAL INCORPORATED
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

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Deferred Membership Charges—Net. Deferred membership charges is comprised of:

January 31	1986	1985
	(in thousands)	
Deferred membership income	$(28,839)	$(19,787)
Unamortized membership acquisition costs	48,098	25,771
Deferred Membership Charges, Net	$ 19,259	$ 5,984

The related membership fees, membership acquisition costs and renewal costs, are summarized as follows:

Year Ended January 31	1986	1985
Membership fee per individual member	$25 to $30	$25 to $30
Average expenditure to obtain one individual membership:		
Initial (new) member	$30	$26
Renewal	$ 7	$ 4

The renewal costs principally represent charges from sponsoring institutions and are amortized over the renewal period. Individual memberships are principally for a one year period. These membership fees are recorded, as deferred membership income, upon acceptance of membership, net of estimated cancellations, and pro-rated over the membership period. The related initial membership acquisition costs are recorded as incurred and charged to operations as membership fees are recognized, allowing for renewals, over a three-year period. Such costs are amortized commencing with the month after the membership solicitation is completed, at the annual rate of 40%, 30% and 30%, respectively. Membership renewal rates are dependent upon the nature of the benefits and services provided by the Company in its various marketing programs. Through January 31, 1986, membership renewal rates for such programs have been at least 80%, which is sufficient to generate future revenue in excess of deferred membership acquisition costs.

Amortization of membership acquisition costs, including deferred renewal costs, amounted to $20.2 million, $7.7 million and $1.5 million for the years ended January 31, 1986, 1985 and 1984, respectively.

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EVANS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Significant Accounting Policies

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Intangibles, Contracts and Other Deferred Charges. Intangibles, contracts and other deferred charges are included in other assets at cost less amortization provided on a straight-line basis over periods ranging from 2 to 40 years.

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CONTINENTAL INFORMATION SYSTEMS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

A. Summary of Significant Accounting Policies

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Deferred Charges. Deferred charges consist primarily of the following: (A) Salesmen's commissions, relating to the leasing of equipment, which are being amortized on a straight-line basis, substantially over the term of the lease; and (B) deferred issuance costs on the 9% Convertible Subordinated Debentures, which are being amortized on a straight-line basis over 20 years.

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GENOVESE DRUG STORES, INC.
Notes to Financial Statements

1. Nature of Business and Significant Accounting Policies

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(c) Deferred Charges. Deferred lease costs represent amounts incurred to enter into certain lease agreements and are amortized over the expected life of the lease. Debt issuance costs represent amounts incurred in connection with the issuance of debt and are amortized over the outstanding life of the related debt.

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COUNTRYWIDE CREDIT INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Summary of Accounting Policies

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4. Mortgage Loans Held for Sale. Mortgage loans held for sale are carried at the lower of cost or market, which is computed by the aggregate method (unrealized losses are offset by unrealized gains). The cost of mortgage loans is adjusted by gains and losses generated from corresponding hedging transactions entered into to protect the inventory value from an increase in interest rates. Hedging losses are recognized currently if deferring such losses would result in mortgage loans held for sale being valued in excess of their estimated net realizable value. Hedge positions are also used to protect the pipeline of loan applications in process. The Company allocates hedging gains and losses between mortgage loans held for sale and the pipeline at the end of the year, and mortgage loans sold during the year, by deferring the hedging gains and losses realized over the period correlating to the commitment and warehousing term.

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RAMADA INNS, INC.
Financial Review

Statement of Significant Accounting Policies

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Deferred Charges. Debenture issuance expense is amortized on a straight-line basis over the life of the related debentures, or is charged against paid-in capital on a pro rata basis upon conversion of the debentures into common stock. Mortgage and loan issuance expenses are amortized on a straight-line basis over periods not exceeding the terms of the related mortgages or loans.

Preopening expenses incurred in connection with new hotels are generally deferred and amortized over three years using the straight-line method.

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PARISIAN, INC.
Notes to Financial Statements

1. Significant Accounting Policies

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Certain expenditures incurred prior to the opening of new stores are deferred and charged to income on the straight-line basis over a twelve-month period following the date the related store is opened.

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RYAN'S FAMILY STEAK HOUSES, INC.
Notes to Financial Statements
January 1, 1986, January 2, 1985 and December 28, 1983

Note 1. Organization and Summary of Significant Accounting Policies

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Deferred Charges. Certain costs incurred before a restaurant is opened, consisting primarily of employee training costs, are capitalized and amortized over a five-year period commencing the date the restaurant opens.

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CIRCUIT CITY STORES, INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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(d) Pre-Opening Expenses. Start-up expenses associated with the opening of new Superstores, principally employee training costs and grand opening advertising campaign expenses, are deferred and amortized ratably over an 18-month period from date of opening of Superstores. Such unamortized amounts ($2,705,000 in 1986, $790,000 in 1985) are included in other assets on the accompanying consolidated balance sheets. Start-up expenses for other stores are expensed in the fiscal year of opening.

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DEFERRED CREDITS

MSI DATA CORPORATION
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Field Service Agreements. A substantial percentage of the Company's products are sold with field service maintenance agreements which provide revenues that generally offset the cost of both direct repair work and maintenance work performed by the Company. When such revenues are received prior to providing repair and maintenance service, they are deferred and recognized over the term of the related agreements.

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BANCTEC, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 30, 1986

Note A—Summary of Accounting Policies

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Revenue Recognition. The Company derives revenue from two principal sources: equipment sales and maintenance.

Equipment Sales—Revenue for certain equipment with lengthy installation periods is recognized at the time of final acceptance by the customer. The deferred revenue represents billings in excess of revenue recognized. All other equipment sales revenue is recognized upon shipment to the customer.

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BIG B. INC.
Notes to Financial Statements
February 1, 1986

1. Summary of Significant Accounting Policies:

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Deferred Gains. Deferred gains represent the excess of proceeds over the carrying value of store locations sold under sale and leaseback agreements. The deferred gains are being amortized as a reduction of lease expense over the related lease terms.

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FORUM GROUP, INC.
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

Healthcare Services. Advance payments are received, in certain instances, for services to be provided. Recognition of these payments as income is deferred until the related services have been provided. Net operating revenues include amounts estimated by management to be reimbursable by Medicare, Medicaid and other cost-based programs. Certain hospitals within the acute care division were included in a Medicare cost reporting system which began on October 1, 1983, wherein revenues were determined under a fixed price payment system based upon the individual Medicare patient's diagnostic related group. Amounts received for treatment of patients covered by cost-based programs are generally less than established billing rates. The differences between established billing rates and amounts received are accounted for as contractual adjustments. Cost-based reimbursements are subject to examination by agencies administering the programs, and provisions are made for potential adjustments which may result from examinations. To the extent those provisions vary from the amount of settlements, earnings are charged or credited when the adjustment becomes final.

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FOREST CITY ENTERPRISES, INC.
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands Except Those Stated on a Per Share Basis)

A. Summary of Significant Accounting Policies

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4. Profit and Revenue Recognition. Construction—Income from syndication transactions and the sale of government subsidized housing projects to limited partnerships are recognized and reported when earned and, where applicable, certain minimum down payments have been received. Certain syndication income contingent upon future services or future events is deferred and recognized when those services are performed and when the contingency is removed.

Revenue and profits on long-term fixed price contracts are reflected under the percentage of completion method. On reimbursable cost-plus fee contracts, revenues are recorded in the amount of the accrued reimbursable costs plus proportionate fees at the time the costs were incurred.

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COMP-U-CARD INTERNATIONAL INCORPORATED AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

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Deferred Membership Charges. The renewal costs principally represent charges from sponsoring institutions and are amortized over the renewal period. Individual memberships are principally for a one year period. These membership fees are recorded, as deferred membership income, upon acceptance of membership, net of estimated cancellations, and pro-rated over the membership period. The related initial membership acquisition costs are recorded as incurred and charged to operations as membership fees are recognized, allowing for renewals, over a three-year period. Such costs are amortized commencing with the month after the membership solicitation is completed, at the annual rate of 40%, 30% and 30%, respectively. Membership renewal rates are dependent upon the nature of the benefits and services provided by the Company in its various marketing programs. Through January 31, 1986, membership renewal rates for such programs have been at least 80%, which is sufficient to generate future revenue in excess of deferred membership acquisition costs.

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SCIMED LIFE SYSTEMS, INC.
Notes to Financial Statements

A. Summary of Significant Accounting Policies:

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Deferred Contract Revenue. Contract revenue is recognized under the percentage of completion method after the estimated costs to complete the contracts become determinable.

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SYSTEMS ASSOCIATES, INC.
Notes to Consolidated Financial Statements
January 31, 1986, 1985, and 1984

1. Summary of Significant Accounting Policies:

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Revenue Recognition. The Company provides hospitals with turnkey integrated computer systems. Under its standard contract, the Company sells computer equipment and grants to the client the right to use its software in conjunction with the hardware. The Company records the full amount of the contract revenue as a receivable upon shipment of the hardware to the client and defers an allocated portion thereof as revenue associated with subsequent installation activities. Such deferred revenue, which includes an appropriate profit margin, is recognized as revenue over the system installation period (ordinarily four to eight months following hardware shipment).

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SOLITRON DEVICES, INC.
Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

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Deferred Income. The Company receives payment on some contracts in advance. These revenues are deferred and recognized as income in the period in which the related products or services are delivered. The gain on the sale and leaseback of the Riviera Beach facility was also deferred and was being recognized ratably over the leaseback period (see Deferred Income note).

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NORTH AMERICAN NATIONAL CORPORATION
Notes to Financial Statements

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Investments.

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Gains and losses on real estate sales are recognized in accordance with the provisions of Financial Accounting Standards Board Statement No. 66, "Accounting for Sales of Real Estate." When an uncertainty exists as to the collectibility of receivables arising from real estate sales, the Company uses the cost recovery method of accounting for profit recognition. At March 31, 1986, $69,528 of gain was deferred under this method. During the fiscal year ended March 31, 1985, $265,327 of gain which had been deferred was recognized as "Realized Gain on Investments," as the Company collected the related receivable.

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QUALITY SYSTEMS, INC.
Notes to Financial Statements

Note 1. Description of the Company and Summary of Significant Accounting Policies

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Deferred Service Revenue. Deferred service revenue represents billings for computer maintenance services to be rendered by the Company. Revenues are subsequently recognized as services are rendered.

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AMREP CORPORATION
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting and Financial Reporting Policies:

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Sales of Land. Revenues contingent upon the performance of certain obligations are deferred at the time of sale and subsequently recognized in income as obligations for such improvements are met.

Interest on contracts recorded on the installment method is included in income when it is received.

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BARON DATA SYSTEMS
Notes to Consolidated Financial Statements

Note 1. Summary of Accounting Policies

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Deferred Service Revenue. Deferred service revenue represents customer prepayments of software and hardware maintenance agreements and is recognized ratably over the life of the agreement.

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GERBER SCIENTIFIC, INC.

Summary of Significant Accounting Policies

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Foreign Currency Translation. Assets and liabilities of foreign subsidiaries are translated at year-end exchange rates, and related revenues and expenses are translated at average exchange rates during the year. Resulting translation adjustments, together with gains and losses on intercompany foreign currency transactions of a long-term investment nature, are deferred and accumulated as a separate component of shareholders' equity.

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DISCONTINUED OPERATIONS

DAYTON HUDSON CORPORATION

Summary of Accounting Policies

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Reclassification of Accounts. From 1978 through 1983, we reported the disposition of our real estate business as discontinued operations. Because virtually all of these assets had been sold and all related costs incurred, discontinued operations were combined with our retail business beginning in 1984. Various reclassifications were made in 1984 to the previously reported 1983 amounts to conform with the current presentation.

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K MART CORPORATION
Notes to Consolidated Financial Statements

(A) Summary of Significant Accounting Policies

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Basis of Consolidation. The company includes all majority-owned retail subsidiaries in the consolidated financial statements. The accounts of Furr's Cafeterias, Inc., Bishop Buffets, Inc. and Bargain Harold's Discount Limited are included in the consolidated financial statements on the basis of fiscal years generally ending on December 31. Investments in affiliated retail companies owned 20% or more are accounted for by the equity method using their December financial statements. All significant intercompany transactions and accounts have been eliminated in consolidation. Certain amounts in the consolidated statements of income for periods prior to fiscal 1985 have been reclassified to give effect to the discontinued operations as described in Note (B).

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NATIONAL MINE SERVICE COMPANY
Notes to Consolidated Financial Statements
For the Fiscal Years Ended March 29, 1986, March 30, 1985 and March 31, 1984
(Dollars in Thousands)

1. Summary of Significant Accounting Policies:

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c. *Basis of Presentation.* The Consolidated Financial Statements give effect to the discontinued operations described in Note 2 for fiscal 1986 and restate fiscal 1985 and 1984 accordingly. The Notes to Consolidated Financial Statements in this report exclude or distinguish between the continuing or discontinued operations unless otherwise stated.

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TOM BROWN, INC.
Notes to Consolidated Financial Statements
March 31, 1986, 1985 and 1984

(1) Summary of Significant Accounting Policies

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Discontinued Operations. During fiscal 1984, the Company sold substantially all of the assets and liabilities of Oncor Corporation (Oncor), its drilling tool manufacturing subsidiary. In addition, on September 7, 1984 the Company distributed the stock of TMBR Drilling, Inc. (TMBR), its contract drilling subsidiary, to the shareholders of Tom Brown, Inc.

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F.W. WOOLWORTH CO.

Summary of Significant Accounting Policies

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Discontinued Operations. In 1982 the Company discontinued its U.S. Woolco operations and sold its 52.6% interest in its British subsidiary. These businesses have been accounted for as discontinued operations since September 24, 1982 and October 31, 1982, respectively.

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INTERMARK INC.
Notes to Consolidated Financial Statements
March 31, 1986

Note 1—Accounting Policies

Consolidation. Companies sold or scheduled for disposition are classified as discontinued operations in all periods presented. All significant intercompany accounts and transactions are eliminated.

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RENAL SYSTEMS, INC.
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

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1. Consolidation Policy. The consolidated financial statements include the accounts of the Company and its wholly-owned international sales corporations. The Company's domestic international sales corporation discontinued operations on December 31, 1984 and was replaced by a foreign sales corporation (FSC). The FSC has been inactive since inception through March 31, 1986. All intercompany balances and transactions have been eliminated in consolidation.

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EARNINGS PER SHARE

THE CLOTHESTIME, INC.
Notes to Financial Statements
January 26, 1986

Note A. Summary of Accounting Policies

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Earnings Per Share. Earnings per share are computed based on the weighted average number of common shares and share equivalents (stock options) assumed outstanding during each period. Fully diluted per share amounts are not materially different from the amounts presented for primary earnings per share.

Stock Splits. During the year ended January 29, 1984, the Company's Board of Directors approved an amendment to the Articles of Incorporation increasing the authorized number of common shares from 5,000,000 to 15,000,000, changing the common stock from no par to $.01 par value, and effecting a split-up of the common shares from 713,750 to 4,000,000. During the year ended January 26, 1986, the Board of Directors approved a 3-for-2 split-up of the outstanding common stock. On March 21, 1986, the Board of Directors authorized a 2-for-1 split-up of the outstanding common stock held by shareholders of record on April 2, 1986.

All per share earnings and references to the Company's common stock have been retroactively restated to reflect the increased number of common shares outstanding.

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ROSE'S STORES, INC.
Notes to Financial Statements
Years Ended January 29, 1986; January 30, 1985; and January 25, 1984
(Dollar Amounts in Thousands Except Per Share Amounts)

1. Summary of Significant Accounting Policies

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Earnings Per Share. Earnings per share is computed on the weighted average number of shares outstanding during the year. The average number of shares used to compute earnings per share was 10,264,668 shares for the year ended January 29, 1986; 10,265,514 shares for the year ended January 30, 1985 and 9,663,130 shares for the year ended January 25, 1984.

RSI CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Significant Accounting Policies

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Net Income Per Common Share. Per share data are computed based on the weighted average number of shares of Common Stock, including Class A shares, outstanding during the years, adjusted retroactively for the 25% stock split effective after August 31, 1986.

SUBARU OF AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
October 31, 1986, 1985 and 1984

Note 1. Accounting Policies

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Net Income Per Common Share. The computations of earnings per common share are based on the weighted average number of shares outstanding during the years, and have been adjusted for the eight-for-one stock split distributed on May 1, 1986. Earnings per common share are equivalent to fully-diluted earnings per share.

PURITAN-BENNETT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 1986

Note A—Significant Accounting Policies

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Net Income (Loss) Per Common Share. Net income (loss) per common share is based on the weighted average number of shares outstanding during each year, restated for the stock split during 1986. The effect of stock options is not material.

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THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 1986, 1985 and 1984

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Net Income Per Common Share. Net income per common share was computed based on the average number of common shares and common share equivalents outstanding during the year.

Stock Split. The par value of additional shares of common stock issued in connection with a two-for-one stock split distributed during March, 1986, was credited to common stock and a like amount charged to other capital.

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FIRST VALLEY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

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Per Share Amounts. Income per share is computed based on the weighted average number of shares outstanding during each year, adjusted to reflect the two-for-one stock split, in the form of a 100% stock dividend paid April 7, 1986. Per share amounts do not reflect the assumed exercise of stock options because such exercise would result in insignificant dilution.

LOTUS DEVELOPMENT CORPORATION
Notes to Consolidated Financial Statements

B. Summary of Significant Accounting Policies

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Earnings Per Share. Net income per share is calculated using the weighted average number of common shares and common share equivalents outstanding during the year, restated for a three-for-one stock split effected in the form of a 200% stock dividend on February 23, 1987. Common share equivalents were attributable to stock options.

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MARYLAND NATIONAL CORPORATION
Notes to Consolidated Financial Statements
Dollars in Thousands

Note A—Summary of Significant Accounting Policies

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Earnings Per Share. Primary earnings per share are computed based on the weighted average number of common shares outstanding during each year applied to earnings available for common shares. Earnings available for common shares have been adjusted for the dividend requirement of the 11.25% Redeemable preferred stock.

Fully diluted earnings per share were determined based upon the assumption that the Redeemable preferred stock and Zero coupon convertible note were converted and earnings were increased for the interest cost of the note, net of applicable income taxes.

Options and stock appreciation rights granted under the Corporation's stock option plans are considered common stock equivalents for the purpose of earnings per share data but have been excluded from the computation since their effect is not material.

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CHAPARRAL RESOURCES, INC.
Notes to Financial Statements

Note A—Summary of Significant Accounting Policies

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8. Earnings (Loss) Per Common Share. Earnings (loss) per common and common equivalent share is based on the weighted average number of shares outstanding. Shares issuable upon conversion of the 10% convertible subordinated debentures are considered common stock equivalents; however, they have not been considered in the computation of earnings (loss) per share as the effect is not material in 1985 and anti-dilutive in 1986 and 1984. Options are not included in the computation because they would be anti-dilutive in 1986 and 1984 and they have no material dilutive effect in 1985.

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MORRISON INCORPORATED AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Earnings Per Share. Earnings per common and common equivalent share are computed using the weighted average number of outstanding shares and the shares that would have been outstanding if all dilutive stock options had been exercised and the proceeds used to purchase shares of the Company's common stock at average market prices during each period. Fully diluted earnings per common and common equivalent share are the same as primary earnings per common and common equivalent share in 1986, 1985 and 1984. All per share data has been restated to reflect the effects of common stock dividends declared through May 31, 1986.

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VERTIPILE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Accounting Policies

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Earnings Per Share. Earnings per share of Common Stock has been computed on the basis of the weighted average number of shares outstanding in each year (1,652,592 shares in 1986; 1,583,519 shares in 1985; 1,305,832 shares in 1984). The dilutive effect of outstanding stock options as Common Stock equivalents is not material.

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VF CORPORATION AND WHOLLY-OWNED SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Accounting Policies

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Net earnings per share are calculated on the basis of the average number of shares outstanding.

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EMPLOYEES STOCK OWNERSHIP PLAN (ESOP, TRASOP, PAYSOP)

GOLDEN ENTERPRISES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
May 31, 1986, 1985 and 1984

Note 1: Summary of Significant Accounting Policies

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Employee Benefit and Stock Option Plans. The Company and its subsidiaries have trusteed "Qualified Profit-Sharing Plans." The plans are "Non-Formula" plans and the annual contributions to the plans are determined by the applicable Board of Directors. The profit-sharing expenses for the years ended May 31, 1986, 1985 and 1984 were $527,851, $865,239 and $794,216, respectively.

The Company and its subsidiaries have an Employee Stock Ownership Plan. The annual contributions to the plan are amounts determined by the Board of Directors of the Company and each of its subsidiaries. Annual contributions are made in cash or common stock of the Company. The Employee Stock Ownership Plan expenses for the years ended May 31, 1986, 1985 and 1984 were $948,976, $701,033 and $629,584, respectively.

The contributions to the Profit-Sharing Plans and the Employee Stock Ownership Plan may not exceed fifteen percent of the total compensation of all participating employees. The Company expects to continue these plans indefinitely; however, the rights to modify, amend or terminate the plans have been reserved.

On September 23, 1982, the Company's shareholders approved the "1982 Incentive Stock Option

Plan" for certain employees of the Company and its subsidiaries. The plan provides that options may be granted to key employees for the purchase of up to 355,555 shares of the Company's common stock. The options are exercisable two years after date of grant at prices not less than the market value at date of grant. The options granted, if not exercised, will expire two years from the date they are exercisable. Options for 76,450 shares were granted during the year ended May 31, 1983, at an average option price of $4.10 per share. Options for 38,224 shares were granted during the year ended May 31, 1984, at an average option price of $10.83 per share. Options for 36,662 shares were granted during the year ended May 31, 1985, at an average option price of $11.63 per share. Options for 32,000 shares were granted during the year ended May 31, 1986, at an average option price of $15.50 per share. The plan expires July 7, 1992, except as to options outstanding on that date; however, the rights to amend, suspend or terminate the plan have been reserved.

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FIRSTCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

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(k) Employee Stock Ownership Plan. The Company's policy is to fund contributions to the Employee Stock Ownership Plan as they accrue.

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HOLLY SUGAR CORPORATION AND SUBSIDIARY
Notes to Financial Statements

1. Summary of Accounting Policies:

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Employee Stock Ownership Plan. An Employee Stock Ownership Plan (ESOP), as defined in Section 4975 (E)(7) of the Internal Revenue Code, was established for Company employees. The ESOP covers employees who are neither covered by nor eligible to be covered under a collective bargaining agreement.

The ESOP is designed primarily to invest in Common Stock of the Company. The Company's contributions for fiscal 1985 and 1984 were $493,437 and $478,331, respectively. Such amounts were charged to expenses. No contributions were made in fiscal 1986.

The Company contributed 7,240; 973 and 8,938 shares of the Company's Common Stock held in the treasury in 1986, 1985 and 1984, respectively, in satisfaction of the Company's liability to the ESOP. The Common Stock contribution increased Additional Paid-in Capital by $317,000, $16,000 and $191,000, respectively.

Under the ESOP, the Board authorized a contribution equal to 5% of the compensation of all participants eligible to share in such contribution during fiscal 1985 and 1984. Each participant has a vested interest in the plan accruing at the rate of 10% for each year of service and becomes 100% vested upon retirement, disability or death, regardless of years of service.

In addition, the Company may contribute amounts equal to income tax credits available under the Revenue Act of 1978 and Economic Recovery Tax Act of 1981. Distributions under this provision are 100% vested at the date of contribution.

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AEL INDUSTRIES, INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Employee Benefit Plans. The Company and a wholly-owned subsidiary maintain noncontributory pension plans covering salaried and hourly employees after a specified period of service. The Company's policy is to fund at a minimum the amount required under the Employee Retirement Income Security Act of 1974. Under the Company's Retirement Savings Plan, eligible employees may contribute a percentage of their annual compensation. The Company makes a matching contribution for the first three percent and one half of the next two percent. The Company also has a profit sharing plan and adopted, in fiscal year 1986, a tax qualified payroll-based employee stock ownership plan (PAYSOP) covering eligible salaried and hourly employees.

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CLARK CONSOLIDATED INDUSTRIES, INC.
Notes to Consolidated Financial Statements
January 31, 1986, 1985 and 1984

Note A—Summary of Significant Accounting Policies

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Employee Benefit Plans. The Company has a defined-benefit pension plan which covers substantially all employees. The Company's policies with regard to the plan are to amortize prior service cost over a 30-year period and to fund pension cost accrued.

The Company also has an employee Stock Ownership Plan (PAYSOP) covering substantially all non-union employees. Company contributions are discretionary with the Board of Directors and are funded as accrued.

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UNITED STATES SUGAR CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Accounting Policies:

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Retirement Income Plans. The Corporation and its subsidiaries have a noncontributory defined benefit retirement income plan and a defined contribution plan (ESOP) (see Note 7). These plans cover substantially all permanent employees. The Corporation funds the defined benefit plan based on the requirements of the Employee Retirement Income Security Act of 1974, under which amounts funded may vary from pension expense accrued. Because of the establishment of the defined contribution plan, pension expense relating to the defined benefit plan was insignificant for 1986, 1985 and 1984.

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CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

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Employee Benefit Plans. The Subsidiary's Tax Credit Employee Stock Ownership Plan (PAYSOP) invests the annual contribution in the Common Stock of the Company. The contributions to the PAYSOP are offset by an equal reduction in Federal income tax (PAYSOP credit). Contributions to the PAYSOP were $19,000, $17,000 and $54,000 respectively for the years 1986, 1985 and 1984. The matching reduction to Federal income tax expense is repealed after December 31, 1986.

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CLARK CONSOLIDATED INDUSTRIES INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
January 31, 1986, 1985 and 1984

Note A—Summary of Accounting Policies

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Employee Benefit Plans. The Company also has an employee Stock Ownership Plan (PAYSOP) covering substantially all non-union employees. Company contributions are discretionary with the Board of Directors and are funded as accrued.

ENTITLEMENTS

FREEPORT-McMORAN INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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Gas Revenues. Revenues are recorded on the entitlement method based on the Company's percentage ownership of current production.

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TRANSCO EXPLORATION PARTNERS, LTD.
Notes to Financial Statements

B. Summary of Significant Accounting Policies

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Gas Balancing. TXP follows the entitlement method of accounting for gas balancing. Gas out-of-balance conditions arise because each working interest owner in a well has the right to a specific percentage of production. Actual production sold by one owner may be different than such owner's ownership percentage in a given period. Under entitlement accounting, the overproduced owner treats the excess amounts received as unearned revenue (a liability) and the underproduced party accrues a receivable for the amount of gas taken by the other owner's purchasers. TXP has both overproduced and underproduced situations and such amounts are shown on the accompanying balance sheet as deferred gas revenue and a natural gas receivable, respectively.

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies and Reorganization:

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Income Taxes. Income taxes are provided at the appropriate rates for all taxable items included in income regardless of the period in which such items are reported for tax purposes. The principal timing differences arise from recognition of revenue for tax return purposes at the time of contract completion or billing entitlement rather than on the percentage-of-completion method, from contributions to an employee beneficiary association and from stock and deferred compensation. Investment tax credits are recognized during the period in which the assets to which they relate are placed in service.

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ULTRASYSTEMS INCORPORATED AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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Income Taxes. Deferred income taxes are provided for items taken into account in different periods for financial and tax reporting purposes. Such differences arise primarily from recognition of revenue for tax return purposes at the time of contract completion, billing entitlement or cash receipt rather than on the basis of percentage of completion which is used for financial statement purposes, as well as from accelerated cost recovery ("ACRS") of equipment and improvements for tax return purposes. Investment and energy tax credits are claimed as a reduction of the provision for federal taxes under the flow-through method of accounting. Investment and energy tax credits applicable to long-term projects constructed for ventures in which the Company owns an equity interest are claimed on the qualified progress expenditure method for tax return and financial statement purposes.

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THE PILLSBURY COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Accounting Policies

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Foreign Exchange. Foreign currency balance sheets are translated at the end-of-period exchange rates, and earnings statements are translated at the average exchange rates for each period. Local currencies, except in Mexico, have been determined to be functional currencies. The resulting translation gains or losses are recorded in the "Accumulated Foreign Currency Translation" caption within shareholders' equity. Because of its hyperinflationary economy, Mexican translation adjustments are recognized immediately in earnings.

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H.J. HEINZ COMPANY AND CONSOLIDATED SUBSIDIARIES
Noted to Consolidated Financial Statements
(Dollars in Thousands Except Per Share Data)

1. Significant Accounting Policies

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Translation of Foreign Currencies. Balance sheet accounts are translated at the exchange rate in effect at each year end and income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included in the cumulative translation adjustment account in shareholders' equity.

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K MART CORPORATION
Notes to Consolidated Financial Statements

(A) Summary of Significant Accounting Policies

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Foreign Operations. Foreign currency assets and liabilities are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Results of operations are translated at average exchange rates during the period for revenues and expenses. Translation gains and losses resulting from fluctuations in the exchange rates are accumulated as a separate component of shareholders' equity.

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McDERMOTT INTERNATIONAL, INC.
Notes to Consolidated Financial Statements
For the Three Fiscal Years Ended March 31, 1986

Note 1—Summary of Significant Accounting Policies

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Foreign Currency Translation. Effective April 1, 1983, McDermott International adopted FASB Statement No. 52, on Foreign Currency Translation. Under that Statement, for certain foreign operations, all balance sheet accounts other than stockholders' equity are translated into U.S. Dollars at current exchange rates, and income statement items are translated at average exchange rates for the year; resulting translation adjustments are recorded in a separate component of stockholders' equity. Certain other foreign currency transaction adjustments continue to be reported in income. The impact of adopting FASB Statement No. 52 in fiscal 1984 was not material. Included in other income (expense) are transaction losses of $9,028,000, $5,645,000 and $15,334,000 for fiscal 1986, 1985 and 1984, respectively.

Adoption of the Statement resulted in establishing a cumulative foreign exchange translation adjustments account as part of stockholders' equity. The analysis of changes in this account is as follows:

	(In thousands)
Balance March 31, 1983	$
Adjustments to opening balance at April 1, 1983	(17,885)
Translation adjustments for fiscal 1984	(7,836)
Balance March 31, 1984	(25,721)
Translation adjustments for fiscal 1985	(14,409)
Balance March 31, 1985	(40,130)
Translation adjustments for fiscal 1986	8,103
Balance March 31, 1986	$(32,027)

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F.W. WOOLWORTH CO.

Summary of Significant Accounting Policies

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Foreign Currency Translation. In accordance with Statement of Financial Accounting Standard No. 52, all assets and liabilities have been translated at the exchange rates prevailing at the respective balance sheet dates, and all income statement items have been translated using the weighted average exchange rates during the respective years. The gains and losses resulting from translating assets and liabilities at current rates are reported in shareholders' equity. Gains and losses from foreign currency transactions are reported in income.

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RAPID-AMERICAN CORPORATION
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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Foreign Currency Translation. Effective as of February 1, 1983, Rapid changed its method of translating financial statements of investments stated in foreign currencies to conform with Statement No. 52 of the Financial Accounting Standards Board. An equity adjustment of $3,167,000 was recorded as of February 1, 1983 for the cumulative effect of Statement No. 52 on prior years.

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GENERAL MILLS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note One: Summary of Significant Accounting Policies

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H. Foreign Currency Translation. For most foreign operations, local currencies are considered the functional currency. Assets and liabilities are translated using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates prevailing throughout the period. Translation effects are accumulated as part of the foreign currency adjustment in stockholders' equity.

Gains and losses from foreign currency transactions are generally included in net earnings for the period.

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LEAR SIEGLER, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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Foreign Currency Translation. Foreign currency financial statements for subsidiaries in countries which are not considered to have highly inflationary economies have been translated into U.S. dollars at current exchange rates, with the exception of sales, costs and expenses, which are translated at average rates of exchange for the year. Resulting gains and losses are included in the foreign currency translation adjustment component of shareholders' equity.

Translation of financial statements for subsidiaries in Mexico and Brazil, countries which are considered to have had highly inflationary economies in 1986, 1985 and 1984, resulted in losses of approximately $800,000, $1,900,000 and $1,300,000, respectively, which are included in results of operations.

Gains and losses resulting from foreign currency transactions, which were not material, are also included in results of operations.

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THE PROCTER & GAMBLE COMPANY
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Currency Translation. Assets and liabilities denominated in most foreign currencies are translated into U.S. dollars at year-end exchange rates and related gains and losses are reflected in shareholders' equity. Gains and losses from foreign currency transactions and translation adjustments in highly inflationary economies are reflected in earnings.

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STALEY CONTINENTAL INC.

Summary of Significant Accounting Policies

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Foreign Currency Translation. Except as noted in the following paragraph, financial statements of operations outside the United States are translated into U.S. dollars using a current exchange rate. Gains or losses on such translations are not included in determining net earnings but are reflected as foreign currency translation adjustments as a separate component of shareholders' equity.

For operations in highly inflationary economies, nonmonetary balance sheet items (primarily fixed assets) are translated using historical exchange rates, and monetary gains or losses are included in net earnings.

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PIONEER ELECTRONIC CORPORATION AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Accounting Policies:

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Foreign Currency Translation. Generally, all asset and liability accounts of foreign subsidiaries are translated at year-end rates, all revenue and expense accounts are translated at rates prevailing at the time of the transactions and the resulting translation adjustments are accumulated and reported as a component of shareholders' equity.

Foreign currency receivables and payables, primarily in U.S. dollars, of the parent company and subsidiaries in Japan are translated into yen at the rate in effect at the balance sheet date or forward exchange contract rates, and the resulting translation gains or losses are credited or charged to income currently.

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FRANCHISE AND LICENSE

STAFF BUILDERS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1—Summary of Significant Accounting Policies:

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Operating Revenues and Cost of Services. Operating revenues, including income from franchisees, and cost of services are recorded in the period during which services are rendered. Franchise income is based principally upon a contractual percentage of franchise sales.

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SIZZLER RESTAURANTS INTERNATIONAL, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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Franchises and Fees. The Company recognizes initial franchise fees as income on the date a restaurant is opened, at which time the Company has substantially performed its obligations relating to such fees. Initial franchise fees included in revenues were $414,000 in 1986, $254,000 in 1985, and $119,000 in 1984. Royalties from franchise agreements are taken into income on an accrual basis as the fees are earned.

The Company's area franchise agreements represent the cost to purchase previously granted area franchise agreements from franchisees and are being amortized over 12 to 40 years.

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STANDARD SHARES, INC.
Notes to Consolidated Financial Statements
(Dollars in Thousands, Except per Share Data)

1. Summary of Significant Accounting Policies

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(g) Intangibles. Goodwill, trademarks and trade names capitalized after 1970 are being amortized on a straight-line basis over 10 to 40 years.

Other intangibles, consisting of patents, customer mailing lists and license agreements acquired in purchase transactions or developed, are capitalized and amortized on a straight-line basis over their useful lives.

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WESTERN STEER—MOM 'N' POP'S, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Fiscal Years Ended February 28, 1986, February 22, 1985 and February 24, 1984

Note 1—Summary of Significant Accounting Policies:

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Franchise and Royalty Fees. Initial franchise fees are recognized as revenue when substantially all of the services required of the Company by the franchise agreement have been performed, which is the earlier of the date the franchised unit opens or one year from the date of the agreement. Royalty fees are accrued as earned based on franchisees' sales.

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DREXLER TECHNOLOGY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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License and Engineering Fees. During fiscal 1983, the Company entered into an agreement for another party to develop certain read-only and write/read equipment for the Company's optical memory cards. The Company also entered into license agreements as follows: seven in fiscal 1983, six in fiscal 1984, seven in fiscal 1985, and two in fiscal 1986 whereby, for a one-time fee, the licensees obtain nonexclusive rights to the equipment design information, use of equipment patents, and the right to distribute the Company's optical memory cards. Through the end of the first quarter of fiscal 1984, at which time all costs under the original development agreement had been incurred, the Company recognized such fees as revenues on a pro-rata basis as costs were incurred for the development of such equipment. Beginning in the second quarter of fiscal 1984, the full amount of license fees was recognized as revenues when the license agreement was finalized. Fees related to an engineering and manufacturing support contract entered into in fiscal 1986 are being recognized as revenues over the performance period of the contract. Costs related to license and engineering fees are included in research and development expenses, as it is not practical to separately allocate such costs.

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COMPUTER ASSOCIATES INTERNATIONAL, INC.
Notes to Consolidated Financial Statements

Note 1—Significant Accounting Policies

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Basis of Revenue Recognition. Mainframe and micro product revenue is recognized upon acceptance of the product by the client at the contract effective date. In addition micro software product revenue from dealers and distributors is recognized upon shipment. Installment accounts receivable resulting from product sales (perpetual and fixed-term licenses) with extended payment terms are discounted to present value using the rate estimated to be implicit in the contract. The amounts of the discount credited to operations, using the sum-of-the-years digits method, for the years ended March 31, 1986, 1985 and 1984 were $4,411,000, $2,646,000, and $2,161,000 respectively.

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THE CONTINUUM COMPANY, INC.
Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

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Recognition of Revenue. Sales of proprietary software systems licenses are recognized on the date the software contracted for by the license is deliverable. Revenue from sponsored enhancements to the Company's software system and from development of new software systems for which the cumulative value of noncancellable contracts receivable exceeds the estimated cost to complete such development is recognized based on an estimated percentage-of-completion. Projected losses, if any, are recognized in their entirety in the period they become identifiable without reference to percentage-of-completion.

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H&R BLOCK, INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

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D. Excess of Cost Over Fair Value of Assets Acquired. The excess of cost of purchased subsidiaries, operating offices and franchises over the fair value of net tangible assets acquired are being amortized principally on a straight-line basis over periods up to 40 years.

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PONDEROSA, INC.
Notes to Consolidated Financial Statements

Note A—Significant Accounting Policies

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Other Assets. Comprised primarily of intangible assets resulting from certain acquisitions, including reacquired franchise rights, and deferred pre-opening and development expenses. Other assets are being amortized by the straight-line method over periods up to 40 years.

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RAND INFORMATION SYSTEMS, INC.
Notes to Consolidated Financial Statements

1—Summary of Significant Accounting Policies

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Depreciation and Amortization. Depreciation and amortization are computed by the straight-line method using the following estimated useful lives:

Buildings	40 Years
Computer equipment	5 Years
Software license agreement	10 Years
Office furniture and equipment	10 Years

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ASHTON-TATE
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

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Revenue Recognition. The Company recognizes revenues and accrues related royalities as the products are shipped. The Company recognizes revenues from hardware Original Equipment Manufacturers as licensing of such units is reported to the Company. The Company has entered into agreements pursuant to which advance payments for future license fees and software development have been received by the Company. Revenues relating to advance payments under these agreements are recognized in various stages upon the acceptance of each of the products by the parties to the agreement. All costs relating to these projects are expensed as incurred.

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MAVERICK RESTAURANT CORPORATION
Notes to Financial Statements

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Note 2—Accounting Policies

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License Fees. A license fee for each restaurant is payable on commencement of construction. Amortization is provided, beginning when the restaurant is opened, on the straight-line method over the initial term of the related restaurant lease.

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COLLINS FOODS INTERNATIONAL, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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Franchise Operations and Licenses. The Company recognizes initial franchise fees as income when the franchised restaurant commences operation, at which time the Company has substantially performed its obligations relating to such fees. Royalties, which are based upon a percentage of sales, are recognized as income on the accrual basis.

The cost of Kentucky Fried Chicken franchise licenses and repurchased Sizzler area franchise agreements is amortized over the lesser of the remaining life of the license or 40 years.

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STANDARD MICROSYSTEMS CORPORATION
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

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Licensing Revenues. Nonrefundable lump-sum fees are recognized as income within the period stipulated in the agreement. All other license fees are recognized as income over the period of patent usage or the period over which the Company is required to perform significant future services for the licensee, whichever is applicable. Lump-sum license fees and running royalties have generally been paid to the Company for one or more of the following purposes: to eliminate claims for past patent infringement, to obtain future rights, or to obtain proprietary information. Revenues from patent licensing agreements, patent/technology licensing agreements and second-sourcing agreements are included in sales and revenues.

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BGS SYSTEMS, INC.
Notes to Consolidated Financial Statements

Note A—Significant Accounting Policies

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Revenue Recognition. License fees for the Company's software products are recognized as revenue as follows: the portion which relates to the customers' "right to use" the products is recognized at the time the computer tapes are delivered. The portion which relates to maintenance, enhancements and training of customer personnel for a one-year period is deferred and is recognized as license fee revenue ratably over the term of the agreement. Revenues from maintenance renewal contracts are recognized ratably over the contract periods. Revenues from long-term government contracts are recognized under the percentage-of-completion method, based upon the percentage that costs incurred to date bear to estimated total costs. Consulting revenue is recognized as services are performed.

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TAFT BROADCASTING COMPANY
Notes to Consolidated Financial Statements
(In Thousands, Except Share Data)

(1) Summary of Significant Accounting Policies

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Film Production. Program production costs are stated at the lower of amortized cost or market. The current portion of program production costs includes the unamortized costs of films in release allocated to the primary market and television films in production which are under license agreements to the networks. Other costs related to film production are classified as non-current assets.

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The majority of program production costs are incurred in the production of programs for the U.S. television networks, and a substantial portion of these costs are recouped from network license fees in the same fiscal year. Accordingly, the Company reflects only the net change in this asset in the consolidated statements of changes in financial position.

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Contracts, Broadcasting Licenses and Other Intangibles. Contracts, broadcasting licenses and other intangibles represent the excess of the consideration paid for the purchase of businesses over the amounts assigned to the net tangible assets acquired, and over 95% of these amounts relate to acquisitions of broadcast properties. Intangibles arising prior to November 1, 1970, are stated at cost and are not reduced until such time as a decrease in their value becomes evident. Intangibles, aggregating $638,123 at March 31, 1986, related to businesses purchased after October 31, 1970, are stated at cost, less amortization, and are amortized over periods ranging from 1 to 40 years.

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INTANGIBLES

SECURITY TAG SYSTEMS, INC.
Notes to Financial Statements

(1) Summary of Significant Accounting Policies

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(f) Intangible Assets. Intangible assets are stated at cost, less applicable amortization. The investment in intangible assets of Securitag International Limited ("STIL") is being amortized over a period of 180 months. The rights to a vehicle identification system ("VIS") will be amortized over a period of 60 months when sales of this product commence.

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GENERAL MICROWAVE CORPORATION
Notes to Consolidated Financial Statements

A. Summary of Significant Accounting Policies

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Intangible Assets. Intangible assets consist of patents and leasehold recorded at cost. Amortization is computed on a straight-line basis over the estimated useful lives of the assets, 17 years for patents and the remaining life of the lease for the leasehold.

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THE HARVEY GROUP INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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Goodwill. Goodwill represents the cost in excess of net assets acquired of the Boerner Division. Goodwill attributable to this acquisition made prior to November 1, 1970 is not being amortized, since in the opinion of management, it has continuing value.

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UNITED EDUCATION & SOFTWARE
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

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Intangible Assets. Intangible assets recorded in connection with acquisitions (note 2) consist of student cirriculums and software costs amounting to $471,000 and $216,000 at January 31, 1986 and $477,000 and $205,000 at January 31, 1985, respectively. Software costs of $137,000 were deferred during the fiscal year ended January 31, 1985 and $60,000 for 1986. Intangible assets are being amortized over five to ten years using the straight-line method. The amortization for the years ended January 31, 1986, 1985 and 1984 was $433,000, $732,000 and $283,000, respectively.

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ZAYRE CORP.
Notes to Consolidated Financial Statements

Summary of Accounting Policies

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Goodwill. Goodwill represents the excess of purchase price incurred over the cost assigned to identified assets of companies acquired prior to November 1, 1970 and is not being amortized.

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SUPER VALU STORES, INC.
Notes to Financial Statements

A. Summary of Significant Accounting Policies:

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Intangible Assets. Goodwill, trademarks and customer lists are being amortized over periods ranging from 3 to 20 years using the straight-line method. Leasehold interests are being amortized over the lives of the leases.

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WATERS INSTRUMENTS, INC.
Notes to Financial Statements

1. Nature of Business and Significant Accounting Policies

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Intangible Asset. Cost in excess of net assets acquired is amortized on a straight-line basis over a twenty-year period beginning in 1983.

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TSI INCORPORATED
Notes to Consolidated Financial Statements

Note A—Significant Accounting Policies

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Intangible Assets. The costs of intangible assets are being amortized on a straight line basis over three to twenty years.

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MENTOR CORPORATION
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

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Intangible Assets. Patents, licenses and trademarks are recorded at purchased cost less accumulated amortization and are amortized over their economic life ranging from one to twenty years. Goodwill is amortized over 30–40 years.

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BARON DATA SYSTEMS
Notes to Consolidated Financial Statements

Note A: Summary of Accounting Policies

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Intangibles. Intangibles included software, management contracts and other intangibles relating to the acquisition of Document Automation Corporation and are being amortized over their estimated useful lives which range from two to seven years.

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KALVAR CORPORATION
Notes to Consolidated Financial Statements

A. Summary of Significant Accounting Policies:

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Intangibles. The excess of investment of net assets of businesses acquired relates primarily to the acquisition of Northwest Microfilm, Inc. and subsidiary in 1980 and the 1982 acquisitions of computer output microfile (COM) centers. Intangible assets are being amortized on a straight-line basis over a 40-year period.

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MESABI TRUST
Notes to Financial Statements
Years Ended January 31, 1986, 1985 and 1984

1) Summary of Significant Accounting Policies:

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(b) Fixed Property, Including Intangibles. The fixed property, including intangibles, is recorded at nominal values and includes the following:

(1) The entire beneficial interest as lessee in the Amended Assignment of Peters Lease and Assignment of Cloquet Lease covering taconite properties in Minnesota which are leased to Reserve Mining Company ("Reserve").

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ASTREX, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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e. Excess of Cost Over Net Assets of Companies Acquired. In the opinion of management, no amortization is required on the excess of cost over net assets of companies acquired because through March 31, 1986, there has been no diminution in the value of these intangible assets.

UNITED-GUARDIAN, INC.
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

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Intangibles. Processes, patents and trademarks, and goodwill are being amortized over a 20 year life.

SEVEN OAKS INTERNATIONAL, INC.
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies:

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(6) Intangibles and Other Assets. Excess of cost over equity in net assets is being amortized over fifteen years by the straight-line method.

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INVENTORIES

J.C. PENNEY COMPANY, INC.
1985 Financial Review

Summary of Accounting Policies

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Merchandise Inventories. Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method.

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K MART CORPORATION 1985 ANNUAL REPORT
Notes to Consolidated Financial Statements

(A) Summary of Significant Accounting Policies

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Inventories. Merchandise inventories are valued at the lower of cost or market, using the retail method, on the last-in, first-out basis for substantially all domestic inventories and the first-in, first-out basis for the remainder.

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AMERICAN STORES COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Significant Accounting Policies

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Inventories. Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) method is used to determine the cost of certain categories of drug, general merchandise and dry grocery inventories. Cost of the remaining inventories is computed by either the first-in, first-out (FIFO) or average cost methods.

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ELAN CORPORATION, plc AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1. Significant Accounting Policies

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Inventory.
Raw Materials
Raw materials are stated at the lower of cost or market. Cost in the case of raw materials is calculated on a first-in, first-out basis, and comprises the purchase price including import duties, transport and handling costs, and any other directly attributable costs, less trade discounts.
Finished Goods and Work in Progress
Finished goods and work in progress is stated at the lower of cost or market. Costs in the case of work in progress and finished goods comprises direct labor and material costs, and appropriate overheads.
Product Inventory
Product inventory represents all costs incurred in applying the company's technologies to drugs, which are expected to be recovered from foreseeable licensing revenues. It is valued at the lower of cost or estimated net realizable value. Cost comprises direct materials and labor, external analytical and clinical services and appropriate overheads. The cost of product inventory is expensed at the time the proceeds from licensing are taken to income.

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PHOTRONICS CORP. AND SUBSIDIARY
Notes to Consolidated Financial Statements
February 28, 1986

Note 1—Significant Accounting Policies

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(c) Inventories. Inventoried costs relating to long-term contracts reflect all accumulated production costs, including direct production costs, factory overhead and certain general and administrative costs, reduced by amounts attributable to units delivered. These inventories are reduced to their estimated net realizable value by a charge to cost of sales in the period such excess costs are identified.

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MCCRORY CORPORATION AND SUBSIDIARIES
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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Merchandise Inventories. McCrory, Newberry and T. G. & Y. Stores use the last-in, first-out ("LIFO") method of valuing substantially all inventories. The LIFO inventory amount at January 31, 1986, 1985 and 1984 was less than the first-in, first-out ("FIFO") inventory amount by approximately $18,900,000, $17,300,000 and $28,800,000, respectively, including an amount attributable to Otasco of approximately $11,600,000 at January 31, 1984. Jody's inventories are stated at the lower of cost (FIFO) or market value. The inventories of HRT's retailing operations for the year ended Janury 31, 1985 are stated at the lower of cost (FIFO) or market value, determined principally by the retail inventory method.

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SCIMED LIFE SYSTEMS, INC.
Notes to Financial Statements

A. Summary of Significant Accounting Policies:

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Inventories. Inventories are stated at the lower of cost (first-in, first-out method) or market.

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GRIFFIN TECHNOLOGY INCORPORATED
Notes to Financial Statements

Note 1—The Company and Its Accounting Policies:

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Inventories. Inventories of film and supplies are stated at last-in, first-out cost (LIFO), which is less than market. The excess replacement cost over LIFO cost at January 31, 1986 approximated $60,000.

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NATIONAL LUMBER & SUPPLY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 1983 and 1984, One-Month Period Ended January 31, 1985 and Year Ended January 31, 1986

Note 1—Summary of Significant Accounting Policies:

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Merchandise Inventories. Merchandise inventories are valued at the lower of cost or market. Cost has been determined using the last-in, first-out (LIFO) method of valuing inventories.

The excess current costs over LIFO inventories at December 31, 1983 and 1984 and January 31, 1985 and 1986 are $4,838,519, $5,184,026, $5,213,228 and $5,086,688, respectively.

In 1983 the Company refined its method of calculating LIFO inventories by developing an internal index to estimate the change in prices used in their LIFO reserve computation, whereas in prior years an externally published index was used. Company management believes that an internal index more accurately reflects the actual change in prices experienced by the Company. The effect of this change was to increase net income in 1983 by $181,000 or $.04 per common share.

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OPPENHEIMER INDUSTRIES, INC.
Notes to Consolidated Financial Statements
January 31, 1986

Note A—Summary of Accounting Policies

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3. Cattle Inventory. Cattle inventory consists of calves and yearlings being raised for sale or for transfer to the breeding herd. Inventory is stated at the lower of cost or market, unless the decision to sell has been made, at which time that inventory is stated at net realizable value less estimated sales expenses (note L).

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Note L—Stockholders' Equity and Earnings Per Share

Assets and obligations contributed to DJS Land and Cattle Corporation for common stock have been valued at fair market values on the date of contribution. Fair market values were determined as follows:

Marketable equity securities, consisting of stock in MCA, Inc., were valued at the fair market value at the date of contribution, less an estimated large block discount of 10%.

Breeding herd and cattle inventory were valued at estimated net realizable value at the date of contribution, which is less than estimated founders' cost.

Buildings and improvements and land were valued at estimated fair market value based on appraisal.

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INVESTMENTS AND UNCONSOLIDATED AFFILIATES

J.C. PENNEY COMPANY, INC.

Summary of Accounting Policies

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Basis of Consolidation. The accounts of J.C. Penney Financial Corporation (Financial), a wholly-owned subsidiary whose primary activity is to finance the Company's operations, are, for the first time, included in the Company's consolidated financial statements in order to more appropriately reflect the financial structure of the Company. Prior to 1985, Financial was presented as an unconsolidated subsidiary accounted for by the equity method and its income before income taxes was included as a reduction of interest expense. This change had no effect on the Company's Statement of Income; however, the Balance Sheet and the Statement of Changes in Financial Position have been retroactively restated. For a more detailed description of Financial, refer to its 1985 annual report, which is available upon request.

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VF CORPORATION AND WHOLLY-OWNED SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of all wholly-owned subsidiaries after elimination of intercompany transactions and profits. Investments in unconsolidated foreign affiliates are stated at cost.

Short-term Investments are stated at cost plus accrued interest which approximates market.

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DILLARD DEPARTMENT STORES, INC.
Notes to Consolidated Financial Statements

Note A: Description of Business and Summary of Significant Accounting Policies

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Consolidation. Condensed financial information of the wholly owned unconsolidated finance subsidiary, Dillard Investment Co., Inc. (DIC), is presented below:

(In thousands of dollars)	February 1 1986	February 2 1985
ASSETS		
Cash	$ 17,641	$ 11,443
Accounts receivable purchased	357,914	293,448
Prepaid expenses	514	—
	$376,069	$304,891

LIABILITIES AND EQUITY OF PARENT		
Commercial paper and long-term debt	$274,739	$214,925
Payable to parent	56,972	54,335
Accrued liabilities	3,074	182
Equity of parent	41,284	35,449
	$376,069	$304,891

	Year Ended		
(In thousands of dollars)	February 1 1986	February 2 1985	January 28 1984
Interest income	$25,339	$21,046	$11,399
Interest expense	17,500	14,563	7,795
Income before income taxes	7,755	6,452	3,547

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FOREST CITY ENTERPRISES, INC
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands Except Those Stated on a Per Share Basis)

A. Summary of Significant Accounting Policies

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4. Profit and Revenue Recognition

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Unconsolidated Subsidiaries. The Company constructs investment rental properties for Rental Properties at cost. Land held for resale is owned by Enterprises and land held for development of investment rental properties is owned by Rental Properties. If the purposes of holding any parcel of land changes, the parcel is transferred at cost. Enterprises allocates certain expenses to Rental Properties and Credit Corporation and management believes these allocations are reasonably determined.

TRINITY INDUSTRIES, INC.
Notes to Consolidated Financial Statements

Summary of Accounting Policies

The consolidated financial statements include the accounts of all subsidiaries except the Company's two wholly-owned leasing subsidiaries, Trinity Industries Leasing Company ("TILC") and Trinity Railcar Leasing Corporation ("TRLC"). Other than the two unconsolidated leasing subsidiaries' accounts, all significant intercompany accounts and transactions have been eliminated.

The Company has sold equipment to TILC and TRLC at market prices. The investment in the unconsolidated leasing subsidiaries is presented in the Company's financial statements on the equity method.

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LEASE COMMITMENTS

PRINCIPAL MUTUAL LIFE INSURANCE COMPANY
Notes to Financial Statements

Note A—Significant Accounting Policies

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Leases. Rental expense and future lease commitments are not considered to be material.

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ZENITH ELECTRONICS CORPORATION
Notes to Consolidated Financial Statements

Note 1—Significant Accounting Policies

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Property and Depreciation. Rental expenses under operating leases were $12.3 million in 1986, $12.3 million in 1985 and $12.0 million in 1984. Commitments for lease payments in future years are not material.

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GANDALF TECHNOLOGIES INC.
Notes to Consolidated Financial Statements
(All Amounts Stated in Canadian Dollars)

1. Summary of Accounting Principles

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(1) Leases. The company's lease commitments are classified as either capital or operating leases. Rental payments under operating leases are expensed as incurred. The company has no significant capital leases.

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TEMTEX INDUSTRIES, INC.
Notes to Consolidated Financial Statements
August 31, 1986

Note A—Significant Accounting Policies

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Property, Plant and Equipment. Property, plant and equipment are carried on the basis of cost. Capitalized leases are carried at the present value of the net fixed minimum lease commitments, as explained in Note H.

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Note H—Lease Commitments

Two plant facilities leased from a director are accounted for as capitalized leases. The leased properties were capitalized at the initial value of $634,805 and have a combined net book value of $330,510 and $357,897 at August 31, 1986 and 1985, respectively.

Other plant and office facilities are under lease agreements which expire at various dates through fiscal 1989. The capitalized leases expire in fiscal 1999. Substantially all of the leases for these facilities may be renewed for multiple year terms ranging from one to ten years.

Future minimum payments, by year and in the aggregate, under capital leases and noncancelable operating leases, consisted of the following at August 31, 1986:

	Capital Leases	Operating Leases
Fiscal Year:		
1987	$ 76,416	$101,444
1988	76,416	82,458
1989	76,416	19,016
1990	76,416	12,000
1991	76,416	12,000
Thereafter	541,280	36,000
Total minimum lease payments	923,360	$262,918
Amount representing interest	420,526	
Present value of net minimum lease payments	$502,834	

Rental expense for operating leases was $523,786 in 1986, $475,803 in 1985 and $526,761 in 1984.

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PO FOLKS, INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

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Property Held for Sale and Leaseback Transactions. Property held for sale and leaseback transactions represents the cost of land and buildings committed by the Company for sale and leaseback during the next year.

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LEASE CONTRACTS—LESSOR

AEC, INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

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Leasing. The Company, as a manufacturer lessor, enters into sales-type leases whereby income equivalent to the gross profit is recognized upon shipment of the equipment to customers and interest income is recognized as earned over the life of the lease.

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THE ADVEST GROUP, INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Income Taxes. The Company and its wholly owned subsidiaries file a consolidated federal income tax return. Deferred income taxes are provided on items of income and expense that are recognized in different periods for accounting and tax purposes. Investment tax credits are recognized on the flow-through method for property purchased for the Company's use and on the deferral method for property for which the Company's leasing and credit subsidiary acts as lessor under direct financing and leveraged leases.

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THE REYNOLDS AND REYNOLDS COMPANY AND SUBSIDIARIES
Notes to Financial Statements
(Dollars in Thousands Except Per Share Data)

1. Summary of Significant Accounting Policies

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Operations as Lessor. The Company offers operating lease terms of one to five years to customers who use the Company's computers and terminals. At each year-end, the Company's cost and accumulated depreciation of leased equipment were $6,852 and $4,804 in 1986 and $7,254 and $4,930 in 1985, respectively. During 1986 and 1985 the Company sold, with full recourse, certain leases. In connection with these sales, the Company has a $4,453 remaining contingent liability as of September 30, 1986.

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COMDISCO INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Lease Accounting. Statement of Financial Accounting Standards No. 13 requires that a lessor account for each lease by either the direct financing, sales-type or operating method. Direct financing and sales-type leases are defined as those leases which transfer substantially all of the benefits and risks of ownership of the equipment to the lessee. Sales-type leases also include dealer profit. After the inception of a lease, the Company usually engages in discounting and/or equity transactions to reduce or recover its cash investment in the equipment. These transactions do not affect lease classification.

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LINE OF BUSINESS

FAMILY DOLLAR STORES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended August 31, 1986, 1985 and 1984

1. Description of Business and Summary of Significant Accounting Policies:

Description of Business. The Company operates a chain of self-service retail discount stores.

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MCRAE INDUSTRIES, INC.
Notes to Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies:

Description of Business. The Company's principal lines of business are the manufacture of military boots and other apparel, the design, development and sale of electronic systems and computer software, financing and leasing activities, food service and lodging; the sale and service of photocopiers and other office equipment and commercial printing.

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BUZZUTO'S INC.
Notes to Financial Statements
For the Years Ended September 27, 1986, September 28, 1985 and September 29, 1984

1. Description of Business and Significant Accounting Policies

Description of Business. The Company is engaged in wholesale distribution of food products and certain nonfood, household and personal items to independent retail supermarket and convenience store operators in southern New England, southeastern New York, Long Island and northern New Jersey.

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GUILFORD MILLS, INC.
Notes to Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies:

Description of Business. The Company produces, processes and sells warp knit and other textile fabrics. The Company has no customers that account for 10% or more of sales and export sales were less than 10% of total sales in all years.

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DBA SYSTEMS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies and Other Matters

Description of Business and Major Customer. DBA Systems, Inc. and Subsidiaries ("DBA") operate in a single line of business-imaging technology. DBA is principally engaged in developing and manufacturing computerized image processing systems for a variety of defense electronics applications and manufacturing a wide range of photographic and computer imaging technology products and systems used in the graphic arts industry. Approximately 59%, 55% and 84% of DBA's fiscal 1986, 1985, and 1984 sales, respectively, were derived from contracts with the U.S. Government, or agencies or instrumentalities thereof.

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ANALYSTS INTERNATIONAL CORPORATION
Notes to Financial Statements

A. Summary of Significant Accounting Policies

Description of Business. Analysts International Corporation furnishes analytical and programming services and sells computer systems and software packages to users and manufacturers of electronic data processing equipment. These services include consulting, systems analysis, design, programming and instruction in the use of computer programs.

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C-COR ELECTRONICS INC.
Notes to Consolidated Financial Statements

A. Description of Business and Summary of Significant Accounting Policies

Description of Business. The Company operates in one dominant business segment consisting of the production and sale of electronic equipment and related services used with cable television and other broadband communications systems. This segment represents more than 90% of net sales, operating income, and identifiable assets. During 1986, the Company discontinued operations and disposed of assets of a portion of its transformer division which was acquired on January 16, 1984.

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REGIS CORPORATION
Notes to Consolidated Financial Statements

1. Significant Accounting Policies:

Business Description. Regis Corporation (the Company) owns and operates a chain of hairstyling and haircare salons in the United States and Canada. At June 30, 1986, approximately 70% of the outstanding stock of Regis Corporation was owned by Curtis Squire, Inc. (Curtis Squire).

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COMMAND AIRWAYS, INC.
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Description of Business. Command Airways, Inc. (Company) operates a regularly scheduled commuter/regional airline service to eight cities in New York, Massachusetts, New Hampshire, Connecticut and Rhode Island.

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DELCHAMPS, INC.
Notes to Consolidated Financial Statements
June 28, 1986, June 29, 1985, and June 30, 1984

(1) Summary of Significant Accounting Policies

(a) Description of Business. Delchamps, Inc. and subsidiary (the Company) are engaged in the business of retail food distribution through its supermarkets located in Alabama, Florida, Louisiana, and Mississippi.

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ADVANCED TELECOMMUNICATIONS CORPORATION
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

Description of Business. Advanced Telecommunications Corporation (ATC or the Company) was incorporated in the state of Delaware on January 14, 1983. The Company provides long distance telephone and telecommunication, engineering and related services through operating subsidiaries.

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C3, INC
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies and Description of Business:

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Description of Business. The Company's operations consist principally of the development, assembly, sale and service of minicomputer and microcomputer systems. Substantially all sales are to the U.S. Government.

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UNITED TELECONTROL ELECTRONICS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Description of Business and Major Customer. United Telecontrol Electronics, Inc. and its subsidiary operate in a single line of business—manufacturer of electronic and electrical products and components. Approximately 80%, 80% and 84% of the company's fiscal 1986, 1985 and 1984 sales, respectively, were derived from contracts with the U.S. Government, or agencies or instrumentalities thereof.

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MARKETABLE SECURITIES

ICN PHARMACEUTICALS, INC.
Notes to Consolidated Financial Statements
November 30, 1986

1. Summary of Significant Accounting Policies

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Marketable Securities. Current and non-current marketable securities, which consist of investments in publicly traded common stocks and bonds, are carried at the lower of aggregate cost or market. The Company realized net gains of $3,749,000, $199,000 and $402,000 related to current marketable securities sold during 1986, 1985 and 1984, respectively. The recorded value of current marketable securities was reduced by $357,000 and $195,000, reflecting the excess of cost over fair market value at November 30, 1985 and 1984, respectively.

To reduce the cost of non-current marketable securities ($39,855,000) to market, which was lower than cost at November 30, 1986, a valuation allowance of $693,000 was charged to shareholders' equity representing the net unrealized loss.

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BARNWELL INDUSTRIES, INC.
Notes to Consolidated Financial Statements

1. Significant Accounting Policies

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Marketable Securities. Marketable securities, included in non-current assets, are carried at the lower of cost or market. To reduce the carrying amount of non-current marketable securities to market, which was lower than the cost at September 30, 1986, a valuation allowance in the amount of $104,000 was established by a charge to ownership representing the net unrealized loss.

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DAYCO CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Thousands—Except Stock Data)

Note A—Summary of Accounting Policies

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Marketable Securities. Marketable securities are carried at the lower of aggregate portfolio costs or market values. Marketable securities had a cost basis of $168 at October 31, 1986 and $188 at October 31, 1985.

To adjust the carrying value of the marketable securities portfolio to market, provisions of $40 and $27 were credited to income in 1985 and 1984, respectively. No adjustment was made in 1986.

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PIONEER ELECTRONIC CORPORATION AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Accounting Policies:

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Marketable Securities. Marketable securities (current and non-current), including equity securities, are valued at the lower of cost or market, in the aggregate; other investments are stated at cost or less.

Realized gains or losses on the sale of marketable equity securities are based on the average cost of all the shares of each security held at the time of sale.

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TELERATE, INC.
Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies:

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Marketable Securities. Marketable securities are carried at cost which approximates market.

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CSP INC.
Notes to Consolidated Financial Statements

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1. Summary of Significant Accounting Policies:

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Marketable Securities. Marketable equity securities are carried at the lower of cost or market value. Interest income is accrued as earned. Dividend income is recorded as income on the date the stock traded "ex-dividend." The cost of marketable securities sold is determined on the specific identification method and realized gains or losses are reflected in income.

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MORTGAGE LOANS HELD FOR SALE

FGMC, INC.
Notes to Consolidated Financial Statements

(1) Business and Significant Accounting Policies

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First Mortgage Loans. First mortgage loans held for sale are valued at the lower of cost (less principal payments received) or market, as determined by outstanding commitments from investors or current investor yields, on an aggregate basis. Interest and other carrying costs, net of interest income received from mortgagors, are recognized currently. Prior to October 1985, such items were refunded to or reimbursed by GHC.

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BANKEAST CORPORATION
Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

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Mortgage Loans Held for Sale. Such loans, including mortgage-backed certificates, are carried at the lower of aggregate cost or market. Related origination fees in excess of associated expenses are deferred until sale and are applied in determining gains and losses.

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U.S. BANCORP
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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Mortgages Held for Sale. Mortgages held for sale are reported at the lower of cost or aggregate market value.

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NORWEST CORPORATION
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Mortgages Held for Sale. Mortgages held for sale are stated at the lower of aggregate cost or market value. The market calculation includes consideration of all open positions, outstanding commitments from investors, and related fees paid.

Subsidiaries of the corporation have issued various types of mortgage-backed securities, including collateralized mortgage obligations (CMOs). The issuance of these securities and the simultaneous placement of the related collateral (mortgages or mortgage-backed securities) in trust have been accounted for as sales of the mortgages or mortgage-backed securities. Accordingly, neither the mortgages or mortgage-backed securities nor the securities or obligations payable appear on the consolidated balance sheets.

Gains and losses on such sales and on sales of mortgages are recognized at settlement dates. Gains and losses are determined by the difference between sales proceeds and the carrying value of the mortgages or mortgage-backed securities adjusted for the estimated present value of related future net revenues, as applicable.

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MERITOR FINANCIAL GROUP
Notes to Consolidated Financial Statements
Dollars in Thousands, Except Per Share Amounts

1. Summary of Significant Accounting Policies

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Loans. Loans are generally stated at amortized cost. Mortgages held for sale are carried at the lower of aggregate cost or market. Discounts or premiums are generally accreted or amortized on a level yield basis over the estimated lives of the respective loan portfolios. Interest on loans is not accrued when it is deemed uncollectible.

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CITYFED FINANCIAL CORP.

Summary of Significant Accounting Policies

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Mortgage Loans Held for Sale. First mortgage loans held for sale are carried at the lower of cost or market, determined on a net aggregate basis. Adjustments to market are made by charges or credits to income.

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DOMINION BANKSHARES CORPORATION AND AFFILIATES
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

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Money Market Investments. Trading account securities and mortgages held for sale are carried at the lower of original cost or market. Gains and losses on sales and adjustments to market of trading account securities and mortgages held for sale are considered part of normal operations and included in other income. All other money market investments are carried at cost, adjusted for amortization of premiums and accretion of discounts.

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NEGATIVE GOODWILL

NORTH AMERICAN NATIONAL CORPORATION
Notes to Financial Statements

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Excess of Net Assets Over Cost of Business Acquired. The excess of net assets acquired over cost is being amortized over 10 years, adjusted for the persistency of the business acquired.

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NUMERICA FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 1986 (Dollars in Thousands, Except Per Share Data)

1. Significant Accounting Policies

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Depreciation and Amortization.

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The excess of the fair value of the net assets acquired over cost which resulted from the acquisition of Numerica Financial Services, Inc. is being amortized on a straight-line basis over a five-year period.

The excess cost over fair value of the net assets acquired is amortized in two components, namely, annual amortization matching the accretion of the loan discounts plus amortization of the goodwill over twenty years on a straight-line basis.

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TULTEX CORPORATION
Notes to Consolidated Financial Statements
Fiscal Years Ended November 28, 1986, November 29, 1985 and November 30, 1984.

Note 1—Accounting Policies

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Negative Goodwill. The excess of fair value of assets acquired over cost, arising from the acquisition of Washington Mills is being amortized on a straight-line basis over seven years.

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QUIXOTE CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Accounting Policies

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Deferred Credits. The excess of the fair value of net assets acquired over the acquisition cost is amortized by the straight-line method over 10 years from date of acquisition.

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NON-COMPETE AGREEMENT

UNIFIRST CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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Amortization of Intangible Assets Arising from Acquisitions. Covenants are amortized over the terms of the respective non-competition agreements, which range from five to twenty years. Customer lists are amortized over seven to eight years which represents the life of an average account. Goodwill is amortized over periods of up to forty years.

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DEP CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended July 31, 1986, 1985, and 1984

1. Summary of Significant Accounting Policies:

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Intangibles. Intangible assets consist of goodwill, non-compete agreements and customer lists and are carried at cost less accumulated amortization. Costs are amortized over the estimated useful lives of the related assets (5–40 years). During 1985, goodwill was reduced by $223,000. The reduction primarily reflects subsequent collection of contingent receivables not recorded at the time of purchase. Amortization expense charged to operations for fiscal years ended July 31, 1986, 1985, and 1984 was $122,000, $120,000 and $24,000 respectively.

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SNELLING AND SNELLING, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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Intangibles. The excess of cost over the value of assets acquired is capitalized and amortized over periods ranging from twenty years to forty years. Covenants not to compete are being amortized over the life of the agreements. The costs of the purchase of exclusive franchises are being amortized over a five year period. Distributor agreements and the customer list are being amortized over a three year period.

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COMPUTER TASK GROUP INCORPORATED
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

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Non-Compete Agreements. The company records an asset and a corresponding liability for the present value of future payments required to be made under non-compete agreements for other than acquisition-related agreements. Non-compete assets are amortized using the straight-line method over the estimated benefit period of seven years and are included in other assets. Non-compete liabilities are amortized over the related agreement payment term using the interest method. The excess of payments made over the amortization of this liability is charged to interest expense.

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Acquired Intangibles. Acquired Intangibles consist primarily of customer lists, non-compete agreements, goodwill and other intangibles and are being amortized over an aggregate average useful life of 22 years.

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TOPSY'S INTERNATIONAL, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

Intangible Assets. Intangible assets include agreements not to compete related to company-owned popcorn shoppes acquired during fiscal years 1986 and 1985. The agreements are amortized over 2-5 years. Amortization expense was $30,231 and $10,923 for fiscal years 1986 and 1985, respectively. See Note 11 for a discussion of intangible assets acquired on July 25, 1986.

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R. P. SCHERER CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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Other Assets. Intangibles include goodwill of $846,000 resulting from acquisitions prior to November 1, 1970 which is not being amortized because in the opinion of management there has been no diminution of value. Other intangibles are amortized as follows: goodwill, 40 years; pre-operating expenses, 5 years; non-compete agreements 5 to 7 years; and patents, 10 years.

At March 31,	1986	1985	1984
Goodwill	$15,879,000	$13,515,000	$12,400,000
Pre-operating expenses	2,675,000	2,199,000	4,513,000
Patents	3,589,000	2,721,000	3,179,000
Non-compete agreements	3,624,000	2,764,000	3,279,000
	25,767,000	21,199,000	23,371,000
Less-Accumulated amortization	8,711,000	4,613,000	3,466,000
	$17,056,000	$16,586,000	$19,905,000

Other assets are comprised of stocks, real estate, debt securities and notes receivable; including in fiscal 1985, $1,250,000, net of a reserve of $650,000 provided for in fiscal 1985, in bonds and notes receivable from the Central Bank of Argentina.

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PENSION PLAN

PIONEER ELECTRONIC CORPORATION AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Accounting Policies:

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Pension Plans and Accrued Severance Indemnities. Employees who terminate employment are entitled, under certain conditions, to an annuity payment and/or a lump-sum payment determined by reference to current basic rate of pay, length of service and conditions under which termination occurs.

The parent company has a trusteed pension plan covering substantially all of its employees. Contributions to trustees charged to current income include charges for current service and amortization of prior service costs over a ten year period.

With respect to directors, provision is made for lump-sum severance indemnities on a basis considered adequate for such future payments as may be approved by the shareholders.

Subsidiary companies (except certain subsidiaries having pension plans which are insignificant to consolidated operations) accrue severance indemnities annually which are sufficient to state the liability therefor at an amount estimated to provide for future obligations arising from services to date.

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FLORIDA STEEL CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

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Pension Plans. The Company has pension plans covering substantially all employees. Pension cost represents normal cost and amortization of prior service costs principally over 30 years. The Company's policy is to fund accrued pension costs currently.

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UNIVERSAL FOODS CORPORATION AND SUBSIDIARIES
Notes to Financial Statements
Years Ended September 30, 1986, 1985 and 1984

Note A—Summary of Significant Accounting Policies:

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Retirement Compensation. The Company has several pension plans covering substantially all employees. Total pension expense includes current service costs plus amortization of past service costs over 30 years. It is the policy of the Company to fund pension costs accrued (see Note F).

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Note F—Pension Plans:

Pension costs for continuing operations of $3,910,000, $3,429,000 and $3,231,000 for 1986, 1985 and 1984 include contributions for both union and Company administered plans. Accumulated plan benefit information, as estimated by consulting actuaries, and plan net assets for the Company's plans as of October 1, 1985 (except for amounts relating to Universal Group Limited, which are as of December 31, 1985) and 1984 (except for amounts relating to the hourly plan of Idaho Frozen Foods, which are as of July 1, 1984) are:

	1985	1984
	($000's omitted)	
Actuarial present value of accumulated plan benefits:		
Vested	$27,200	$21,166
Nonvested	2,697	2,144
	$29,897	$23,310
Net assets available for benefits	$30,300	$23,947

The weighted average assumed rates of return in determining the actuarial present value of accumulated plan benefits for the various plans ranged from 6% to 8½% in 1985 and 1984.

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J. L. CLARK MANUFACTURING CO.
Notes to Consolidated Financial Statements
(Dollars in Thousands Except Per Share Data)

A. Accounting Policies

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Pensions. The Company has defined benefit pension plans covering substantially all employees. Plan benefits are principally based upon years of service, compensation and social security benefits. The Company's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes.

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GANNETT CO. INC.
Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

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Retirement Plans. Pension costs under the Company's retirement plans are actuarially computed. In 1986, the Company adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. It is the policy of the Company to fund costs accrued under its qualified pension plans. Costs associated with deferred compensation agreements and the Company's non-qualified plans are accrued but not funded.

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SIFCO INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

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E. Pensions and Thrift Plans. The Company and its domestic subsidiaries have five pension plans covering substantially all employees. Three of the plans are defined contribution plans, of which two are multi-employer. Two of the plans are defined benefit plans.

The defined contribution plans are funded monthly. Pension costs charged to operations for these plans were $69,000 in 1986, $78,000 in 1985 and $100,000 in 1984.

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VERMONT RESEARCH CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Principal Accounting Policies

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Pension Plan. It is the policy of the Company to fund actuarially-determined pension costs (entry-age-normal method) as accrued and to amortize prior service costs over a period of thirty years.

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GULF + WESTERN INC.
Notes to Consolidated Financial Statements

Note A—Significant Accounting Policies

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Pension Plans. Pension expense includes amortization of prior service cost over periods of thirty to forty years. The Company's funding policy varies; however, it generally follows the requirements of government regulations.

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PRODUCT WARRANTY

DETECTOR ELECTRONICS CORPORATION
Notes to Consolidated Financial Statements

Note 1—Accounting Policies

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Warranties. The Company's products are sold under warranty against defects in material and workmanship for up to eighteen months from date of shipment. The Company accrues for warranty costs in the year of sale.

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ANALOGIC CORPORATION & SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended July 31, 1986, 1985 and 1984

1. Summary of Business Operations and Significant Accounting Policies:

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(e) Warranty Costs. The Company provides for estimated warranty costs as products are shipped.

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DIGILOG INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1—Summary of Significant Accounting Policies

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Warranty Costs. Estimated product warranty costs are recorded at the time of the warranted product sale.

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THE ARMSTRONG RUBBER COMPANY
Notes to Consolidated Financial Statements
September 30, 1986

Note A—Summary of Significant Accounting Policies

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Product Warranties. Estimated future costs applicable to products sold under warranties are charged to expense in the year of sale, and the related liability is classified as current (estimated portion payable within one year) or noncurrent.

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LTX CORPORATION
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Warranty Costs. Warranty costs incurred by the Company during the three years ended July 31, 1986 were not, and future warranty costs are not expected to be, significant and therefore the Company has not provided any warranty reserves.

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BEEHIVE INTERNATIONAL AND SUBSIDIARIES
Notes to Financial Statements

(1) Significant Accounting Policies

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Warranty Costs. A 90-day warranty on parts and labor is provided on products sold. A provision has been made for the estimated remaining warranty costs to be incurred.

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CSP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended August 31, 1986, 1985, and 1984

1. Summary of Significant Accounting Policies:

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Product Warranty. The Company ordinarily provides a ninety-day warranty covering defects arising from products sold and services performed. In addition to this standard warranty, certain major customers are granted extended warranties. In connection with these obligations, the Company has provided a reserve which in the opinion of management is adequate to cover such warranty costs.

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VARIAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Summary of Significant Accounting Policies

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Taxes on Earnings. Deferred recoverable tax benefits of $57.7 million at fiscal year end 1986, and $49.3 million at fiscal year end 1985 are included in other current assets. These result principally from product warranty provisions, inventory reserves, installment sales, reserves for discontinued operations and special provisions not currently deductible for tax purposes. In addition, a refund attributable to a carry back of 1986 losses and credits of $29.3 million is in this account, resulting in total deferred recoverable taxes of $87.0 million. Deferred tax credits of $23.9 million at fiscal year end 1986, and $22.3 million at fiscal year end 1985 arise primarily from the use of accelerated depreciation methods.

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ARCHIVE CORPORATION
Notes to Consolidated Financial Statements
For the Three Fiscal Years Ended September 26, 1986

1. Summary of Significant Accounting Policies

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Warranties. The Company warrants its products against defects in parts and labor for periods of 3 to 12 months following shipment, based on purchase contracts. Estimated warranty expense is provided at the time the related sale is recorded.

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PROPERTY AND DEPRECIATION OR DEPLETION

KIT MANUFACTURING COMPANY
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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Depreciation and Amortization. For financial reporting purposes, depreciation and amortization of property, plant and equipment is generally provided for on a straight-line basis, using estimated useful lives of 10 years for land improvements, 20 to 33⅓ years for building and improvements, 3 to 10 years for equipment and term of lease for leasehold improvements. Upon sale or disposition of assets, any gain or loss is included in the statement of income. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred; expenditures for betterments and major renewals are capitalized.

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WHITTAKER CORPORATION & CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

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(E) Property and Depreciation. Property, plant and equipment is recorded at cost. Depreciation is computed principally by use of the straight-line method based upon the estimated useful lives of the various classes of assets.

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WESTVACO CORPORATION
Summary of Significant Accounting Policies

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Plant and Timberlands. Owned assets are recorded at cost. Assets acquired under capital leases are recorded at the lower of their fair value or the present value of the net minimum payments due under the lease at its inception, which is considered cost. Also included in the cost of these assets is interest on funds borrowed during the construction period. When assets are sold, retired, or disposed of, their cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in other income. Costs of renewals and betterments of properties are capitalized; costs of maintenance and repairs are charged to income. Costs of reforestation of timberlands are capitalized.

Depreciation and Amortization. The cost of plant and equipment, including those acquired under capital leases, is depreciated over the estimated useful lives of most assets by use of the straight-line method. For certain major projects, the units-of-production method is used until a planned level of production is reasonably sustained. In 1986, the company revised the estimated useful lives of certain assets. This resulted in increasing net income for the year by $6 million or $.15 per share. The cost of standing timber is charged to income as timber is cut at rates determined annually based on the relationship of unamortized timber costs to the estimated volume of recoverable timber.

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KUSTOM ELECTRONICS, INC.
Notes to Consolidated Financial Statements

1. Summary of Accounting Policies:

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(b) Property, Plant and Equipment. Depreciation of property, plant and equipment is charged to operations using both accelerated and straight-line methods. Lives used are as follows:

Land improvements	15 years
Buildings	15–25 years
Machinery and equipment	3–5 years
Furniture and fixtures	5 years
Transportation equipment	3 years

Maintenance and repairs are charged to expense as incurred. The cost of additions and betterments is capitalized. The cost and related depreciation reserves of property retired or sold are removed from the applicable accounts and any gain or loss is taken into income.

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NATIONAL FUEL GAS COMPANY
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

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Depreciation, Depletion and Amortization. Depreciation, depletion and amortization are computed by application of either the straight-line method or the unit-of-revenue method, in amounts sufficient to recover costs over the estimated service lives of property in service and for oil and gas properties, over the period of estimated gross revenues from proved reserves. The costs of unevaluated oil and gas properties are excluded from this calculation. The provisions for depreciation, depletion and amortization, including amounts capitalized or charged to other operating accounts, were $38,318,000 in 1986, $32,257,000 in 1985 and $29,664,000 in 1984, and equivalent to 3.9% in 1986 and 3.5% in 1985 and 1984 of average depreciable property, plant and equipment for the respective years.

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HELMERICH & PAYNE, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Accounting Policies

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Property, Plant and Equipment. The Company follows the successful efforts method of accounting for oil and gas properties. Under this method, the Company capitalizes all costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells which find proved reserves and to drill and equip development wells. Geological and geophysical costs, delay rentals, and costs to drill exploratory wells which do not find proved reserves are expensed. Capitalized costs of producing oil and gas properties are depreciated and depleted by the unit-of-production method based on proved developed oil and gas reserves determined by independent engineers.

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ONEOK INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(A) Summary of Significant Accounting Policies

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Property, Plant, and Equipment. Maintenance and repairs are charged directly to expense. The cost of utility property, plant, and equipment retired or sold plus removal costs, less salvage is charged to accumulated depreciation. Gains and losses from retirements or sales of other property, plant, and equipment are recorded in net income.

Depreciation and Depletion. Utility property, plant, and equipment is depreciated on the straight-line method using rates prescribed for ratemaking purposes. The average utility depreciation rate approximated three percent in 1986, 1985, and 1984.

Oil and gas properties are depreciated and depleted using the unit-of-production method based upon periodic estimates of oil and gas reserves.

All other property, plant, and equipment is depreciated using the straight-line method over its estimated useful life.

During 1985, the Company charged $5,184,000 to depreciation expense to reflect a permanent decline in value of three drilling rigs.

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BARNWELL INDUSTRIES, INC.
Notes to Consolidated Financial Statements

1. Significant Accounting Policies

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Oil and Gas Properties. The Company follows the full cost accounting method. Accordingly, all costs incurred in the acquisition, exploration and development of oil and gas reserves, including unproductive wells, are capitalized to the extent of the discounted present value of the Company's future net revenues from estimated production of proved oil and gas reserves, as determined by independent petroleum engineers, less related income tax effects. Depletion, depreciation and amortization of all such costs are provided by the unit-of-production method based upon proved oil and gas reserves of all properties. Depletion and amortization per 1,000 cubic feet of gas (MCF) and gas equivalent was $.20 in 1986, $.22 in 1985 and $.21 in 1984. The proceeds from the disposition of minor producing oil and gas properties are credited to oil and gas properties.

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Taxes on Income. Intangible development, exploration, geophysical and other related costs incurred in connection with the exploration and development of oil and gas properties are expensed for United States and Canadian income tax purposes and are capitalized for financial statement purposes. In addition, the timing of depletion, depreciation and amortization differs for income tax and financial statement purposes. Deferred taxes have been provided on these timing differences. Investment tax credits are accounted for on the flow-through method and current foreign tax credits are assumed to be utilized prior to the use of any net operating loss carryforwards for financial statement purposes.

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PUSH DOWN ACCOUNTING

FLORIDA NATIONAL BANKS OF FLORIDA, INC.
Years Ended December 31, 1985, 1984 and 1983

1. Summary of Significant Accounting Policies

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Business Combinations. Business combinations have been accounted for under the purchase method of accounting and include only the results of operations subsequent to the date of acquisition. The push down basis of accounting has been applied to the applicable financial statements of acquired subsidiaries. The cost of the purchased subsidiaries in excess of historical cost of net assets acquired was allocated to various tangible and intangible assets based on the fair value of the assets and liabilities acquired and has been recorded as assets and liabilities of the Company's subsidiaries.

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NORMANDY INSURANCE AGENCY, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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Basis of Presentation. As a result of a current period net operating loss (N.O.L.), deferred taxes of $621,000 resulting from pushdown accounting were credited to operations.

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RECEIVABLES

MGM/UA COMMUNICATIONS CO.
Notes to Financial Statements

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2—Summary of Accounting Policies

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Accounting for Film Revenues and Costs. The Company recognizes revenue in accordance with the provisions of Statement of Financial Accounting Standards ("FAS") No. 53. Revenues from theatrical distribution are recognized as the films are exhibited. Revenues from television and home video licensing agreements, along with related costs, are reported in the accounting period in which the agreement is executed providing certain conditions of sale have been met, including availability of the product for broadcast or sale. Long-term noninterest-bearing receivables arising from licensing agreements are discounted to present value. Home video revenues from direct distribution of the Company's products are recognized when individual sales are made.

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HOUSEHOLD INTERNATIONAL, INC. AND SUBSIDIARIES
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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Finance Receivables. Revenue is accrued using the constant yield method. For consumer and most commercial real estate secured receivables, accrual is suspended when payments are more than three months contractually overdue. Provisions for credit losses are made in amounts sufficient to maintain the allowance at a level considered necessary to cover losses resulting from future liquidation of the existing portfolio in the ordinary course of business. Receivables are written off when the possibility that an account is uncollectible becomes apparent; for unsecured consumer receivables, write-off is mandatory when a full payment has not been received for more than five months. Insurance reserves applicable to credit risks on consumer loans are treated as a reduction of receivables in the balance sheet since payments on such policies generally are used to reduce outstanding receivables.

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MACHINE TECHNOLOGY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years ended August 31, 1986, 1985 and 1984

1. Summary of Significant Accounting Policies:

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Accounts Receivable. Accounts receivable which become uncollectible are written off against operations at the time they are judged to be worthless. There were no accounts receivable deemed uncollectible at August 31, 1986, 1985 and 1984.

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UNITED INNS INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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d. Investments. Long-term receivables consist primarily of notes resulting from sales of certain hotel properties and real estate. Classified as land not in use are various parcels of land held for possible future development or sale. The Company's 30% limited partner interest in each of two operating hotels in Germany is included in other investments.

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BOZZUTO'S INC.
Notes to Financial Statements
For the Years Ended September 27, 1986, September 28, 1985 and September 29, 1984

1. Description of Business and Significant Accounting Policies

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Receivables. In accordance with trade practice, notes from customers are included in receivables. These notes, some of which are long term, totaled $3,161,000 at September 27, 1986, and $2,805,000 at September 28, 1985.

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PAULEY PETROLEUM INC.
Notes to Consolidated Financial Statements

1—Summary of Accounting Policies:

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Undeveloped Land Held for Sale. Undeveloped land held for sale is stated at historical cost, except for repossessed acreage which is recorded at the outstanding amounts receivable at time of foreclosure, but not in excess of fair value.

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WINNEBAGO ACCEPTANCE CORPORATION
Notes to Financial Statements

Note 1: Nature of Business and Significant Accounting Policies

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Significant Accounting Policies. Recognition of Income. Income from dealer floor plan and rental program notes receivable is recorded on the accrual basis in accordance with the terms of the loan agreement.

Allowance for Doubtful Receivables. Winnebago Acceptance Corporation maintains an allowance for doubtful receivables based on previous loss experience. Additional amounts are provided through charges to income, as management feels necessary after evaluation of receivables and current economic conditions. Amounts which are considered to be uncollectible are charged off and recoveries of amounts previously charged off are credited to the allowance upon recovery.

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RECLASSIFICATION

MICRON TECHNOLOGY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Significant Accounting Policies

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Reclassifications. Reclassifications have been made, none of which affected income, to consistently present September 3, 1986 and August 28, 1985 financial statement presentation.

NATIONAL SERVICE INDUSTRIES, INC.
Notes to Consolidated Financial Statements

1—Summary of Accounting Policies

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1. Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all subsidiaries after elimination of significant intercompany transactions and accounts. Certain prior year balances have been reclassified to conform with the 1986 presentation.

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ALBERTO CULVER COMPANY
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

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Basis of Presentation. The consolidated statements of changes in financial position for 1985 and 1984 have been reclassified to conform with the 1986 presentation.

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LACLEDE GAS COMPANY AND SUBSIDIARY COMPANIES
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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Reclassification. Certain prior-year amounts have been reclassified to conform to current-year presentation.

BOZZUTO'S INC.
Notes to Financial Statements
For the Years Ended September 27, 1986, September 28, 1985 and September 29, 1984

1. Description of Business and Significant Accounting Policies

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Reclassifications. Certain reclassifications have been made to prior years' amounts to conform with the classifications of such amounts for 1986.

QMS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Reclassifications. Certain reclassifications were made for fiscal years 1985 and 1984 for the purpose of comparison with fiscal 1986 financial statement presentation.

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PIONEER ELECTRONIC CORPORATION AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Accounting Policies:

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Reclassification. Certain reclassifications of previously reported amounts have been made to conform with current classifications.

CONCEPT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

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Reclassifications. Certain prior year amounts have been reclassified for consistency with current year presentation.

XTRA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of XTRA Corporation and its wholly-owned subsidiaries ("the Company"). All material intercompany accounts and transactions have been eliminated. Certain amounts in prior years' financial statements have been reclassified to be consistent with the current year presentation.

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ATWOOD OCEANICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 1986, 1985 and 1984

(2) Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Atwood Oceanics, Inc. and its domestic and foreign subsidiaries, all wholly owned. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the 1985 financial statements to conform to the 1986 classifications.

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SUPER FOOD SERVICES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies:

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Reclassifications. Certain reclassifications have been made to prior years' amounts to make them comparable with the classification of such amounts for fiscal year 1986.

RESEARCH AND DEVELOPMENT

ROBBINS & MYERS, INC.
Notes to Consolidated Financial Statements

Summary of Accounting Policies

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Research and Development. Research and development expenditures are expensed as incurred and amounted to $2,053,000, $1,914,000 and $1,450,000 for the years ended August 31, 1986, 1985 and 1984 respectively.

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ECHLIN INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Accounting Policies:

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Research and Development Costs. Research and development costs are charged to income as incurred and aggregated $7,284,000, $6,253,000 and $3,493,000 in fiscal years 1986, 1985 and 1984, respectively.

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ROBOTIC VISION SYSTEMS, INC.
Notes to Consolidated Financial Statements

Note 1 / The Company and Its Significant Accounting and Reporting Policies

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Research and Development Costs. The Company charges research and development costs to operations as incurred, except in those cases in which such costs are reimbursable under customer-funded contracts.

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VENTREX LABORATORIES, INC.
Notes to Consolidated Financial Statements

(1) Operations and Significant Accounting Policies

• • • •

(j) Research and Development Expenses. The Company engages in research and development activities both on its own behalf and on behalf of Ventrex Technology Partnership, L.P.

Research and development costs incurred by the Company on its own behalf are charged to operations as incurred and are classified as research and development expenses in the accompanying statements of operations. Research and development costs incurred on behalf of Ventrex Technology Partnership, L.P. are included in both costs of revenues and selling, general and administrative expenses (see Note 11).

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THE COMPUTER FACTORY INC.
Notes to Consolidated Financial Statements

Note A—Significant Accounting Policies

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Research and Development Cost. Research and development cost are charged to operations when incurred. The consolidated statements of income include research and development cost of approximately $27,000, $19,000, and $146,000 for the years ended September 30, 1986, 1985 and 1984, respectively.

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TELERATE, INC.
Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies:

• • • •

Research and Development Expenditures: Research and development expenses were $1,238,000, $1,401,000 and $2,917,000 for the years 1984, 1985 and 1986.

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INSTRUMENT SYSTEMS CORPORATION
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies:

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Research and Development Costs. Research and development costs, which are not recoverable under contractual arrangements, are charged to expense as incurred. Approximately $2,300,000, $1,100,000 and $1,100,000 for 1986, 1985 and 1984, respectively, was incurred on such research and development.

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RESERVES

CSP INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

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Income Taxes. Deferred income taxes are provided to take into account the accumulated tax benefits or credits resulting from timing differences in reporting depreciation, warranty reserves, inventory obsolescence reserves, unrealized gains (losses) on marketable securities, executive bonus compensation, deferred compensation and DISC income which is reportable over a ten year period.

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MEDICINE SHOPPE INTERNATIONAL, INC.
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies:

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Allowance for Doubtful Accounts and Notes. The Company maintains a reserve for accounts and notes receivable which may not be ultimately collected. The balance maintained is based upon historical collection experience, current aging of amounts due and specific evaluations of the collectibility of individual balances. Individual accounts and notes are written off against the reserve when they are deemed to be uncollectible.

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KUSTOM ELECTRONICS INC.
Notes to Consolidated Financial Statements

1. Summary of Accounting Policies:

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(b) Property, Plant and Equipment. Depreciation of property, plant and equipment is charged to operations using both accelerated and straight-line methods. Lives used are as follows:

Land improvements	15 years
Buildings	15–25 years
Machinery and equipment	3–5 years
Furniture and fixtures	5 years
Transportation equipment	3 years

Maintenance and repairs are charged to expense as incurred. The cost of additions and betterments is capitalized. The cost and related depreciation reserves of property retired or sold are removed from the applicable accounts and any gain or loss is taken into income.

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ANDROS ANALYZERS INCORPORATED
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Warranty Costs. The company reserves for specific known warranty items and expenses routine warranty repairs as incurred.

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CUSHMAN ELECTRONICS INC.
Notes to Consolidated Financial Statements

1. The Company and a Summary of its Significant Accounting Policies

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Inventories. Inventories are stated at the lower of standard cost which approximates actual cost (determined on a first-in, first-out basis), or market. Demonstrator units are net of reserve to reflect the effect on standard margins of their estimated reduced selling prices and/or cost of refurbishment.

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TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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2—Summary of Significant Accounting Policies

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Income Taxes. Deferred income taxes are provided in amounts sufficient to give effect to timing differences between financial and tax reporting, principally related to depreciation, deferred compensation, inventory and warranty reserves and revenue recognition on long-term contracts. Investment tax credits are reflected on the flow-through method under which income tax expense is reduced during the year the credit is utilized.

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RAGEN CORPORATION
Notes to Consolidated Financial Statements

1. Accounting Policies

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B. Money Market Investments. The Company has deposited $1,500,000 in an interest-bearing cash reserve account at September 30, 1986 with a bank which also provides long-term financing to the Company. Such funds were restricted until November 20, 1986 when the Company obtained new financing (see Note 13).

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H. Other—Net. Included in Other—Net in the statements of consolidated loss are charges of approximately $278,000 in 1986 and $500,000 in 1985 relating to expenses incurred in connection with a suit filed by the Company against the manufacturer of certain of the Company's production equipment. Income of $53,000 and $214,000 was realized from insurance proceeds due to flood damage and included in this category in 1986 and 1985, respectively. Interest income earned on investments of approximately $35,000 and $39,000 is also a component of Other—Net in 1986 and 1985, respectively. Also included in this category in the 1984 statement of consolidated loss is a charge of approximately $378,000 which provides a full reserve against the inventory of the Company's audio amplifier product line. As of September 30, 1984, the Company discontinued this product line of the Electronic Components and Assemblies segment of the business.

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TOPSY'S INTERNATIONAL, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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Commercial Finance Receivables. Commercial finance receivables consist of interest-bearing loans with maximum terms of 10 months, secured by third-party installment contracts receivable. A reserve for credit losses will be provided based on management's estimate of losses to be incurred. The estimate will be based on Twenco's loss experience and an analysis of the adequacy and quality of the underlying collateral.

Membership Contracts. AHI resort memberships sold on an installment basis are recorded based on the total of payments due, with an offsetting amount for the portion of the payments which represent unearned interest. A reserve for contracts not fully completed will be provided based on management's estimate of the contracts that will not be paid in full. The estimate will be based on AHI and industry experience and on an analysis of individual contracts.

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VANZETTI SYSTEMS, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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Income Taxes. Deferred income taxes are provided in amounts sufficient to give effect to timing differences between financial and tax reporting, principally related to depreciation, deferred incentive compensation, financial reserves not deductible for tax purposes and capitalized interest. The Company accounts for general business tax credits as a reduction of income tax expense in the year in which such credits are allowable for tax purposes.

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BISHOP GRAPHICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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The Company capitalizes expenditures that materially increase asset lives, and charges ordinary repairs and maintenance to operations as incurred. When assets are sold or otherwise disposed of, the cost and related reserves are removed from the accounts, and any resulting gain or loss is included in income.

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SELF-INSURANCE

RAX RESTAURANTS, INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Employee Benefits. The Company provides a self-insured medical reimbursement plan and a noncontributory defined contribution retirement plan covering substantially all full-time employees. The Company also has a key employee incentive bonus plan and an executive incentive bonus plan that are based on the attainment of certain predetermined income before income tax levels and net income levels, respectively. No bonuses were earned in fiscal 1986 and 1985. The Company has a store manager incentive bonus program that is based on the attainment of certain predetermined sales increases on a monthly basis. In fiscal 1986, bonuses were $217,000. All Company related expenses, funded currently, are set forth below. Certain contributions were made to the retirement plan in fiscal 1986 and 1985 with 9,000 and 28,000 Rax common shares, respectively.

	Fiscal Year		
	1986	1985	1984
Medical plan....................................	$1,017,000	$1,170,000	$ 719,000
Retirement plan	360,000	721,000	543,000
Bonus plans	217,000		147,000
Total...	$1,594,000	$1,891,000	$1,409,000

During fiscal 1986, the Company amended its retirement plan and reduced the Company's annual contribution from 10% to 3% of eligible compensation.

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NATIONAL SERVICE INDUSTRIES, INC.
Notes to Consolidated Financial Statements

1. Summary of Accounting Policies

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Self Insurance. It is the policy of the Company to self insure for certain insurable risks consisting primarily of physical loss to property, business interruptions resulting from such loss, workers' compensation, comprehensive general, and auto liability. Insurance coverage is obtained for catastrophic property and casualty exposures as well as those risks required to be insured by law or contract. Provision for claims under the self-insured program is recorded based on the Company's estimate of the aggregate liability for claims incurred. At August 31, 1986 and 1985, Other Accrued Liabilities included $21,173,000 and $17,588,000, respectively, for accrued self-insurance claims.

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AMCAST INDUSTRIAL CORPORATION
Notes to Consolidated Financial Statements

Accounting Policies

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Deferred Liabilities. Include the noncurrent portion (some of which relates to the provisions for restructuring operations) of retirement, compensation, medical and death benefits, and estimated future payouts under the company's self-insured workers' compensation program.

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SYNTEX CORPORATION
Notes to Consolidated Financial Statements

1. Significant Accounting Policies

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General Liability Insurance. The company is affected by the widespread shrinkage in the availability of liability insurance. As a result, the company is predominantly self-insured for events occurring after July 31, 1985. Provisions, based on experience, are made for probable losses which are not covered by insurance.

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KIT MANUFACTURING COMPANY
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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Insurance. The Company has elected, for fiscal 1987, to self-insure for officers, directors and product liability. At October 31, 1986, the Company has recognized an estimated potential liability for incurred but not reported claims.

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THOR INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Income Taxes. Deferred income taxes are provided for timing differences between financial and taxable income. The differences result from provisions for product warranties, self insurance and state income taxes which are deductible for tax purposes only when paid, and from using accelerated depreciation methods for income tax purposes. Investment tax credits are accounted for by the flow-through method.

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ORANGE AND ROCKLAND UTILITIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies.

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Reserve for Claims and Damages. Losses arising from workers' compensation claims, property damage, general liability and unusual production plant repair costs are partially self-insured. Provisions for the reserves are based on experience, risk of loss and the rate-making practices of regulatory authorities.

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FIRST CAPITAL CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies:

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8. Employee Benefit Plans. The Corporation has a trusteed, contributory, self-insured medical benefit plan covering substantially all employees who work at least thirty hours per week and have completed the required waiting period. Contributions to the plan are made as prescribed by the trustees.

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WISCONSIN PUBLIC SERVICE CORPORATION
Notes to Financial Statements

(1) Summary of Significant Accounting Policies:

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The financial statements reflect the application of certain accounting policies which are described in this note.

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(g) Employee Benefit Plans. The company also has a self-insured medical plan which provides benefits to employees, retirees and their dependents. The medical expenses for active employees are expensed as incurred. Anticipated post-retirement medical benefits are funded to an irrevocable trust within the limits of the current deduction for tax purposes. The 1986 funded amount reflects new limitations imposed by the Tax Reform Act of 1986. This funded amount is recognized in the financial statements currently. The unfunded past service costs associated with post-retirement medical benefits are currently amortized over approximately 30 years.

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FIRST MICHIGAN BANK CORPORATION

Summary of Accounting Policies

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Self-Insurance. First Michigan acts as a self-insurer for employees' health and accident insurance whereby it assumes limited liabilities with the excess liability assumed by underwriters. Claims are charged to operations during the year in which they occur.

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SPIN-OFF

AVERY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies

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Property, Plant and Equipment. Incident to the April 1982 merger of Avery Coal into Trafalgar, the latter's acquisition cost was allocated to the net assets of Avery Coal upon their relative fair value at the date of acquisition, resulting in a $1.7 million increase over the historical cost net book value of Avery Coal's property, plant and equipment. This change increased Avery Coal's depreciation and depletion expense by $175,000, $259,000 and $257,000 for the fiscal years ended in 1986, 1985 and 1984, respectively. Acquisitions subsequent to the April 1982 merger have been recorded at cost. Property acquired by the Company through the Spin-Off was transferred by Trafalgar at the value reflected on its books.

Depreciation is computed over the estimated useful lives of assets using the straight line method, while depletion on owned coal lands and coal leaseholds is calculated on the unit of production method, based on estimates of coal reserves. The undepleted portions of coal lands and leaseholds are written-off in the event of lease terminations and mining cessation on properties on which no further economically recoverable coal reserves are deemed to be in existence. Expenditures which substantially increase value or extend asset lives are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Upon retirement or disposal of assets, cost and accumulated depreciation and depletion are removed from their respective accounts and resulting gains or losses are reflected in operating results for the period.

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OLSON INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

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Investments. The Company accounts for its investments in affiliated companies utilizing the equity method of accounting. In 1986 and 1985, the Company had a 50% interest in A. K. Mills, Inc. and Howlett-Olson Egg Company, Inc. (dba H-O Foods) (Howlett-Olson). On November 15, 1986 the Company acquired a one-third interest in Prescott Feed Mill, Inc. and on December 23, 1986, the Company sold its 50% interest in Howlett-Olson for cash and a note. In 1985, the Company also had a 50% interest in Norco Ranch, Inc., (Norco) and Oakdell Egg Farms, Inc. (Oakdell). Norco and Oakdell were spun-off as of December 1, 1985, in the exchange transaction described more fully at Note 2.

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UNIVERSITY PATENTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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Principles of Consolidation. The consolidated financial statements include the accounts of majority-owned subsidiaries (see Note 7). Intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the fiscal 1985 and 1984 financial statements to conform with presentation in 1986. As more fully discussed in Note 2, the Company spun off its investment in University Genetics Co. ("UGEN") on June 2, 1986. Accordingly, UGEN has been presented in these financial statements as a discontinued operation (spun-off subsidiary). Notes other than Note 2 relate to the continuing operations of the Company.

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CENCOR, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Three Years Ended December 31, 1986

(1) Summary of Accounting Policies:

(a) Principles of Consolidation. The consolidated financial statements include the accounts of CenCor, Inc. (the Company) and its subsidiaries, all of which are wholly owned, except for a nominal minority interest in its finance subsidiary, Century Acceptance Corporation (Century). All significant intercompany accounts and transactions are eliminated in consolidation. (See Note 8 regarding the spin-off of La Petite Academy, Inc. and the sale of the tax return preparation division.)

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(8) Discontinued Operations:

(a) Distribution of La Petite Common Stock. On August 31, 1983, the Company spun-off its subsidiary, La Petite Academy, Inc., by distributing the common stock of La Petite to CenCor common stockholders. The Company received a ruling from the Internal Revenue Service that no gain or loss should be recognized by Company stockholders for federal income tax purposes as a result of this distribution. This distribution reduced the Company's stockholders' equity. The Company has agreed not to compete with La Petite in the child care business through August 31, 1988.

(b) Expense Allocations with La Petite. The Company has entered into an agreement with La Petite that provides for the allocation of salaries and certain other costs. All direct costs and expenses attributable to La Petite were charged to it, while other such costs and expenses of the Company not directly attributable to any of the Company's operating divisions or subsidiaries were allocated based on the estimated amount attributable to La Petite. The expense allocations from the Company to La Petite were $789,000 in 1986, $748,000 in 1985 and $815,000 in 1984. Managements of the Companies believe the allocations of such expenses to La Petite have been reasonable.

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CURTISS-WRIGHT CORPORATION
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies.

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A. *Principles of Consolidation.* The financial statements present the consolidated accounts of Curtiss-Wright Corporation and all majority owned subsidiaries (the Corporation). Certain of Teledyne, Inc. subsidiaries own approximately 45% of the common stock of the Corporation. An additional 8% is owned by subsidiaries of a company, the shares of which have been spun off by Teledyne, Inc. to its shareholders.

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BORG-WARNER CORPORATION AND CONSOLIDATED SUBSIDIARIES
Notes to Financial Statements

Summary of Accounting Policies

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Principles of Consolidation. The consolidated financial statements include all subsidiaries except those in Mexico and South America, which are carried at cost due to political and economic uncertainty. Investments in affiliated companies at least 20 percent owned by Borg-Warner and in discontinued operations are carried at cost plus equity in undistributed earnings which generally approximates equity in net underlying assets. Discontinued operations include: the company's Air Conditioning operations, which were spun off in 1986; the Industrial Products and Financial Services operations for which management has announced plans of sale; and investments in Amedco and Echlin Inc., which were sold in 1986 and 1985, respectively.

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TANDY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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Basis of Reporting. On June 7, 1986, Tandy's Board of Directors approved a plan to separate the business of the Company into two distinct publicly held companies. The Canadian, European and Australian retail operations are being reorganized into a new company, InterTAN Inc. This company is expected to be spun off to the stockholders of Tandy in the form of a tax-free dividend. It is contemplated that stockholders who, as of the record date, own ten shares of Tandy, will receive one share of stock of InterTAN. Tandy's investment in and the results of operations of InterTAN are reflected in Tandy's consolidated financial statements on the equity method as InterTAN is now a temporary investment that Tandy anticipates distributing to its stockholders during fiscal 1987. Prior years' financial statements have been restated accordingly. The following statements and notes relate to the operations of Tandy as it will be configured after the spin off of InterTAN is completed. As a part of the spin-off transaction ("spin off"), assets of certain divisions of Tandy will be transferred to InterTAN at net book value in exchange for notes receivable. The terms and amounts of these notes will be finalized before the spin off is completed. These notes will reduce Tandy's investment in InterTAN thus reducing InterTAN's equity that will be distributed to the stockholders. If Tandy should contribute additional cash or other assets to InterTAN prior to the spin off, it would increase the amount to be distributed. Summary financial information for the InterTAN operations is shown on pages 46 through 48 with a brief discussion of the financial condition and results of operations of InterTAN. Tandy has requested a ruling from the Internal Revenue Service to determine that this dividend will not be taxable to the Tandy stockholders. A reply to this ruling request is not expected for several months. While the spin-off plans are not yet formalized, the significant matters have been agreed upon by the Tandy and InterTAN managements.

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STOCK

TOTAL SYSTEM SERVICES INC.
Notes to Financial Statements

Note 1—Basis of Presentation and Summary of Significant Accounting Policies

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Organization and Basis of Presentation. In August, 1983, TSYS issued 2,340,000 shares (520,000 shares before restatement for the stock splits, discussed in Note 2), of common stock in an initial public offering of its common stock.

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Note 2—Shareholders' Equity

On May 1, 1986 a two-for-one stock split was paid in the form of a 100% stock dividend and on September 4, 1985 and September 3, 1984, three-for-two stock splits were paid in the form of 50% stock dividends. On April 3, 1986, the Articles of Incorporation of TSYS were amended at the Annual Shareholders' Meeting to change the par value of TSYS common stock to $.10 per share and to increase the maximum authorized shares of TSYS common stock to 100,000,000 shares. Accordingly, all share and per share amounts in the accompanying financial statements have been adjusted to give retroactive effect to the splits and change in par value. TSYS paid cash in lieu of issuing fractional shares in connection with the stock splits described above.

On May 15, 1985, TSYS awarded 37,500 shares (12,500 shares before restatement for the stock splits, discussed above) of common stock to certain officers under a restricted stock bonus plan. The aggregate market value of this stock at the date of award ($228,125) is included as a deduction from shareholders' equity in the accompanying balance sheet and is being amortized as a compensation expense on a straight-line basis over the ten year vesting period. These shares have been included in the weighted average outstanding shares since May 15, 1985 for the purpose of computing earnings per share.

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NORTHWESTERN STEEL AND WIRE COMPANY
Notes to Financial Statements

1—Summary of Significant Accounting Principles and Policies

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Net Income Per Share. Net income per share is based on 7,506,339 common shares outstanding. There have been no common share transactions by the Company during fiscal 1986, 1985 and 1984.

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INTERFACE SYSTEMS INC.
Notes to Consolidated Financial Statements
Fiscal Year Ended September 30, 1986, 1985, and 1984
Interface Systems, Inc. and Subsidiaries

Organization and Basis of Presentation

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Deferred Underwriting Costs. During 1986, the Company incurred $117,792 of costs related to a proposed public offering of its common stock which was not completed due to market conditions. It is the intent of management to initiate an offering of its securities prior to the end of the second quarter of 1987, if justified by market conditions. Consequently, these prior costs, which consist primarily of legal and accounting fees, have been capitalized and will be offset against the proceeds derived from this anticipated public offering when received.

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CALNY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Fiscal years ended February 25, 1986,
February 23, 1985 and February 25, 1984

Note A—General and Summary of Significant Accounting Policies

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Transactions Affecting Common Stock. In July 1983, the Company completed an underwritten public offering of 1,650,000 shares of common stock consisting of 1,222,500 shares issued by the Company and 427,500 by selling shareholders, adjusted for a three-for-two stock split.

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GENERAL DEFENSE CORPORATION
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Basis of Financial Statements. Prior to the initial registered public offering of General Defense Corporation common stock in July 1980, the Company was a wholly-owned subsidiary of Clabir. Following the initial public offering and a subsequent registered public offering in February 1981, Clabir's retained control ownership was reduced to 50.05% of the Company's common stock.

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On April 15, 1985 in a registered public offering, the Company raised approximately $54,100,000 through the issuance of 13% Senior Subordinated Debentures and common stock (the "Unit Offering"). After this transaction and the acquisition of Hamilton, Clabir owned approximately 23% of the Company's common stock.

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AUTOMATED SYSTEMS, INC.
Notes to Financial Statements
June 30, 1986, 1985 and 1984

(1) Summary of Significant Accounting Policies

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(g) Earnings Per Share. Earnings per share for 1984 was not adjusted for the existence of stock options due to the absence of a public market for Company common stock.

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ZITEL CORPORATION
Notes to Consolidated Financial Statements
(Amounts in Thousands Except Per Share Data Unless Otherwise Noted)

Summary of Significant Accounting Policies:

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Income (Loss) Per Share. Income (loss) per share amounts are computed using the weighted average number of common equivalent (dilutive stock options) shares during each year presented. Prior to the Company's initial public offering, the fair market value of the Company's common stock was determined by the Board of Directors.

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WILTON ENTERPRISES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

History and Organization. In January, 1984, the Company made a public offering of 1,300,000 shares of common stock at a price of $10.00 per share. Net proceeds, after deducting the underwriters' discount and the Company's portion of the costs of the offering, were $8.7 million. The net proceeds were used to reduce certain debt incurred upon the acquisition of the assets of the Company and to redeem preferred stock issued upon the conversion of certain debt. Specific notes paid were a term note with a major bank, the subordinated note payable to Pillsbury and various notes payable to stockholders.

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TOTH ALUMINUM CORPORATION (A DEVELOPMENT STAGE ENTERPRISE)
Notes to Financial Statements
For the Years Ended August 31, 1986, 1985 and 1984 and Cumulative for the Period from Inception (August 1966) to August 31, 1986

1. Organization and Accounting Policies

Going Concern Basis. The Company's continuation in existence is dependent upon its ability to generate sufficient cash flow to meet its continuing obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain successful operations. On September 4, 1986, the Company filed an amended offering to register 8,493,577 shares of the common stock of the Company issuable upon exercise of certain options and offered for sale to the public with maximum net proceeds of $10,245,277. The offering is being conducted on a best-efforts basis by the Company and there is no certainty that the offering will be successful. However, management believes that the maximum net proceeds of this offering will be sufficient to meet the Company's continuing obligations.

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SCIENTIFIC MICRO SYSTEMS, INC.
Notes to Consolidated Financial Statements

Significant Accounting Policies

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Net Income (Loss) Per Share of Common Stock. Net income (loss) per share of common stock is computed using the weighted average number of common shares and dilutive common share equivalents. Shares of 8% convertible preferred stock (issued in September 1982 and converted in 1984) were common share equivalents while outstanding. Common share equivalents also include dilutive shares issuable upon the assumed exercise of common stock warrants and options, net of shares assumed to be repurchased (based on the Board of Directors' estimated fair value of the Company's common stock, prior to the establishment of a public market price) with the proceeds from exercise. Common share equivalents were anti-dilutive in 1985.

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AMES DEPARTMENT STORES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
January 25, 1986, January 26, 1985 and January 28, 1984

1. Summary of Significant Accounting Policies:

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(L) Net Earnings Per Common Share. Earnings per share reflect an increase in the weighted average shares outstanding resulting from the Company's public offering of 3.1 million common shares in June 1985 and approximately 2.4 million common shares issued in the conversion of the 8½% Convertible Subordinated Debentures Due 2009 and approximately 1.1 million common shares issued in the conversion of the Preferred Stock (see note 8). The earnings per share have been adjusted to reflect the two-for-one split of Common Stock distributed November 11, 1985 to shareholders of record October 18, 1985.

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ACTIVISION, INC.
Notes to Consolidated Financial Statements
(Dollar Amounts in Tables in Thousands Except Per Share Data, Unless Otherwise Noted)

1. Summary of Significant Accounting Policies

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Loss Per Share. Net loss per share has been computed using the weighted average number of common shares outstanding during the period. Prior to June 9, 1983 (date of Company's initial public offering), the fair market value of the Company's common stock was determined by the Board of Directors.

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STOCK OPTION/STOCK PURCHASE PLANS

JETRONIC INDUSTRIES, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies:

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Stock Options. Stock options have been granted at purchase prices not less than the market value of the shares on the date of grant. Proceeds received from the exercise of stock options are credited to the common stock and capital in excess of par value accounts in the year exercised. The tax benefits generated upon exercise of nonstatutory stock options are credited to capital in excess of par value in the year such benefits are realized.

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Per Share Data. Common and common equivalent per share data are based on the weighted average number of common shares outstanding and of common share equivalents deemed to be outstanding during the year. Common share equivalents are represented by stock options reduced by the number of common shares assumed to have been purchased with the proceeds from the exercise of the options.

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WAL-MART STORES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Accounting Policies

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Net Income Per Share. Net income per share is based on weighted average outstanding common shares and common share equivalents and stock options reduced by shares assumed to have been purchased from such options under the treasury stock method.

Stock Options. Proceeds from the sale of common stock issued under the stock option plans and related tax benefits which accrue to the Company are accounted for as capital transactions, and no charges or credits are made to income in connection with the plans.

ALBERTSON'S INC.
Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

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Stock Options. Proceeds from the sale of newly issued stock to employees under the Company's stock option plans are credited to common stock to the extent of par value and the excess to capital in excess of par value. With respect to nonqualified stock options, the difference between the option exercise price and market value at date of grant is charged to operations over the exercise period. Income tax benefits attributable to stock options exercised are credited to capital in excess of par value.

Pensions. The Company has two pension plans which are noncontributory for eligible employees who are 21 years of age with one or more years of service and who are not covered by collective bargaining agreements. Pension costs include current service costs, which are accrued and funded on a current basis, and prior service costs, which are amortized and funded over periods of not more than 30 years. Actuarial assumptions are reviewed annually.

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ANGELICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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Stock Options. Stock options are granted to certain employees at the prevailing market price at the date of the grant. Proceeds in excess of par value from the sale of common stock issued under stock options are credited to capital surplus at the time the options are exercised. The par value of the stock is credited to common stock. The Company makes no charges to income with respect to these options.

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CHICAGO PNEUMATIC TOOL COMPANY AND SUBSIDIARIES
Notes to Financial Statements

Summary of Significant Accounting Policies

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Stock Options. Were granted at prices representing 100% of the market price at the dates of the grants. Options have a term not exceeding ten years and the majority are fully exercisable one year from the date of the grant.

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RUSS TOGS, INC. & SUBSIDIARIES
Notes to Financial Statements

(Note A)—Summary of Significant Accounting Policies:

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(6) Stock Options and Stock Appreciation Rights. In connection with the Company's 1980 stock option plan, a charge is made to operations for the difference between the exercise price of the rights granted and the fair market value of the stock. The amounts received upon exercise of the options over the par value of shares issued are credited to additional paid-in capital.

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(8) Earnings Per Common Share. Earnings per common share is computed by dividing net earnings less preferred stock dividend requirements by the weighted average number of common shares outstanding during each fiscal year. Common stock equivalents did not have a material dilutive effect on earnings per common share.

In the attached financial statements, per share and stock option information, for all periods presented, give effect to the July 1983 stock split.

UNITED FOODS, INC.
Notes to Financial Statements

Summary of Accounting Policies

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Stock Options. Stock options are granted to certain key employees at the prevailing market price on the date of the grant. Proceeds from the sale of unissued common stock under these options is credited to common stock and additional paid-in capital at the time the options are exercised. If treasury stock is issued, the Company credits cost of treasury stock and charges additional paid-in capital for the excess of cost over the option price. The Company makes no charge to earnings with respect to these options.

Earnings Per Share. Earnings per share are based on the weighted average number of common shares outstanding during each year. Common stock equivalents in the form of stock options and warrants are also considered in the computation.

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VOPLEX CORPORATION
Notes to Consolidated Financial Statements

(1) Summary of Accounting Policies

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Employee Stock Purchase Plan. Under the 1977 Employee Stock Purchase Plan, eligible employees, through authorized payroll deductions and Company contributions equal to 15% of the payroll deduction, may accumulate sufficient funds in a stock purchase account for the purchase of twenty shares of common stock in the open market at the fair market price at the date of acquisition. The Company's contribution is expensed when the wages are incurred.

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LIN BROADCASTING CORPORATION
Notes to Consolidated Financial Statements

Note 1—Significant Accounting Policies

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Income Per Share. Primary income per share is based upon the weighted average common and common equivalent shares outstanding during the year. Common equivalent shares consist of stock options and shares subscribed for under the employee stock purchase plan, each for the period for which exercise prices are less than the average market price of the common stock.

Fully diluted income per share assumes full conversion of the convertible subordinated debentures and elimination of related interest cost (net of the tax effect) for the period the debentures were outstanding, and also includes certain additional dilution for stock options and shares subscribed for under the employee stock purchase plan.

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NICOLET INSTRUMENT CORPORATION
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

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Stock Option and Purchase Plans. Proceeds from the sale of shares issued under options and stock purchase plans are credited to Common Stock at par value and the excess of the option price over par value is credited to additional paid-in capital.

Earnings Per Share. Earnings per share is computed by dividing net earnings by the weighted average number of shares of Common Stock and Common Stock equivalents (dilutive stock options and stock purchase plans) outstanding during the year.

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BELL INDUSTRIES, INC.
Notes to Consolidated Financial Statements

Summary of Accounting Policies

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Restricted Stock Purchase Plans. The Company recognizes compensation expense relating to the plans in an amount equal to the difference between the market value of shares at the date of option grant and the expected proceeds upon exercise. Such compensation expense is accrued ratably over the period to be benefited. When an installment of a grant is exercised, common stock is credited with the par value of shares issued and other paid-in capital is credited with the balance of market value at date of grant.

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ANDERSON JACOBSON, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Significant Accounting Policies

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Earnings (Loss) Per Share. Earnings (loss) per common share are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the year (2,697,000 in 1986, 2,669,000 in 1985 and 2,675,000 in 1984). Common equivalent shares (shares covered by the stock option and stock purchase plans) were excluded because they were anti-dilutive. All per share amounts have been adjusted for the 3% stock dividend in December 1983.

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TAXES OTHER THAN INCOME TAXES

BROWN-FORMAN INC.
Notes to Consolidated Financial Statements

1. Accounting Policies:

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b. Inventories. Warehousing, insurance, ad valorem taxes and other carrying charges applicable to barreled whisky held for aging, and excise taxes generally when paid, are included in inventory costs.

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RAPID-AMERICAN CORPORATION
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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Inventories. Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold include Federal excise taxes, import duties and state liquor taxes of approximately $90,000,000, $98,100,000 and $105,100,000, respectively, for the years ended January 31, 1986, 1985 and 1984.

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CARTER HAWLEY HALE STORES, INC.

Summary of Significant Accounting Policies

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Sales. Sales are net of returns, exclude sales tax, and comprise merchandise, services, and sales by leased departments.

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THE MAY DEPARTMENT STORES COMPANY

Summary of Significant Accounting Policies

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Sales and Accounts Receivable. Sales include merchandise, services, finance charge revenue from customer accounts receivable, and sales of leased and licensed departments. Sales are net of returns and exclude sales tax.

In accordance with trade practice, installments maturing in more than one year on deferred payment accounts receivable have been included in current assets. For financial reporting, profit on merchandise installment sales is included in earnings when the sales are made. For income tax purposes the company uses the installment method of reporting profit on installment sales.

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THE SEAGRAM COMPANY LTD.

Summary of Significant Accounting Policies

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Revenue and Expense Items. Sales and other income and cost of goods include excise taxes and duties paid or accrued on spirits and wines. Advertising and promotion expenses are charged to income as incurred.

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AMREP CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting and Financial Reporting Policies:

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Real Estate Inventory. Homes and condominiums completed or under construction are stated at cost, including interest costs capitalized during construction.

Land and improvements are stated at cost, which includes the cost of certain amenities and capitalized interest and real estate taxes. These costs are allocated to individual homesites based upon the salable homesites within each section of a community.

Investment Property. Investment property represents vacant, unimproved land not held for sale in the normal course of business. Investment property is stated at cost, including capitalized interest and real estate taxes.

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ROCKWOOD NATIONAL CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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Real Estate Operations. Interest, property taxes and other carrying costs during the development phase are capitalized. The costs of direct improvements to a tract of real estate are allocated to that tract. In general, costs of land, common improvements and capitalized carrying costs are allocated to tracts based upon the relative sales values of the tracts. The Company capitalizes interest on the average amount of accumulated expenditures for property being developed using the effective interest rate based on the related debt. Interest capitalization continues until the assets are ready for sale or until development of the property is suspended.

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GENESCO INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

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Change in Fiscal Year. Effective January 31, 1985, the Company changed its fiscal year end from July 31 to January 31, to more closely coincide with other companies in its industry. In connection with the fiscal year change, the Company modified its method of allocating payroll taxes within its fiscal periods to record payroll taxes as incurred rather than prorate them over the fiscal period. The effect of the modification in the method of allocating payroll taxes for the six months ended January 31, 1985 was to increase earnings before extraordinary credit by $974,000 and net earnings by $1,146,000, and earnings per common share before extraordinary credit by $.06 and net earnings by $.08.

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FOREST CITY RENTAL PROPERTIES CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands Except Those Stated on a per Share Basis)

A. Summary of Significant Accounting Policies

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5. Rental Properties. For financial reporting purposes, interest and taxes during construction are capitalized as part of the property cost.

Repairs, maintenance and minor improvements are charged to current operations while major improvements are capitalized. On retirement or sale of property, the asset cost and related accumulated depreciation are eliminated from the respective accounts and any gain or loss is reflected in earnings.

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FEDERATED DEPARTMENT STORES, INC.
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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Depreciation and amortization are provided primarily on a straight-line basis for book purposes over the shorter of estimated asset lives or lease terms.

Real estate taxes and interest on construction in progress and land under development are capitalized. Amounts capitalized are amortized over the estimated lives of depreciable assets.

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GENERAL HOST CORPORATION
Notes to Financial Statements

Note 1: Accounting Policies

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Leases which meet the accounting criteria for capital leases are recorded as property, plant and equipment, and the related capital lease obligations (the aggregate present value of minimum future lease payments, excluding executory costs such as taxes, maintenance and insurance) are included in long-term debt for financial reporting purposes. Depreciation and interest are charged to expense, and rent payments are treated as payments of long-term debt, accrued interest and executory costs. All other leases are accounted for as operating leases, and rent payments are charged to expense as incurred. For income tax purposes substantially all leases are accounted for as operating leases.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 1986, 1985 and 1984

Note 1. Summary of Significant Accounting Policies:

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Income Taxes. The Company intends to continue qualifying as a regulated investment company by meeting certain requirements of the Internal Revenue Code relating to distribution of dividends to its shareholders of its net investment income, thereby incurring no tax liability on such income. Based on its status as a regulated investment company, the Company may elect to retain, deem or distribute, in whole or in part, net long-term capital gains realized on the disposition of its investments. Capital gains taxes were not provided in 1986, 1985 and 1984 with respect to net long-term capital gains from dispositions in such year as the Company designated such gains as a deemed capital gain distribution to its shareholders of record on March 31, 1986, 1985 and 1984. In connection therewith, the Company paid federal capital gains taxes on behalf of its shareholders. These taxes were not charged against operations. Additionally, the Company has distributed or has declared distributions from current year net long-term capital gains totaling $1,777,300 ($1,867,200 and $1,552,200 in 1985 and 1984, respectively), thereby incurring no tax liability on these gains. See Note 6.

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APPENDIX A

USING NAARS TO EXPAND THE INFORMATION IN THIS PUBLICATION

The National Automated Accounting Research System (NAARS) is a full text, on-line data base that includes three types of files: (1) corporate annual reports, (2) governmental units, and (3) accounting literature.

The corporate annual report files contain the financial statements, audit report, management responsibility letter, and footnotes. If the annual report received at the AICPA was a form 10-K, we also include the supplementary schedules and the exhibit on earnings per share.

There are always five single-year files of annual reports on-line, which may be searched individually or in a combined group. Each single-year file contains approximately 4,200 reports. The combined group contains over 21,000 annual reports. The reports in each file may be searched by employing a key word or phrase in the search frame transmitted. However, a particular accounting concept may be difficult to find by using a key word or phrase. For example, Accounting Changes are sometimes difficult to identify in an annual report. A particular report may refer to an accounting change simply by saying, "During the year we changed the method of accounting for . . .", which is a simple example to find. The search frame to transmit may be constructed as follows:

CHANG! W/5 METHOD OR ACCOUNTING

In this case, the computer is instructed to search the annual reports for examples where any form of the word CHANGE (the exclamation point is a wild card) is found to appear within five words of either METHOD or ACCOUNTING.

However, a report that discloses an accounting change in a manner that does not use the word "change" can be a difficult one to find. For example, the report might state: "Since 1986 we account for . . ." or "Prior to 1985, we accounted for . . .". Both methods of disclosure imply there has been a change in the method of accounting but neither employ any form of the word "change."

Members of the staff at the AICPA index the footnotes to make it possible to find such examples as this one. Each of the footnotes going into the data base is read by a CPA at the Institute. These professionals identify the accounting concepts contained within a footnote. The accounting concepts contained within the footnote are indexed by applying acronym(s) at the beginning of each note. When the report is entered into the data base, the acronym becomes part of the footnote. The acronyms are called *descriptors*. The descriptor that identifies an accounting change is ACCTG.

The above example may be searched by using the following search frame:

ACCTG W/SEG SINCE OR PRIOR OR CHANG!
OR ADOPT! W/5 METHOD OR ACCOUNT!

The computer is instructed to find examples of footnote disclosure when the footnote includes the descriptor ACCTG and, within the text of the footnote, the words PRIOR or SINCE or any form of the words CHANGE or ADOPT is found to appear within five words of METHOD or any form of the word ACCOUNT.

The descriptors may be employed with a key word or phrase to find specific examples as well. For example, the following would provide examples of accounting changes disclosed within a pension footnote that discusses FASB Statement No. 87:

ACCTG W/SEG PENS W/SEG
(STATEMENT OR STANDARD OR SFAS OR FASB W/3 87)

The search frames used to find the examples of footnote disclosure for the examples in this publication and a complete listing of NAARS descriptors are included with a brief description of the concept identified by each on the following pages. You may use these same search frames to find more recent examples since the NAARS data base is constantly expanded, or you may modify the search logic for your specific circumstances.

Although these search frames may appear intimidating at first glance, formulating a search becomes easy with a little experience. To provide new users with a quick start, the AICPA is offering self-study courses on formulating searches and using this data base. The first course is entitled *Learning LEXIS/NEXIS/NAARS* and is available from the AICPA Order Department at 1-800-334-6961 (in New York, 1-800-248-0445).

If you have questions about subscribing to the NAARS data base through AICPA TOTAL (Total On-line Tax and Accounting Library Service) call Hal G. Clark at 1-212-575-6393. To subscribe to TOTAL, call the AICPA Order Department number listed above.

Some of the search frames used to find the examples included in this publication were as follows:

PRACT W/SEG (ACCOUNTING OR METHOD) (W/8 CHANGE OR ADOPT OR PRIOR OR SINCE)

PRACT W/SEG (ACCRU! OR CASH W/3 BASIS OR METHOD)

PRACT W/SEG (SUCCESSFUL OR FULL COST)

PRACT W/SEG (FISCAL W/2 YEAR)

PRACT W/SEG (YEAR END)

PRACT W/SEG (ADVERT!)

PRACT W/SEG (BARTER)

PRACT W/SEG (COMPENSAT! W/3 EMPLOYEE)

PRACT W/SEG (DEFER! W/3 CHARGE OR EXPENSE)

PRACT W/SEG (DEFER W/3 CREDIT OR REVENUE OR INCOME)

PRACT W/SEG (DISCONTINU! W/3 OPERAT! OR SEGMENT)

PRACT W/SEG (STOCK W/3 OWNERSHIP) OR (ESOP OR PAYSOP OR TRASOP)

PRACT W/SEG (ENTITLEMENT)

PRACT W/SEG (FRANCHIS! OR LICENSE)

PRACT W/SEG (INTANGIBLE OR GOODWILL OR PATENT) OR (COST W/5 EXCEED! OR EXCESS W/5 ASSET)

PRACT W/SEG (INVENTOR!)

PRACT W/SEG (MORTGAGE W/5 (HELD W/2 SALE))

PRACT W/SEG (NONCOMPET! OR (NON W/1 COMPET!))

PRACT W/SEG (WARRANTY OR GUARANTY)

PRACT W/SEG (PUSH! W/2 DOWN) OR PUSHDOWN

Below is a listing of footnote descriptors used within the NAARS data base and a brief explanation of the concept identified by each.

Descriptor	**Concept**
PRACT	Accounting policies or practices
ACCTG	Accounting changes; changes in estimate
ACQUIS	Business combinations and acquisitions
COMMT	Commitments and contingencies
COMPEN	Compensation
CONSPOL	Consolidation policies
CONTR	Long-term contracts or lessor disclosures
DEBTAC	Debt
DEFERC	Deferred charges or credits; or negative goodwill
DIF	Disagreement between registrant and auditor
DISCOP	Discontinued operations disclosed within a footnote, and the discontinued operation is presented as a separate segment in the income statement
DISCOPNSG	Discontinued operations disclosed within a footnote, and the discontinued operation is not presented as a separate segment in the income statement
EPS	Earnings per share
FORCST	Forecasting
FOREFF	Foreign exchange—economic effect
FORX	Foreign exchange
FYCHG	Fiscal year change
FYDIF	Year-end difference between investor/investee
INSIDR	Related party transactions

INTANG	Intangible assets—positive goodwill
INTCONT	Internal control
INTRIM	Quarterly information
INVOL	Involuntary conversion
LOB	Line of business or segment disclosure
MDA	Management discussion analysis
NSUMOP	Notes to the summary of operations
PENS	Pension or retirement plans
PRIPER	Prior period adjustments
PROP	Property, depreciation, or depletion
REC	Receivables
RECLAS	Reclassifications
REORG	Reorganization or recapitalization
REPL	Replacement costs or current value of inflation disclosure
RESDEV	Research and development
REVREC	Revenue recognition
RRA	Reserve recognition accounting
STOK	Stock, shares, retained earnings, or dividends
STOKOP	Stock options
SUBEV	Subsequent event
SUPINF	Supplementary information
TX	Taxes
XTRA	Extraordinary items

In addition to the above footnote descriptors, the following are used to index or identify accounting concepts within the audit reports:

ADVER	Adverse opinion
CHGAUD	Change of auditor
CHGOP	Change prior year opinion
CONST	Consistency exception
CONTG	Contingency qualification
DISCL	Disclaimed opinion
GAAP	Departure from generally accepted accounting principles
INFDIS	Information disclosure

OTHEX	Other reports, for example, appraiser
RELYAUD	Reliance on other auditor
SCOP	Scope limitation
SUMOP	Summary of Operations covered by audit report
UNQUAL	Unqualified opinion

APPENDIX B

MORE SIGNIFICANT LITERATURE ON DISCLOSURE OF ACCOUNTING POLICIES

Accounting Principles Board (APB) Opinion No. 22, "Disclosure of Accounting Policies," requires that "a description of all significant accounting policies of the reporting entity should be included as an integral part of the financial statements."

Selected results of this NAARS search

((DISCLOS! W/2 ACCOUNTING POLIC!) AND DATE (>1977))
AND NOT TITLE (IAS OR IAUG OR AAER OR FRR)

are presented for a discussion on more significant literature on disclosure of accounting policies since the last AICPA Financial Report Survey on this topic (1978 edition). SEC literature and international accounting and auditing standards are omitted.

Statement of Financial Accounting Standards (SFAS) No. 34,
"Capitalization of Interest Cost" (October 1979)

This statement establishes standards of financial accounting and reporting for capitalizing interest cost as a part of the historical cost of acquiring certain assets.[1] The disclosure of accounting policy for capitalization of interest cost is discussed in Background Information of Financial Accounting Standards Board (FASB) Statement No. 34. It states:

> 26. In 1974, the Securities and Exchange Commission became concerned with accounting for interest cost when it noted an increase in the number of nonutility registrants that were adopting a policy of capitalizing interest as part of the cost of certain assets. On June 21, 1974, the SEC issued a release that proposed a moratorium on adoption or extension of a policy of capitalizing interest by registrants other than public utilities that had not, as of June 21, 1974, publicly disclosed such a policy. On November 14, 1974, the moratorium was imposed by ASR No. 163, *Capitalization of Interests by Companies Other Than Public Utilities*. "Public utilities" was defined to include electric, gas, water, and telephone

[1]As stated in FASB Statement No. 34, "Capitalization of Interest Cost," paragraph 1.

utilities; registrants covered by AICPA Guides *Accounting for Retail Lands Sales* and *Audits of Savings and Loan Associations* were also excluded from the moratorium. In explaining its action, the SEC noted that

> it does not seem desirable to have an alternative practice grow up through selective adoption by individual companies without careful consideration of such a change by the Financial Accounting Standards Board, including the development of systematic criteria as to when, if ever, capitalization of interest is desirable.
>
> Accordingly, the Commission concludes that companies other than electric, gas, water and telephone utilities and those companies covered by the two exceptions in the authoritative literature described above which had not, as of June 21, 1974, publicly disclosed an accounting policy of capitalizing interest costs shall not follow such a policy in financial statements filed with the Commission covering fiscal periods ending after June 21, 1974. At such time as the Financial Accounting Standards Board develops standards for accounting for interest cost, the Commission expects to reconsider this conclusion. Until such time, companies which have publicly disclosed such a policy may continue to apply it on a consistent basis but not extend it to new types of assets. Return on equity invested shall not be capitalized by companies other than electric, gas, water and telephone utilities.

The SEC release amended *Regulation S-X* to require the disclosure of certain information by registrants continuing to capitalize interest.

SFAS No. 35, "Accounting and Reporting by Defined Benefit Pension Plans" (March 1980)

This statement establishes standards of financial accounting and reporting for the annual financial statements of a *defined benefit pension plan* (*pension plan* or *plan*).[2] For relevance to disclosure of accounting policies, it states:

> 27. Disclosure of the plan's accounting policies[3] shall include the following:
>
> a. A description of the method(s) and significant assumptions used to determine the fair value of investments and the reported value of contracts with insurance companies.
> b. A description of the method and significant assumptions (for example, assumed rates of return, inflation rates, and retirement ages) used to determine the actuarial present value of accumulated plan benefits. Any significant changes of method or assumptions between benefit information dates shall be described.

SFAS No. 52, "Foreign Currency Translation" (December 1981)

This statement supersedes FASB Statement No. 8, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements" (and amends or supersedes other pronouncements). APB Opinion No. 22, which was amended by FASB Statement No. 8, is also amended by this statement as follows: paragraph 13 is amended to delete "translation of foreign currencies" as an example of disclosure "commonly required with respect to accounting policies."

Statement of Financial Accounting Standards (SFAS) No. 93, "Recognition of Depreciation by Not-For-Profit Organizations" (August 1987)

This statement establishes standards of financial accounting and reporting that require all not-for-profit organizations to recognize the cost of using up long-lived tangible assets—depreciation—in general-purpose external financial statements.[4] For relevance to disclosure of accounting policies, it states that

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[2]As stated in FASB Statement No. 35, "Accounting and Reporting by Defined Benefit Pension Plans," paragraph 1.
[3]See APB Opinion No. 22, "Disclosure of Accounting Policies."
[4]As stated in FASB Statement No. 93, "Recognition of Depreciation by Not-for-Profit Organizations," paragraph 2.

The depreciation method(s) used by an organization may significantly affect the information conveyed by its financial statements, including its reported financial position and results of operations. Not-for-profit organizations generally have disclosed, as required by APB Opinion No. 22, *Disclosure of Accounting Policies*, whether or not they recognize depreciation. Those recognizing depreciation generally have disclosed the information required of business enterprises by paragraph 5 of Opinion 12. The Board concluded that information about depreciable assets and depreciation policies and methods is useful to users of financial statements of not-for-profit organizations. Therefore, this Statement explicitly extends the requirements of Opinion 12 to not-for-profit organizations.

FASB Technical Bulletin No. 82-1, "Disclosure of the Sale or Purchase of Tax Benefits Through Tax Leases" (January 1982)

This technical bulletin asked:

Question

1. What disclosures are required for the sale or purchase of tax benefits through tax leases?

The bulletin gave this response:

Response

4. Opinion 22 requires disclosure of all significant accounting policies where alternative accounting principles or practices exist, including the methods of applying those accounting principles that materially affect the determination of financial position, changes in financial position, and results of operations. Because alternative accounting practices may exist until the FASB issues a final Statement addressing the sale or purchase of tax benefits through tax leases, the accounting policies or practices followed for those transactions should be disclosed in accordance with that Opinion. The disclosure should include the method of accounting for those transactions and the methods of recognizing revenue and allocating income tax benefits and asset costs to current and future periods.

AICPA Statement of Position (SOP) 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" (July 1981)

This statement of position provides guidance on the application of generally accepted accounting principles in accounting for the performance of contracts for which specifications are provided by the customer for the construction of facilities, the production of goods, or the provision of related services.[5] For relevance to disclosure of accounting policies, it states:

.21 . . . As a result of evaluating individual contracts and profit centers, a contractor should be able to establish a basic policy that should be followed in accounting for most of his contracts. In accordance with the requirements of APB Opinion 22, *Disclosure of Accounting Policies*, a contractor should disclose in the note to the financial statements on accounting policies the method or methods of determining earned revenue and the cost of earned revenue including the policies relating to combining and segmenting, if applicable. . . .

AICPA Audit and Accounting Guide, "Audits of Employee Benefit Plans" (February 1983)

The purpose of this guide is to provide guidance to the independent auditor in examining and reporting on the financial statements of employee benefit plans.[6]

For disclosure of accounting policies by defined benefit plans, the guide states:

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[5]As stated in AICPA Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," paragraph .01.

[6]As stated in the AICPA Audit and Accounting Guide "Audits of Employee Benefit Plans," paragraph 1.1.

2.19. The significant accounting policies of the plan should be disclosed. APB Opinion No. 22 provides guidance on the disclosure of accounting policies, and FASB Statement No. 35 requires disclosure of (*a*) the method and significant assumptions used to value investments and contracts with insurance companies and (*b*) the method and significant assumptions used in determining the actuarial present value of accumulated plan benefits, including any significant changes in the method or assumptions during the year.

For disclosure of accounting policies by defined contribution plans, the guide states:

3.19. Disclosure of the plan's accounting policies should include a description of the methods and significant assumptions used to determine the fair value of investments and the reported value of contracts with insurance companies (if any).[7]

For disclosure of accounting policies by employee health and welfare benefit plans, it states:

4.25. Disclosure of a health and welfare benefit plan's accounting policies should include—[8]

a. A description of the methods and significant assumptions used to determine the fair value of investments and the reported value of contracts with insurance companies (if any).
b. A description of significant actuarial assumptions used to determine the plan's liabilities. Any significant changes of assumptions between financial statement dates should be described.

AICPA Audit and Accounting Guide, "Audits of State and Local Governmental Units" (January 1986)

This guide deals primarily with auditing, including various aspects of auditing elements of financial statements. Further, it distinguishes between financial and compliance audits and expanded scope audits and describes the auditor's reporting standards. This guide also discusses generally accepted auditing standards, particularly relevant AICPA SASs, and selected federal government publications. It also discusses generally accepted government auditing standards, since that unique term is used by the General Accounting Office.[9] For relevance to disclosure of accounting policies, it states:

13.28 A summary of significant accounting policies generally discloses revenue recognition practices, asset lives, methods used to determine and record depreciation on assets, allocations of receipts to contributed capital pursuant to GASB Cod. sec. G60, and other accounting policies normally disclosed in the financial statements of business enterprises.

14.14 Significant accounting policies to be disclosed include the basis of accounting for the fiduciary fund type, a description of the funds in use, the carrying basis of investments, and an explanation of any reservations of fund balance.

AICPA Industry Audit Guide, "Hospital Audit Guide" (January 1985)

This guide is issued to assist the independent auditor in auditing hospital financial statements that present financial position, changes in financial position, and results of operations.[10] It states in chapter 7 that

It should be noted that information about the accounting policies adopted and followed by the hospital should be disclosed in the financial statements. This disclosure is recommended by APB Opinion No. 22, "Disclosure of Accounting Policies." The text of the Opinion should be referred to for the content and format of disclosure.

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[7]See APB Opinion No. 22, "Disclosure of Accounting Policies."

[8]See APB Opinion No. 22, "Disclosure of Accounting Policies."

[9]As stated in AICPA Audit and Accounting Guide "Audits of State and Local Governmental Units," paragraph 1.18.

[10]As stated in AICPA Industry Audit Guide "Hospital Audit Guide," p. vii.

AICPA Issues Paper, "Identification and Discussion of Certain Financial Accounting and Reporting Issues Concerning LIFO Inventories" (November 1984)

The Accounting Standards Executive Committee's Task Force on LIFO Inventory Problems (task force) developed this issues paper to identify and discuss certain financial accounting and reporting issues related to the last in, first out (LIFO) inventory method for which the authoritative accounting literature provides no definitive guidance.[11] For relevance to disclosure of accounting policies, it states:

> 2-6. *Issue.* Should the LIFO approach used (specific goods or dollar value) be disclosed?
>
> 2-7. *Arguments.* Some believe disclosure of the LIFO approach used is useful and meaningful, because an entity's reported income depends on, among other things, the way LIFO is calculated. They further believe this disclosure enhances comparability. Notwithstanding those arguments, some believe this disclosure is now required by APB Opinion 22, which requires disclosure of all significant accounting policies, that is, specific accounting principles and the methods of applying them.
>
> 2-8. Others believe that, unaccompanied by other information, disclosure of the LIFO approach used does not enable users to quantify the effects of the approach used. Indeed, some believe the benefits of providing the extensive other information necessary to allow users to quantify the effects of the LIFO approach used are rarely worth the costs involved. Further, some believe the authoritative accounting literature does not prescribe this disclosure for non-LIFO inventories (for example, the manner in which factory overhead is allocated), because such information generally has not been viewed as meaningful. Notwithstanding those arguments, some believe the way LIFO is calculated is not a significant accounting policy contemplated by APB Opinion 22, and such information is normally too complex for the average financial statement user to comprehend.
>
> 2-9. *Advisory Conclusion.* The task force believes (7 yes, 2 no) the LIFO approach used need not be disclosed.

AICPA SOP 75-4, "Presentation and Disclosure of Financial Forecasts" (August 1975)[12]

This statement of position provides guidance on the presentation and disclosure of financial forecasts. For disclosure of accounting principles and relevance to disclosure of accounting policies, it states that

> Financial forecasts should be prepared on a basis consistent with the generally accepted accounting principles expected to be used in the historical financial statements covering the forecast period. This fact, as well as a summary of significant accounting policies, should be disclosed in the forecast. If a forecast is included in a document which contains such a summary, disclosure can be accomplished by cross-referencing.

AICPA Statement on Standards for Accountants' Services on Prospective Financial Information, "Financial Forecasts and Projections" (October 1985)

This statement sets forth standards and provides guidance to accountants concerning performance and reporting for engagements to examine, compile or apply agreed-upon procedures to prospective financial statements.[13]

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[11] AICPA Issues Paper, Identification and Discussion of Certain Financial Accounting and Reporting Issues Concerning LIFO Inventories, par. 1-1.

[12] Presented as Appendix B, AICPA, Guide for a Review of a Financial Forecast, pp. 55–65.

[13] The accountant should refer to paragraphs 1–6 of this Statement for discussion on standards or procedures provided and for definitions.

For relevance to disclosure of accounting policies, in appendix A, "Minimum Presentation Guidelines," it states:

> 1 . . . . Prospective financial statements may take the form of complete basic financial statements[14] or may be limited to the following minimum items . . .
>
> 1. Summary of significant accounting policies

AICPA Guide for Prospective Financial Statements (January 1986)

This guide was prepared to establish guidelines for the preparation and presentation of financial forecasts and projections (referred to as *prospective financial statements*).[15] Section 600 deals with compilation procedures. For relevance to disclosure of accounting policies, it states:

> .10 In performing a compilation of a financial forecast the accountant should, where applicable . . .
>
> g. Read the financial forecast, including the summary of significant assumptions, and consider whether—
>
> (i) The forecast, including the disclosures of assumptions and accounting policies, appears to be presented in conformity with the AICPA presentation guidelines for a financial forecast, which appear in section 400. . . .

[14]The details of each statement may be summarized or condensed so that only the major items in each are presented. The usual footnotes associated with historical financial statements need not be included as such. However, significant assumptions and accounting policies should be disclosed.

[15]As stated in AICPA, Guide for Prospective Financial Statements, sec. 100.02.

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20 **Illustrations of Selected Proxy Information (1979)***
A survey of the application of SEC requirements to disclose auditors' services and management perquisites in proxy statements

21 **Illustrations of Accounting for Joint Ventures (1980)**
A survey of the application of various methods of accounting for joint ventures in the financial statements of venturers

22 **Illustrations and Analysis of Disclosures of Pension Information (1981)**
A survey of the application of the requirements of FASB Statement No. 36, an amendment of APB Opinion No. 8

23 **Illustrations and Analysis of Disclosures of Inflation Accounting Information (1981)**
A survey of the application of the requirements of FASB Statement Nos. 33, 39, 40, and 41

24 **Illustrations of Foreign Currency Translation (1982)**
A survey of the application of FASB Statement No. 52

25 **Illustrations of Accounting for Innovative Financing Arrangements (1982)**

26 **Updated Illustrations of Management's Discussion and Analysis of Financial Condition and Results of Operations (1983)**
A survey of the application of recently amended Rules 14a-3 and 14c-3 of the Securities and Exchange Act of 1934 in annual reports to shareholders

27 **Illustrations of Accounting and Reporting by Development Stage Enterprises (1984)**
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28 **Illustrations of Accounting for Enterprises in Unusual Circumstances and Reporting on Them by Independent Accountants**
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29 **Updated Illustrations of Departures from the Auditor's Standard Report (1984)**
A survey of the application of Statement on Auditing Standards No. 2, as amended

30 **Updated Illustrations of the Disclosure of Related Party Transactions (1985)**
A survey of the application of FASB Statement No. 57

31 **Illustrations of "Push Down" Accounting (1985)**

32 **Illustrations of Accounting for In Substance Defeasance of Debt (1986)**
A survey of the application of FASB Statement No. 76

33 **Illustrations of Accounting for Pensions and for Settlements and Curtailments of Defined Benefit Pension Plans (1987)**
A survey of the application of FASB Statement Nos. 87 and 88

34 **Illustrations of Accounting for the Inability to Fully Recover the Carrying Amounts of Long-Lived Assets (1987)**
A survey of the subject of an issues paper by the AICPA Accounting Standards Division's Task Force on Impairment of Value

35 **Updated Illustrations of Reporting Accounting Changes (1987)**
A survey of the application of APB Opinion No. 20, as amended

36 **Illustrations of Accounting Policy Disclosure (1987)**
A survey of the application of APB Opinion No. 22

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