REPORT OF AUDIT

ISLE OF PALMS, INC.

TO JULY 31st, 1927, INC.

I N D E X

OSCAR W. SCHLEETER
CERTIFIED PUBLIC ACCOUNTANT
37 BROAD STREET
CHARLESTON, S. C

MEMBER:
AMERICAN INSTITUTE OF ACCOUNTANTS

September 22, 1927.

Mr. Charles R. Allen, President,
Isle of Palm, Inc.,
Charleston, South Carolina.

Dear Sir:

In accordance with engagement, we have made an examination of the books and records of:

ISLE OF PALMS, INC.

for the period from the commencement of operations to July 31st, 1927, inclusive, and submit herewith report setting forth the financial condition as of the latter date together with results of operations for the period from January 1st to July 31st, 1927, and analysis of charges to profit and loss up to and including December 31st, 1926.

During the course of our examination, it was observed that the accounts were arranged in such a manner that it was rather difficult to prepare financial or operating statements with any degree of dispatch, and we would accordingly suggest that some thought be given to arranging a new general ledger classification designed in such a way as to facilitate the preparation of statements for the benefit of the management which would reflect accurately the financial status of the Corporation at any time and the result of operation for any period.

At the commencement of our examination it was found that while the saleable lots on the Isle of Palms were platted and subdivided, no cost of the subdivisions had been allocated thereto. Hence, it was necessary to delay the submission of this report pending the receipt of this information.

Inasmuch as the operation of the resort facilities did not commence until July 3rd, 1927, attention is called to the fact that while no revenues were forthcoming prior to that date, there were certain administrative and general expenses which had to be absorbed by such revenues which were received subsequent to that date.

With respect to the several exhibits which form a part of this report, we make the following comment:

EXHIBIT "A"

BALANCE SHEET

In this statement we have set forth all assets and liabilities as well as net worth of the Corporation as of July 31st, 1927. Inasmuch as most of the expenditures since the incorporation constitute capital expenditures, we have set these up as assets and they appear on the balance sheet as such or are included in the supporting schedules thereof.

In connection with the item of saleable lots which appears under current assets, it will be noted that we have added the total cost of road construction amounting to $41,704.03, making the total value of these lots as at July 31st, $134,029.03 based on actual cost, the subsequent appraisal thereof being ignored for the purpose of this report. Because of the fact that construction work of all kind was not fully completed as at July 31st, 1927, no attempt has been made to determine the proportion of the road construction cost which was applicable to those lots which have been sold, nor have we considered as being fully realized the profit on the sale of houses, but rather setting up the cost of construction of houses to date as an asset and the credit therefor as a deferred credit.

In this connection, it is suggested that at the time each lot or other property of the Corporation is sold, the cost thereof be charged off by a credit to the respective asset account so as to reflect the profit on each given transaction as completed.

EXHIBIT "B"

STATEMENT OF PROFIT AND LOSS

In this statement are set forth the revenues from all sources less operating expenses and the income from sale of lots less expenses for the period from January 1st to July 31st, 1927. It will be noted that this period resulted in a net loss of $2,921.78, before making any provision whatever for depreciation on fixed assets of a depreciable nature or writing off of any proportion of the discount on bonds. We would suggest that in the future your bookkeeper be instructed to determine the amount of amortization of this discount as well as the respective depreciation rates on property which is subject to wear and tear and exhaustion, and pro forma entries be written off at least monthly.

The details with respect to the departmental results of operations for the respective departments are shown in Exhibit "C". The total income in each department less the direct operating expenses and the resulting profit or loss (in red) are herein given. The net result of operations in all of the departments is a loss of $2,161.21, which is carried to Exhibit "B" and which has been offset by the income from sale of lots, bringing about a gross operating income of $8,202.70. From this item have been deducted expenses aggregating $12,246.16 for the period from January 1st to July 31st, 1927; this results in a loss on operations of $4,043.46 from which has been deducted interest earned in the amount of $1,121.68, making the net loss for the period $2,921.78, the amount mentioned in the preceding paragraph.

EXHIBIT "D"

ANALYSIS OF DEFICIT

Inasmuch as there were no revenues from any sources up to December 31st, 1926, all amounts closed to profit and loss constituted expenses and they are shown in detail herein. Those items which are designated by an (X) represent part of capital expenditures and constitute part of the cost to be allocated to lots offered for sale. In this connection, we would suggest that authority be given to the bookkeeper to restore these items so that the true cost of land and other property acquired in the original purchase, together with such additions as have been made might be accurately reflected and the proportion thereof applied against the selling price of each unit sold.

As indicated in the foot-note on the balance sheet in Exhibit "A", there are certain outstanding mortgages existing as liens on the property owned by the Corporation securing the mortgage notes listed in Schedule VII as well as the mortgage given to the Mercantile Trust and Deposit Company of Baltimore Trustee to secure the payment of the outstanding first mortgage bonds of $130,000.00. In addition to this, the Sanitary & Drainage Commission for Charleston County also holds a bond in the sum of $100,000.00 secured by a mortgage on certain property pending the carrying out of certain agreements entered into between the Commission and the Corporation.

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The several schedules forming part of this report contain the details of the various exhibits and therefore do not require any further comment.

With a view to cooperating with the stockholders and directors, there are still numerous features with regard to improving the accounting system which would require considerable space to enumerate, but which, in our opinion, are essential for the purpose of preparing statements as well as determining proper income tax liability in the future. We would suggest that arrangements be made so that these matters can be fully discussed with your president and bookkeeper so that the necessary revision in the records as at present constituted might be made as soon as possible.

Respectfully submitted,

OWS/H

Certified Public Accountant.

EXHIBIT "A"

BALANCE SHEET

ISLE OF PALMS, INC.

JULY 31st, 1927

ASSETS

Current			
Cash:			
On Hand	$ 1,304.92		
In Banks	325.00	$ 1,629.92	
Accounts Receivable (Schedule I)		9,396.04	
Inventories - Provisions, etc.		901.54	
Salable Lots (Platted)	$92,325.00		
Construction of Roads	41,704.03	134,029.03	
Total Current			$145,956.53
Other			
Houses Under Construction			19,703.48
Fixed			
Marsh Land		$ 17,750.00	
Buildings		40,000.00	
Improvements (See Schedule II)		107,694.67	
Parking Area & Amusement Park		325.00	
Automobile		665.00	
Boat		112.50	
Furniture & Fixtures (Sales Office)		178.50	
Total Fixed			166,725.67
Deferred			
Discount on Bonds		$ 13,000.00	
Prepaid Insurance Premiums		1,440.10	
Total Deferred			14,440.10
Total Assets			$346,825.78

Note: Contingently Liable as endorser on notes of H. F. Barkerding in amount of $3,717.31 at Peoples-First National Bank.

LIABILITIES

Current			
Accounts Payable (Schedule III)		$ 20,754.95	
Payable To Stockholders (Schedule IV)		4,064.15	
Contracts Payable (Schedule V)		4,111.77	
Notes Payable (Schedule VI)		34,769.34	
Mortgage Notes Payable (Schedule VII)		11,065.50#	
Accrued Salaries and Wages		1,030.25	
Total Current			$ 75,795.96
Deferred Credit (Suspense)			
Sale of Houses (Uncompleted)			4,640.00
Bonds Payable (7½% First Mortgage)		$130,000.00#	
Less - Sinking Fund		7,704.18	
			122,295.82

NET WORTH

Common Stock Issued	$163,600.00		
Less - Treasury Stock	765.00		
Total Outstanding Stock		$162,835.00	
Deficit			
Deficit (Per Exhibit "D")	$ 15,819.22		
Loss 1/1/27 - 7/31/27	2,921.78	18,741.00	
Net Worth			144,094.00
Total Liabilities & Net Worth			$346,825.78

Secured by Mortgages
Also Subject to Bond of $100,000.00 secured by Mortgage given to Sanitary & Drainage Commission for fulfilment of Contract.
(These liens are a matter of record in the office of R. M. C. of Charleston County)

EXHIBIT "B"

STATEMENT OF PROFIT AND LOSS

ISLE OF PALMS, INC.

JANUARY 1st TO JULY 31st, 1927

INCOME FROM OPERATIONS

Revenues		
Hotel Receipts	$ 3,414.46	
Restaurant Receipts	1,215.25	
Soda Fountain Receipts	1,653.10	
Bath House "	1,427.60	
Cigar Stand "	796.76	
Pavilion Receipts	987.50	
Paddle Wheel Receipts	37.80	
Admissions	53.75	
Checking	11.30	
Miscellaneous	5.30	
Total Operating Revenues	$ 9,602.82	
Operating Expenses (See Exhibit "C")	11,764.03	
Operating Loss (Exhibit "C")		$ 2,161.21

INCOME FROM SALE OF LOTS

Net Sale of Lots	$ 22,350.00	
Cost of Lots Sold	5,600.00	
Gross Profit on Lots Sold	$ 16,750.00	
Selling Expenses (Schedule VIII)	6,386.09	
Gross Income From Lots		10,363.91
Gross Operating Income		$ 8,202.70
General & Administrative Expenses (Schedule IX)		12,246.16
Net Operating Loss		$ 4,043.46
Other Income		
Interest Earned		1,121.68
Net Loss		$ 2,921.78

EXHIBIT "C"

DEPARTMENTAL OPERATIONS

TO JULY 31st, 1927

HOTEL AND RESTAURANT

Income			
Hotel Receipts		$ 3,414.46	
Restaurant Receipts		1,215.25	
		$ 4,629.71	
Expenses			
Salaries and Wages	$ 2,732.11		
Advertising	179.69		
Freight and Drayage	272.86		
Rent of Extra Chairs, etc.	106.00		
Stationery and Printing	145.15		
Lights and Fual	68.20		
Provisions Used	2,769.66		
Ice	214.45		
Laundry	190.42		
Miscellaneous	179.49		
		6,858.03	
Loss on Hotel and Restaurant			$ 2,228.32

SODA FOUNTAIN

Income			
Soda Fountain Receipts		$ 1,653.10	
Expenses			
Salaries	$ 283.50		
Merchandise Sold	788.19		
Ice	66.60		
Tax on Drinks	143.51		
Miscellaneous	48.70		
		1,330.50	
Profit on Soda Fountain			322.60

BATH HOUSE

Income			
Bath House Receipts		$ 1,427.60	
Expenses			
Salaries	$ 354.29		
Laundry	27.74		
Miscellaneous	20.02		
		402.05	
Profit on Bath House			1,025.55

EXHIBIT "C" - (Continued)

DEPARTMENTAL OPERATIONS

TO JULY 31st, 1927

CIGAR STAND

Income			
Cigar Stand Receipts		$ 796.76	
Expenses			
Salaries	$ 63.34		
Merchandise Sold	645.60		
		708.94	
Profit on Cigar Stand			$ 87.82

PAVILION

Income			
Pavilion Receipts		$ 987.50	
Expenses			
Salaries	$ 24.75		
Prizes	105.05		
Music	1,850.00		
Misc.	238.82		
		2,218.62	
Loss on Pavilion			1,231.12

MISCELLANEOUS

Income			
Paddle Wheel Receipts		$ 37.80	
Admissions		53.75	
Checking		11.30	
Miscellaneous		5.30	
Total Miscellaneous Income			108.15
General Expense			
Salary of Lifeguard	$ 79.89		
Electric Lights	166.00		
Total General Expense			245.89
Net loss on Operations			$ 2,161.21

EXHIBIT "D"

ANALYSIS OF DEFICIT

SEPTEMBER 1925 TO DECEMBER 1926

	9/20/25 To 9/20/26	9/21/26 To 12/31/26	Total	
Advertising	$ 659.70	$ 79.00	$ 738.70	
Architectural Expense	1,000.00		1,000.00	X
Charter Fee	177.50		177.50	
Discount	682.71	704.24	1,386.95	
Exchange	45.00	5.10	50.10	
Freight & Express	46.75		46.75	
Engineering Expense	162.55		162.55	X
Interest Paid	1,215.09		1,215.09	
Interest Breadh Inlet Bridge	572.10		572.10	
Insurance	1,199.86	512.14	1,712.00	
Inspection of Island	293.29	25.00	318.29	
Labor	50.00	85.00	135.00	
Legal Expense	1,350.00		1,350.00	
Litigation Settlement	246.83		246.83	
Misc. Expense	28.97	.85	29.82	
Office Supplies	46.10	109.14	155.24	
" Books	23.80		23.80	
Revenue Stamps	345.41	20.25	365.66	
Office Salaries	353.33	116.67	470.00	
Salaries - Sales	375.00		375.00	
Salaries - Engineers	1,920.81	903.70	2,824.51	X
Taxes - State 1925	711.88	171.57	883.45	
" " 1926	442.40		442.40	
Capital Stock Tax	192.00		192.00	
Telephone	346.10	74.40	420.50	
Telegrams	148.45	18.50	166.95	
Clearing Right of Way		358.03	358.03	X
Totals	$ 12,635.63	$ 3,183.59	$ 15,819.22	

X Indicates Capital Charges treated as expenses.

SCHEDULE I

ACCOUNTS RECEIVABLE

Chas. R. Allen	$ 35.50	
Cassidy-Ness Studios	250.00	
Cooper River Bridge Inc.	1,718.55	176855
C. C. Campbell	20.00	
John E. Gibbs	5.17	
J. L. Mc Innis	4.50	
W. W. Oliver	17.15	
Rugby Knitting Mills	.99	
Sanitary Drainage Commission	555.00	
Mrs. Youngblood	55.43	
A. J. Edwards	10.00	
		$ 2,672.29

AMOUNT DUE ON HOUSES AND LOTS SOLD

F. Marion Whaley	(House 6-11)	$ 1,176.80	
Hazel M. Stauss	(House 10-09)	1,050.00	
A. L. Welch	(House 16-11)	900.00	
" " "	(House 16-12)	900.00	
E. E. Marcil	(House 18-11)	900.00	
A. W. Anderson	(House X 38)	1,350.00	
W. W. Gavin & Eva Morgan	(49-50-51)	375.00	
			6,651.80
Total			$ 9,324.09

SCHEDULE II

IMPROVEMENTS

Note

Pavilion and Cottage Repairs	$ 12,298.45
*Construction of Boardwalks	2,604.92 2640.92
*Construction of Hotel	43,340.58
Installation of Water System	14,945.45
Construction of Docks and Wharves	2,500.00
Installation of Electric Lines	3,260.72
Restaurant, Pavilion and Hotel Fixtures & Equipment (Purchased)	25,000.00
*Bath House Equipment	1,536.83
Soda Fountain Repairs & Equipment	414.14
Barber Shop Repairs	168.00
Fire Equipment	135.58
Architectural Expense	1,490.00
Total	$ 107,694.67

SCHEDULE III

ACCOUNTS PAYABLE

Name	Amount	
Chas. R. Allen	$ 40.50	
Augusta Chronicle	40.32	
Augusta Herald	44.80	
Atlantic Paint Co.	258.50	
Ashley Ice Cream Co.	182.00	
Berlin Bros.	11.50	
Bishop & Babcock Sales Co.	105.62	
Bay Fruit Company	18.40	
Wm. M. Bird & Company	34.34	
Belk Robinson	5.00	
Barkerdings Dairy	64.80	
Ball Supply Company	.60	
John M. Branham Company	16.80	
Cameron & Barkley	328.16	
Carolina Elect. Blue Printers	55.60	
Cameron & Barkley	751.13	
Carolina Portland Cement Co.	2,484.50	
Charleston Paper Company	145.00	
Charleston Evening Post	2.30	
Thos. W. Carroll	33.30	
J. M. Costa	76.57	
Chas. Sanitary Towel Sup. Co.	3.00	
Consumers Coal Co.	26.00	
Comm. Public Works	71.88	
Chas. Oil Co.	17.00	
J. F. Condon & Sons	19.83	
A. F. Doscher & Sons	192.60	
Chas. F. Doran	260.40	
East Bay Service Station	20.92	
Douglas Welding Works	32.75	
The Fye Fyter Co.	124.80	
Frierson Drug Company	2.50	
John F. Furlong & Son	40.00	83,00
Grendel Mills	78.75	
Gulf Refining Co.	22.00	
Geer Drug Company	203.30	
J. W. Ivey	50.00	
Home Steam Laundry	72.20	
Joseph E. Jenkins	37.80	
Jantzen Knitting Mills	9.00	
Lighthart's Book Storem	9.25	
Liquid Carbonic Company	50.05	
Lanneaus Art Store	9.73	
M. H. Lazarus Co.	10.50	
W. H. Lee & Co.	95.15	
Malvern Halsey	2,614.98	
Miller, Huger, Wilbur	105.00	
W. L. Miller Metal Rubber Co.	70.90	
F. L. Matthews	2.00	
Mrs. J. B. Morris	2.50	
Leland Moore Paint Co.	178.04	

SCHEDULE III - (Continued)

ACCOUNTS PAYABLE

Name	Amount
Mt. Pleasant Light Co.	$ 203.83
A. McL. Martin	15.70
Manufacturers Office Sup. Co.	9.09
Majestic Knit Wear Co.	10.45
New England Envelope Co.	99.84
News & Courier	2.60
New Charleston Mills	434.55
National Biscuit Co.	17.35
Ocean Bathing Suit Co.	355.62
Orange Crush Bottling Co.	10.40
Ohio Crockery Co.	3.00
Ocean Fish Co.	2.25
Albert Pick & Co.	110.76
C. E. Prentiss	176.75
Port Utilities Commission	10.80
Plenge Chemical Co.	22.00
Pittsburg Plate Glass Co.	1,124.52
Proctor-Gamble Co.	17.00
W. R. Patrick	26.60
Post & Courier	84.98
Postal Tel. Co.	2.56
Pinckney Bros.	105.60
Louis D. Quinn	8.50
Rand Kardex Service Corp.	17.36
J. B. Reeves & Son	674.38
Remington Typewriter Co.	18.25
H. B. Reid	15.00
Rugby Knitting Mills	87.50
H. D. Rambke Co.	101.25
John F. Riley	245.96
Federal Stamp Payable	7.60
State " "	5.00
Swift & Company	211.87
S. C. Tax Commission	143.51
Sassard Bros.	14.50
Stevens Hardware Co.	19.50
Sou. Bell Tel & Tel. Co.	18.15
W. W. Smith	.75
Capt. E. Samussen	50.00
S. C. National Bank	58.36
Star Printing Co.	2.00
H. A. Schroeder	3.60
A. T. Smythe	50.35
Sou. Scale & Refin'g Co.	350.00 363.50
Spartanburg Herald	19.60
State Co.	15.68
Geo. O. Sawadske Co.	147.05
The Tire Co.	26.50
Try-Me Bottling Co.	131.04
F. E. Trouche	17.70
Van-Smith Bldg. Mat. Co.	481.10
F. W. Wagener	40.00
E. F. A. Wieters & Sons	91.68

SCHEDULE III - (Continued)

ACCOUNTS PAYABLE

Name	Amount
A. L. Welch	$ 5,449.02
Adele Wohlers	6.00
Western Union	11.93
Woodstock Mfg. Co.	28.13
T. W. Wood & Son	36.64
A. C. Tuxbury Lumber Co.	170.67
Riverview Poultry Farm	20
Total	$ 20,754.95
	56.70

SCHEDULE IV

PAYABLE TO STOCKHOLDERS

Chas. R. Allen	$ 750.40
H. F. Barkerding	366.75
Ruth B. Cobb	498.78
John E. Gibbs	382.50
B. H. Hardaway Sr.	666.00
A. F. Pringle	293.40
E. M. Smith	872.50
F. M. Whaley	233.82
Total	$ 4,064.15

SCHEDULE V

CONTRACTS PAYABLE

Geo. Holmes	$ 10.00
E. E. Marcil	110.00
Mt. Pleasant Ltg. Co.	1,156.22
John McGrady	215.03
" "	219.65
John L. Slaughter	450.00
Sou. Elect. Co.	673.37
R. B. Spell	77.50
Rex G. Fuller	1,200.00
Total	$ 4,111.77

SCHEDULE VI

NOTES PAYABLE

	Due Date	
Wilder & Shinners		$ 15,000.00
S. C. National Bank	Demand	2,000.00
Industrial Accept. Corp.	7/15/27	150.00
Charleston Hotel	9/20/27	330.00
Albert Pick & Co. 11 @ $208.00	8/11/27	2,288.00
" " " "	7/11/28	213.25
Peoples-First National Bank	7/9/29	4,700.00
" " " "	Demand	6,000.00
Jacobs & Company	8/15/27	706.14
" " "	8/25/27	706.15
Southern Furn. Co. 11 @ $160.79	8/15/27	1,768.69
" " "	6/15/28	160.82
Jantzen Knitting Mills (Trade Accep.)	9/1/27	746.29
Total		$ 34,769.34

SCHEDULE VII

MORTGAGE NOTES PAYABLE

A. H. Fisher	2 @ $951.50	$ 1,903.00
" " "	5 @ $1,237.50	6,187.50
M. Halsey	2 @ $1,237.50	2,475.00
Doscher	Mortgage on Lot	500.00
Total		$ 11,065.50

SCHEDULE VIII

SELLING EXPENSES

Sales Office Salaries	$ 668.75	
Commissions	1,701.40	
Advertising	3,028.50	3028.56
Sales Office Supplies	402.26	
Rent	300.00	
Auto Expense	76.80	
Janitor	34.75	
Telephone	20.70	
Transportation	28.20	
Freight & Express	40.26	
Miscellaneous	84.47	
Total	$ 6,386.09	

SCHEDULE IX

GENERAL AND ADMINISTRATIVE EXPENSES

Office Salaries	$ 3,408.07	
Bond Expense	1,187.87	
Interest of Bridge	1,585.00	
Interest and Discount	1,392.54	1392.24
Insurance	1,244.05	
Advertising	63.10	
Office Supplies	281.88	
Rent	295.00	
Telephone and Telegraph	464.54	
Transportation	457.15	
Entertaining	143.72	
Inspections	75.00	
Traveling Expense	180.00	
Taxes	140.32	
Freight and Draynge	104.87	
Light, Heat and Fuel	125.90	
Legal Expense	64.00	
Labor	575.95	
Engineering Supplies	104.90	
Donations	50.00	
Miscellaneous	302.30	
Total	$ 12,246.16	