REPORT OF AUDIT

ISLE OF PALMS, INC.

TO JUNE 30th, 1928, INC.

INDEX

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

MEMBER:
AMERICAN INSTITUTE OF ACCOUNTANTS

July 16, 1928.

The Stockholders and Board of Directors,
Isle of Palms, Inc.,
Charleston, S. C.

Gentlemen:

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

ISLE OF PALMS, INC.

up to and including June 30th, 1928, and submit herewith statements setting forth the operations for the period from January 1st to June 30th, 1928, and financial condition as at June 30th, 1928.

Our examination disclosed the fact that the bookkeeping records of the Corporation were far from satisfactory and as was recommended a year ago it is vitally necessary that improvements in the accounting system be made in order that financial condition and operations be reflected at any time. Under the methods in use at present numerous adjustments are necessary to reflect the information required by the management to say nothing of the fact that the bookkeeping methods were somewhat cumbersome. It will therefore be necessary to outline a properly developed classification of general ledger accounts with such controlling features and subsidiary records which would enable the assembling of any information at all times. In addition to this pro forma monthly entries should be arranged to take care of all accruals of expenses and income.

In order to carry out the recommendations made herein, we would suggest that attention be given to the question of personnel in handling this part of the work.

There were numerous other matters in connection with the records which we feel should be called to the attention of the management. Notable among these is the fact that there were quite a number of lots exchanged for commodities which involved no actual cash, but commissions on these lots were collected by the President. The aggregate amount of these commissions was $1,290.00. We could find no authority for the payment of commissions on these transactions and therefore the propriety thereof has been questioned by us and accordingly called to your attention.

No systematic method was followed of handling accrued expense bills or other open obligations of the Corporation, and hence it was with some difficulty that the present manager was enabled to properly assemble the names of and amounts due to the various creditors.

Another indication of the laxity with which financial transactions were handled is that collections representing first payments on lots were collected by salesman and retained by them and an entry put through the books to reflect the credit without the money involved in the transaction passing through the Company's depository. While this practice does not involve any moral turpitude, yet the practice cannot be too strongly condemned as being fraught with possibilities of loss which would be rather difficult to estimate. As a matter of fact, all collections from whatever source should be recorded in the Company's books and deposited in the bank to be drawn out only by check. This would insure a proper accounting for all funds which the Company may be liable for.

The present management did not assume charge of the Company's affairs until May 10th, 1928, since which time intensive efforts have been made to revise the accounting methods and otherwise organize the selling, administrative and accounting procedure of the Company, which task has not yet been completed because of so many difficulties which it was necessary to surmount.

Regarding the several statements which form a part of this report, comment is made as follows:

EXHIBIT "A"

BALANCE SHEET

This statement contains the assets, liabilities and capital of the Corporation as at June 30th, 1928, so far as they could be determined from the records and after making the necessary provision for accruals of all kinds.

There are a number of items appearing on this balance sheet which require some explanation.

The item "working fund - sales account" amounting to $10,010.73 represents the amount advanced to the general manager under the agreement existing between him and the Company, which fund is to be used for paying commissions and other sales expenses and is therefore to be accounted for periodically. This fund is supposed to remain at $10,000.00 and to be augmented by certain commissions on the sales of lots. As of June 30th, however, this account was entitled to reimbursement in the amount of $1,253.83, which amount is shown as a current liability.

It will be noted that the amount shown as saleable lots represents those lots which have been platted and remain unsold to which we have added development costs representing road work, water system, electric line, etc. As yet the various improvements chargeable against these lots have not been allocated against the various subdivisions, and it is hoped that this work will be accomplished in the near future.

In connection with fixed assets attention is called to the fact that no depreciation has been allowed on buildings, improvements and equipment. This is a rather substantial item and should be taken into consideration in order to determine rental values of these privileges as well as to properly reflect the operations of the resort. It is recognized, of course, that the privileges have been leased on a percentage basis, but unless collections for these privileges show a substantial increase over the amount which had been collected to June 30th, 1928, the income will be very negligible and will not nearly compensate for the interest on investment, insurance and depreciation, to say nothing of maintenance.

It is recommended, therefore, that the Company's engineer prepare a schedule of the estimated life of all assets subject to wear and tear and exhaustion.

In regard to the amounts shown on the balance sheet as standing against the Cooper River Bridge, Incorporated, amounting to $6,998.06, attention is called to the fact that this represents advances made on behalf of the bridge company and charges made to them purporting to be their share of the administrative and general expenses of the Isle of Palms, Inc. From the information obtained by your auditors this account represents a doubtful asset and unless collection can be made thereof we would suggest that same be charged off.

Under current liabilities we have shown an item of attorneys' fees payable in the amount of $2,500.00. This has been set up on the basis of information furnished us as being the amount due for legal services in addition to what had already been paid, $1,925.00 of which has been included as part of the charge against the Cooper River Bridge, Inc.

EXHIBIT "B"

STATEMENT OF PROFIT AND LOSS

In this statement we have set forth the sales of lots and houses which had been sold during the period from January 1st to June 30th, 1928, and have deducted therefrom the various expenses which have been incurred in the management of the Company up to that time, exclusive of the amounts expended in the sales promotion campaign.

For the period it will be noted that the net income was $30,730.01, which has been carried to surplus account as shown in Exhibit "C".

EXHIBIT "C"

ANALYSIS OF SURPLUS

We have shown herein the deficit as of January 1st, 1928, to which has been added the premiums paid on bonds retired and against which have been credited the net income for the period to June 30th, 1928, as shown in Exhibit "B", and those charges which have been made to the Cooper River Bridge, Inc. for reimbursements, together with the necessary adjustments to bring the books in balance.

EXHIBIT "D"

CONDENSED COMPARATIVE BALANCE SHEETS

This statement sets forth the balance sheets as at May 10th, 1928, and June 30th, 1928, from which will be observed the various increases and decreases in the assets and liabilities. These increases and decreases reflect the disposition of funds since May 10th, 1928, which have come into possession of the Company.

It will be noted therein that since that date the unpaid installments on lots have increased by $22,682.29, that the special sales account work fund in the amount of $10,000.00 has been created and that cash has increased to the extent of $1,465.40.

Offsetting these increases in assets, bank loans have been increased by $18,199.18, and the management has been directing efforts toward reducing current obligations in the form of accounts payable and notes payable to creditors other than banks, the total reduction in these two items since May 10th, 1928, being $8,086.64.

Mortgage indebtedness has likewise been reduced by the retirement of bonds in the amount of $4,000.00 and the deficit existing as of May 10th, 1928, has been converted into a surplus of $3,485.38.

The various other statements represent supporting schedules of items shown on the balance sheet and require no further explanation.

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In order to bring the records to a point where the information necessary to prepare the proper financial reports could be obtained, the auditors were compelled to do considerable bookkeeping work, thus bringing the records up to date, which merely emphasizes the fact that when the accounting records are faulty the expense of auditing is materially increased as well as seriously handicapped so far as the preparation of statements promptly is concerned. Hence, the recommendations already made should be given careful consideration.

Respectfully submitted,

O W Schlueter

Certified Public Accountant.
Member, American Institute of Accountants

OWS/H

EXHIBIT "A"

BALANCE SHEET

ISLE OF PALMS, INCORPORATED

JUNE 30th, 1928

ASSETS

Current			
Cash In Bank		$ 1,914.03	
Unpaid Instalments on Lots Sold		83,774.92 #1	
Accrued Rents Receivable		246.87	
Working Fund-Sales Account		10,010.73	
State Highway Dept. - Refund Agreement		24,500.00 #2	
Saleable Lots:			
Original Cost	$ 82,075.00		
Development Costs	30,781.39	112,856.39	
Houses (Saleable)		6,117.12	
Rex G. Fuller		105.65	
Total Current			$ 239,525.71
Other			
Cooper River Bridge, Inc.		$ 6,998.06	
Sinking Fund Balance		7,060.75	
Total Other			14,058.81
Fixed			
Undeveloped Land		$ 17,750.00	
Amusement Park		125.00	
Parking Area		2,343.35	
Buildings		74,773.50	
" - Improvements		10,216.10	
Furniture, Fixtures & Equipment		37,221.70	
Dock		2,500.00	
Other Improvements (Architect, etc.)		3,220.95	
Automobile		465.00	
Total Fixed			148,615.60
Deferred			
Bond Discount		$ 10,000.00	
Prepaid Insurance		2,032.71	
" Taxes		163.60	
Total Deferred			12,196.31
Total Assets			$ 414,396.43

LIABILITIES

Current			
Notes Payable to Banks		$ 31,428.98	
" " " Others		4,931.42	
Accounts Payable		3,732.26	
Commissions Payable		682.75	
Attorneys' Fees Payable (Estimated)		2,500.00	
Accrued Interest on Bonds		2,287.50	
" " " Notes, etc.		750.00	
" Taxes		759.20	
Due Sale Account for Advances		1,253.83	
Total Current			$ 48,325.94
Mortgage Indebtedness			
First Mortgage (7½%) Bonds		$130,000.00	
Less - Retired		8,000.00	
Outstanding		$122,000.00	
Second Mortgage Notes (Wilder & Shinners) (Payable $2,000.00 Monthly)		50,000.00	
Total Mortgage Indebtedness			172,000.00
Reserve for Improvements			
For Improvements on Lots Sold			4,470.84
Total Liabilities and Reserves			$ 224,796.78
CAPITAL LIABILITIES			
Capital Stock Issued	$ 163,600.00		
Less - Treasury Stock	765.00		
Outstanding Stock		$162,835.00	
Stockholders' Assessments		23,279.27	
		$186,114.27	
Surplus 6/30/28 (Analysis, Exhibit "C")		3,485.38	
Net Worth			189,599.65
Total Liabilities and Capital			$ 414,396.43

EXHIBIT "B"

STATEMENT OF PROFIT AND LOSS

JANUARY 1st TO JUNE 30th, 1928

INCOME

Lots Sold		
Residential	$ 69,150.00	
Boardwalk	12,375.00	
Total Lots Sold		$ 81,525.00
Cost of Lots Sold		
Cost of Land:		
Residential	$ 17,662.50	
Boardwalk	3,150.00	
	$ 20,812.50	
Improvements (per Contract)	3,844.31	
		24,656.81
Gross Profit on Lots		$ 56,868.19
Houses Sold		
Selling Price	$ 8,100.00	
Cost	8,712.36	612.36
Gross Profit on Lots and Houses		$ 56,255.83

EXPENSES

Commissions Paid (Lots	$ 12,171.25	
" " (Houses)	294.00	
Interest on Bonds	4,650.00	
" " Notes, etc.	2,538.93	
Amortization of Bond Discount	1,200.00	
Insurance	946.69	
Legal Expense (Estimated)	2,500.00	
Taxes	505.62	
Office Salaries	858.33	
Bond Trustees Exp. & Comm.	161.81	
Traveling & Entertaining	203.95	
Telephone & Telegraph	68.69	
Postage, Stationery, & Office Supplies	153.93	
Advertising	25.60	
Salary & Lights on Island	124.00	
Miscellaneous	424.48	
Bad Accounts Charged Off	100.51	
Total Expenses		26,927.79
Operating Profit		$ 29,328.04
Other Income		
Interest Earned	$ 826.16	
Rent from Privileges	525.81	
Payments Forfeited	50.00	1,401.97
Net Income for Period		$ 30,730.01

EXHIBIT "C"

ANALYSIS OF SURPLUS

Deficit January 1st, 1928		$ 32,098.35
Debits		
Premium on Bonds Retired		110.00
		$ 32,208.35
		29.90
		32,238.25
Credits		
Net Income 1/1/28 to 6/30/28 (per Exhibit "B")	$ 30,730.01	
Charges to Cooper River Bridge	4,803.52#	
Book Adjustments	160.20	
		35,693.73
Surplus June 30th, 1928		$ 3,485.38

\# This amount was billed to Cooper River Bridge, Inc., as their share of operating expenses and other expenses incurred in their behalf, same having been first charged to expense, and then credited thereto and charged to Cooper River Bridge, Inc., instead of being charged direct.

EXHIBIT "D"

CONDENSED COMPARATIVE BALANCE SHEET

ISLE OF PALMS, INCORPORATED

MAY 10th AND JUNE 30th, 1928

ASSETS	5/10/28	6/30/28	Increase Decrease
Current			
Cash In Bank (General a/c)	$ 448.63	$ 1,914.03	$ 1,465.40
Unpaid Instalments on Lots	61,092.63	83,774.92	22,682.29
Accrued Rents Receivable	-0-	246.87	246.87
Working Fund - Sales Account	-0-	10,010.73	10,010.73
State Highway Dept.- Refund Agreement	24,500.00	24,500.00	-0-
Saleable Lots	118,382.83	112,856.39	5,526.44
" Houses	6,096.00	6,117.12	21.12
Misc. Accounts Receivable	100.51	105.65	5.14
	$210,620.60	$239,525.71	$ 28,905.11
Other			
Cooper River Bridge, Inc.	$ 6,998.06	$ 6,998.06	-0-
Sinking Fund Balance	9,597.21	7,060.75	$ 2,536.46
	$ 16,595.27	$ 14,058.81	$ 2,536.46
Fixed			
Total Fixed Assets	$148,161.11	$148,615.60	$ 454.49
Deferred			
Bond Discount	$ 10,333.33	$ 10,000.00	$ 333.33
Prepaid Insurance	2,448.03	2,032.71	415.32
" Taxes	208.97	163.60	45.37
	$ 12,990.33	$ 12,196.31	$ 794.02
Total Assets	$388,367.31	$414,396.43	$ 26,029.12
LIABILITIES			
Current			
Notes Payable to Banks	$ 13,229.80	$ 31,428.98	$ 18,199.18
" " " Others	5,911.00	4,931.42	979.58
Accounts Payable	14,022.07	6,915.01	7,107.06
Accrued Interest	1,290.79	3,037.50	1,746.71
" Taxes	793.60	759.20	34.40
Due Sale Acct. for Advances	-0-	1,253.83	1,253.83
	$ 35,247.26	$ 48,325.94	$ 13,078.68
Mortgage Indebtedness			
First Mtg. (7½%) Bonds Outstanding	$126,000.00	$122,000.00	$ 4,000.00
Second Mortgage Notes	50,000.00	50,000.00	-0-
	$176,000.00	$172,000.00	$ 4,000.00
Reserve for Improvements	$ 3,488.16	$ 4,470.84	$ 982.68
Total Liabilities & Reserves	$214,735.42	$224,796.78	$ 10,061.36
CAPITAL			
Capital Stock Outstanding	$162,835.00	$162,835.00	-0-
Stockholders' Assessments	19,883.01	23,279.27	3,396.26
Surplus	9,086.12	3,485.38	12,571.50
Net Worth	$173,631.89	$189,599.65	$ 15,967.76
Total Liabilities & Capital	$388,367.31	$414,396.43	$260,029.12

SCHEDULE I

DUE ON LOTS SOLD

	Lot	Date of Contract	Sales Price	Balance Due (Incl. Int.)
Contracts on Hand				
Morgan & Garvin	49-50-51	6/13/27	$ 750.00	$ 208.71
A. L. Welch	13-14-18	6/23/27	2,300.00	1,015.00
Mary A. Disher	11-06	8/13/27	1,050.00	948.75
H. J. O'Neill	6-01-2	5/8/28	2,600.00	2,288.00
Arthur J. Edwards	5-18	5/9/28	600.00	542.70
Chas. R. Allen	6-05	5/9/28	3,550.00	850.84
E. R. Marcil	3-07	6/6/28	1,200.00	790.00
H. Eugene Hart	43-44-45	6/9/28	750.00	725.00
W. V. Meyer	18-11	6/13/28	1,200.00	1,140.00
H. T. Foster	37-38-39	6/18/28	750.00	600.00
Benny Shaw	52-53-54	6/23/28	750.00	600.00
Mrs. J. S. Jones	35A-04	6/23/28	1,150.00	920.00
F. M. Hudson	64-65-66	6/25/28	825.00	675.00
Coca-Cola Bottling Co.	10-11-12	6/22/28	750.00	725.00
" " " "	35B-01	6/22/28	1,150.00	1,125.00
#Rex G. Fuller	16-03		3,170.46	2,009.87
				$ 15,161.87

No signed contract on hand.

	Lot	Date of Contract	Sales Price	Balance Due (Incl. Int.)
Contracts Pledged to Banks				
Vincent Chicco Jr.	10-08	4/7/28	1,200.00	$ 1,061.28
Mrs. F. N. Skinner	16-09	5/1/28	3,000.00	2,600.00
F. M. Hudson	67-68-69	5/7/28	1,350.00	1,188.00
Mrs. Grace I. Henebery	12-08	5/9/28	1,300.00	1,144.00
John J. Nelson	61-62-63	6/4/28	750.00	600.00
Wm. J. McKinley	46-47-48	6/7/28	750.00	600 675.00
Benny Shaw	55-56-57	6/8/28	950.00	760.00
Arthur Paulsen	58-59-60	6/8/28	1,000.00	800.00
C. B. Johnson	30-28	6/9/28	900.00	820.00
C. B. Jensen	40-41-42	6/11/28	750.00	675.00
Mrs. C. A. Jones	39A-01	6/13/28	1,200.00	960.00
Jack & Anna Henebery	13-01	5/7/28	1,300.00	1,144.00
Thorwald Danielson	32-07	6/18/28	1,200.00	960.00
Anderson & Henriksen	X38	5/14/27	1,800.00	884.81
A. L. Welch	16-11	6/2/27	1,200.00	592.89
" " "	16-12	6/2/27	1,200.00	592.89
Hazel M. Stauss	10-09	6/10/27	1,400.00	666.28
F. Marion Whaley	6-11	6/22/27	3,720.00	746.54
L. D. Long	6-06	5/1/28	1,200.00	1,085.40
Eugene H. Smith	10-05	5/5/28	3,550.00	2,900.00
H. W. Houghton Jr.	16-07	5/5/28	1,200.00	1,056.00
F. E. Condon	10-01-2	4/26/28	2,600.00	2,299.44
Otto F. Wieters	13-05	4/26/28	1,200.00	1,061.28
Lionel Hirschman	13-07	4/26/28	1,200.00	1,032.00
A. Marion Stone	16-05	4/26/28	1,200.00	768.00
Julius H. Doscher	10-04&18-10	4/27/28	2,400.00	2,122.56
H. W. Houghton	6-09	4/28/28	1,200.00	1,032.00
D. B. Sewell	16-08	4/28/28	1,200.00	1,090.68
H. W. Lockwood	18-07	4/28/28	1,200.00	1,032.00
G. McD. Lockwood	18-08	4/28/28	1,200.00	1,032.00
J. J. Lockwood	18-09	4/28/28	1,200.00	1,032.00
A. J. W. Gorse	10-03	4/30/28	1,200.00	1,061.28

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SCHEDULE I - (Continued)

	Lot	Date of Contract	Sales Price	Balance Due (Incl. Int.)
Sam Berlin	18-15	4/27/28	$ 1,400.00	$ 1,238.16
Capt. Lewis S. Burke	13-08	5/1/28	2,880.00	2,534.40
L. D. Long	6-07 & 8	5/1/28	2,400.00	2,170.80
C. C. Huguenin	3-18	5/11/28	1,400.00	1,266.30
G. W. Wilson	5-01	5/11/28	1,200.00	1,056.00
Daniel Ravenel Jr.	30-07	5/17/28	1,000.00	777.77
Mrs. C. R. Forbes	18-12	5/18/28	1,200.00	933.20
L. G. Winstead	30-10	5/18/28	900.00	700.00
F. H. Bold	30-29	5/21/28	1,000.00	777.77
Diedrich Stehmeyer	10-06	4/30/28	1,200.00	1061.18 1,051.28
Moe J. Rubin	6-10	5/2/28	1,200.00	1,056.00
John W. Kennerty	13-09	5/4/28	1,400.00	1,163.82
August & John Doscher	11-08	5/5/28	1,300.00	1,144.00
John C. Davis	16-10	5/7/28	1,200.00	1,056.00
G. H. F. Mohrman	11-09	5/8/28	1,150.00	1,012.00
Mrs. G. F. Hollis	13-02	5/28/28	1,200.00	964.80
Susan P. Frost	39B-05	5/29/28	1,150.00	920.- 1,035.00
T. A. Brockbanks	3-14	5/29/28	1,200.00	933.33
Thos. J. Bolan	11-07	5/1/28	1,150.00	1,012.00
Richardson Bros.	3-16	5/7/28	1,200.00	1,056.00
" "	70	5/7/28	3,000.00	2,640.00
Nathan Snyder & R. Read	18-13	5/9/29	1,200.00	1,056.00
Thos. P. Stoney	30-05	5/12/28	2,500.00	2,261.25
J. G. Sherrer	16-04	4/27/28	1,200.00	1,061.28
Jas. P. Magrath	16-06	4/27/28	1,200.00	1,061.28
W. B. Riddock	13-06	4/28/28	1,200.00	1,056.00
W. L. Anderson	3-17	4/30/28	1,200.00	1,061.28
				$ 68,611.05
Total		28		$ 83,774.92
				180.10
				83594.82

SCHEDULE II

IMPROVED LOTS

Original Cost	$ 82,075.00
Road Work	10,384.70
Water System	17,051.97
Electric Line	3,344.72
Total Cost	$ 112,856.39

+ 9.90

75.-
115
190.-
9.90
180.10

600
1061.18
920.-
2581.18

675.-
1051.28
1035.-
2761.28
2581.18
180.10

SCHEDULE III

NOTES PAYABLE TO BANKS

Payable To	Due Date	Amount
South Carolina Nat'l Bank	Demand	$ 11,273.00
Peoples-First " "	"	14,067.03
" " " "	"	3,688.95
" " " "	"	2,400.00
Total		$ 31,428.98

SCHEDULE IV

NOTES PAYABLE TO OTHERS

Date	Payable To	Due Date	Amount
6/11/27	Albert Pick & Co.	7/1/28	$ 208.00
"	" " "	8/1/28	208.00
"	" " "	9/1/28	208.00
"	" " "	10/1/28	208.00
"	" " "	11/1/28	208.00
"	" " "	12/1/28	208.00
"	" " "	1/1/29	208.00
"	" " "	2/1/29	208.00
"	" " "	3/1/29	213.25
6/7/27	Southern Furniture Co.	7/15/28	160.79
"	" " "	8/15/28	160.79
"	" " "	9/15/28	160.79
"	" " "	10/15/28	160.79
"	" " "	11/15/28	160.79
"	" " "	12/15/28	160.82
"	" " "	1/15/29	160.79
5/26/28	Pittsburg Plate Glass Co.	7/26/28	250.00
"	" " " "	8/26/28	250.00
10/21/27	Ocean Bathing Suit Co.	7/10/28	359.79
11/15/27	New England Envelope Co.	7/15/28	99.84
12/19/27	Jantzen Knitting Mills Co.	Judgment	568.98
	Doscher, Geo. H.	Mtg. Note	400.00
	Total		$ 4,931.42

SCHEDULE V

ACCOUNTS PAYABLE

Name	Amount
Allen, Chas. R.	$ 2.65
Bird, Wm. M. & Co.	170.20
Belk-Robinson	2.60
Cameron & Barkley Co.	152.54
Condon, H. A., Chairman	50.00
Charleston Paint Co.	37.27
Hughes Well Co.	291.00
Hughes Co.	17.94
Jervey, Louis P.	50.00
Legare, Wm. S.	150.00
Miller, Huger, Wilbur & Miller	105.00
Leland Moore Paint Co.	146.85
Mt. Pleasant Lighting Co.	705.44
Orange Crush Bottling Co.	10.40
Pinckney Bros.	21.12
Riverside Iron Works	412.00
Southern Furniture Co.	15.00
Southern Bell Tel. & Tel. Co.	13.35
W. W. Smith	.75
S. C. National Bank	50.00
St. Johns Hotel	50.00
The Tire Co.	26.50
Dusenbury, W. P.	22.70
Mt. Pleasant Lighting Co.	656.22
Riley, Andrew J.	347.73
Slaughter, John L.	225.00
Total	$ 3,732.26

SCHEDULE VI

ASSESSMENTS BY STOCKHOLDERS

Allen, Chas. R.	$ 1,118.40
Barkerding, Harry F.	2,223.37
Ruth B. Cobb	2,571.75
John B. Gibbs	1,735.81
B. H. Hardaway, Sr.	8,525.93
A. F. Pringle	2,766.11
F. Marion Whaley	874.88
Smith, E. M.	3,463.02
Total	$23,279.27