

**Report on**  
**2012 Inspection of Urish Popeck & Company, LLC**  
**(Headquartered in Pittsburgh, Pennsylvania)**

**Issued by the**  
**Public Company Accounting Oversight Board**

**May 2, 2013**

**THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT**

**PORTIONS OF THE COMPLETE REPORT ARE OMITTED  
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH  
SECTIONS 104(g)(2) AND 105(b)(5)(A)  
OF THE SARBANES-OXLEY ACT OF 2002**

PCAOB RELEASE NO. 104-2013-114

**Notes Concerning this Report**

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify financial statement misstatements, including failures to comply with Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements, in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the apparent misstatements or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning whether an issuer's financial statements are misstated or fail to comply with Commission disclosure requirements, rests with the Commission. Any description, in this report, of financial statement misstatements or failures to comply with Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.

## **2012 INSPECTION OF URISH POPECK & COMPANY, LLC**

In 2012, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Urish Popeck & Company, LLC<sup>1/</sup> ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.<sup>2/</sup>

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.<sup>3/</sup> A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

---

<sup>1/</sup> The Firm has issued audit reports under the name of Urish Popeck & Co., LLC.

<sup>2/</sup> The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

<sup>3/</sup> See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

**PART I**

**INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS**

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from March 26, 2012 to March 30, 2012. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	4 (Naples, Florida; Pittsburgh and State College, Pennsylvania; and Reston, Virginia)
Ownership structure	Limited liability company
Number of partners	7
Number of professional staff <sup>4/</sup>	50
Number of issuer audit clients <sup>5/</sup>	1

---

<sup>4/</sup> "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

<sup>5/</sup> The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements and internal control over financial reporting ("ICFR") of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.<sup>6/</sup> To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with Generally Accepted Accounting Principles ("GAAP").<sup>7/</sup> It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

In addition, inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions.<sup>8/</sup> Depending upon the circumstances, compliance with these standards may

---

<sup>6/</sup> This focus on weaknesses and deficiencies necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

<sup>7/</sup> When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

<sup>8/</sup> See AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T), and PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over*

require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

A. Review of Audit Engagement

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of one issuer. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies. Those deficiencies included a failure by the Firm to appropriately address an error in the issuer's application of GAAP that appeared likely to be material to the issuer's financial statements. In addition, the deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9 and Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a

procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

The deficiencies identified in the audit reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements. Those deficiencies were –

- (1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning the presentation of discontinued operations; and
- (2) the failure to perform sufficient procedures to test the valuation of mineral rights.

**B. Review of Quality Control System**

In addition to evaluating the quality of the audit work performed on a specific audit, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I



PCAOB Release No. 104-2013-114  
Inspection of Urish Popeck & Company, LLC  
May 2, 2013  
Page 6

PARTS II AND III OF THIS REPORT ARE NONPUBLIC  
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT



## **PART IV**

### **RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT**

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.<sup>9/</sup>

---

<sup>9/</sup> In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

### **Comment concerning the Presentation of Discontinued Operations**

The following summarizes the issuer's situation at the time of the transaction to sell a subsidiary:

- The issuer was a development stage holding company.
- The wholly owned subsidiary that was sold was Company's only operating segment (ever).
- After the sale, the remainder of the issuer was the holding company shell with finance and investment transactions (primarily mineral rights-involving no operations). After the sale, there were no remaining operations of any sort.

FASB ASC 205-20-45 states that reporting on the basis of discontinued operations is required if both of the following conditions are met:

- "The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction." (underline added)
- "The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction."

While it is clear the second condition is met in the issuer's situation, the first condition is based on the need to separately present discontinued versus ongoing operations in the financial statements. In the issuer's situation, there were no ongoing operations. In our Firm's view, use of the discontinued operations presentation would be misleading. The financial statement presentation would necessarily involve the separate reporting of the results of the discontinued operations versus the results of continuing operations (which would report the holding company's limited finance and investing transactions). As such, we believe this presentation would mislead the financial statement user into believing there were continuing operations following the sale, contrary to the more accurate disclosure in Note 1 to the financial statements that the Company "managed its operations in one segment"... (until the sale)... "and currently has no operations."

We were particularly concerned about confusion regarding ongoing operations since our opinion included an explanatory paragraph citing substantial doubts about the issuer's ability to continue as a going concern, which included the statement "the Company...currently has no active operations" and referenced the disclosure in Note 1.

### **Comment on Failure to Perform Sufficient Procedures to test the Valuation of Mineral Rights**

The following summarizes the background of the issuer's ownership of mineral rights.

- The issuer acquired the land and mineral rights several years prior via the purchase of the inactive mining company that owned the mineral rights.
- In conjunction with the purchase, the issuer hired an expert (Expert I), a coal mining engineering firm to conduct a geological study of the reserves relating to those mineral rights. Expert I is located in the geographical area of the reserves and had been providing engineering services to the prior owner of the reserves since 1983. Expert I prepared a detailed study (previously provided to the PCAOB) based on previous corroborating reserve analyses which included extensive core drillings, drill logs, historic mining reports along with other background data.
- Two years prior to the year under audit, the issuer received an offer term sheet (previously provided to the PCAOB) from an unrelated party (Turnkey offer) for a complete turnkey operation "including permitting, surface mining, deep mining, marketing, transportation, reclamation, etc." with specified fixed royalty rates for coal, limestone and clay along with mining production rates. The issuer did not accept this offer, believing it to be too low. Our Firm's present value analysis (using Expert I's reserve data as previously provided to the PCAOB) and data from the Turnkey offer resulted in a valuation range of 127% to 155% of the issuer's carrying value of the reserves.
- The issuer hired a second expert (Expert II) which issued a report in the year under audit assigning a value to the reserves in excess of 115% of the carrying value.

Our audit work over the years the issuer has owned the reserves has included gaining an understanding of the credentials, assumptions and methodologies used in the different corroborating expert reports over the years, a site visit to tour the locations of the reserves by a senior member of our audit team using detailed reserve maps provided by Expert I, and a present value analysis of a offer term sheet from an unrelated party for a turnkey mining operation with fixed royalty rates and mining production rates. This is all documented in our audit workpapers for the year under audit.

Responding to the PCAOB's points indicating that our Firm failed to evaluate:

- Significant assumptions used in the valuation Expert II's report begins by citing the reserve quantity information in the earlier Expert I report and assigns values to each of the mineral reserves. The significant assumptions from that prior report were based on various corroborating expert studies dating back to 1978, of the issuer's specific reserves. Our Firm reviewed the reserve study in detail with the issuer's in house expert (using detailed reserve maps prepared by Expert I as part of their study) during a site visit to tour the reserve locations three years prior to the year under audit by a senior member of our audit team with substantial experience in auditing extractive industries. (Memo of Site visit from our workpapers is attached along with Expert I's transmittal of the detailed reserve maps to our Firm.)
- The current market value of similar reserves located in the area The fourth bullet below discusses the market value of similar reserves in the area. However, our Firm views the specific Turnkey offer received in a prior year for a turnkey mining operation of the issuer's specific reserves as being far more relevant as an indication of market value. This offer term sheet

eliminated the valuation variables of permitting, mining, transportation, reclamation, etc. and provided mining production and royalty rates specific to the issuer's reserves. Our present value analysis of this offer resulted in a discounted present value of \$.249 to \$.303 per ton of coal depending on the risk/return rates used. The Expert II valuation after applying an overall 30% discount arrived at a present value of \$.20 per ton of coal. That value grossed up for the discount results in a \$.286 gross present value per ton of coal (or overall 161% of carrying value) which is comparable with the range of our analysis of the Turnkey offer.

- The price per ton applied to the reserves                      The issuer's mineral rights owned relate to reserves of coal, limestone and refractory grade clay. Expert valuations of those reserves over the years have assigned approximately 92% of the value to the coal reserves. Accordingly, dividing 92% of the overall carrying value of the reserves by the proven coal reserves (in tons) results in a carrying value of \$.181 per ton of coal. Similarly, 8% of the carrying value divided by the combined limestone and clay reserves (in tons) results in a combined carrying value of \$.066 per ton versus the expert's combined valuation of \$.073 per ton (or \$.10 per ton for limestone and \$.05 per ton for clay.)
- The 30 percent reduction applied to prior year's values                      Expert II's report indicated their "estimated value (of the coal reserves) has been discounted by 30 % compared to values of coal reserves in your area from the 2008 values due to the large down turn in market coal values in 2009." This discount directly correlates on a 1 to 1 basis, the 2009 decline in the spot price of coal to the futures price of coal (the reserves will be mined over a 20+ year period.) This conservative valuation arises from a combination of recent spot market price declines and the type of coal in the reserves.

From our work on these reserves over time we have learned that the specific coal reserves are high sulfur steam coal (documented in our site visit memo) which has a soft market value due to its environmental disadvantages when used. With the 30% discount assigned for a combination of recent spot market decline and high sulfur steam coal, Expert II's valuation indicated there was sufficient value in the reserves to justify the carrying value even in that down market. Following is a summary comparison of the issuer's carrying value of the reserves and the different valuations (all indicating no impairment):

	<u>Carrying Value</u>	<u>2006 Turnkey Offer</u>	<u>2009 Expert II</u>
Overall valuation %	100%	127-155%	115% discounted 161% gross
\$ Per ton (present value)			
Coal	\$.181	\$.249-.303 *	\$.20 discounted .286 gross
Limestone & Clay	.066	(not calculated)	.073

\*Per our Firm's present value analysis using royalty and mining production data from the Turnkey Offer and reserve data from Expert I.

Additionally, apart from the coal, limestone and clay reserves, there was upside valuation potential (not quantified) in the overall reserves not included in the 2009 valuation arising from possible surface development of 1300 acres owned in fee simple and timber rights as indicated in Expert II's report.