

(1190) 6000 0044

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STONE CABIN CONSOLIDATED MINES, INC.

Report on examination of financial books and
records for the period April 26, 1934 to
December 31, 1934, including statement of
financial condition and analysis of
changes in donated surplus

WHITE, STREET & COMPANY

Accountants and Auditors ♦ ♦ *Wilmington, Del.*

WHITE, STREET & COMPANY

AUDITORS & ACCOUNTANTS

DUPONT BUILDING, WILMINGTON, DELAWARE

PERIODS--APRIL 24, 1931 (DATE OF INCORPORATION) TO APRIL 26, 1934:

Original cost of various mining claims, together with July 18, 1935
all improvements, machinery, equipment, tools, etc.,
acquired from W. W. Charles by resolution of Board of
Directors on April 24, 1931. The company issued in
payment therefor 5,000,000 shares of its capital stock
(the entire authorization) having a par value of
\$1,500,000.00, and assumed \$10,000.00 of debts of
Pony Meadows Mining Company \$1,510,000.00

Mr. W. W. Charles, President
Stone Cabin Consolidated Mines, Inc.
1201 Chestnut Street
Philadelphia, Pa.

Development of property \$3,811.42
Shares of Nevada Mining Company property acquired 1,359.70
Shares of treasury stock, at par, and \$500.00
by resolution of Directors on June 30, 1935 55,500.00
Dear Sir: 849.03

In accordance with your request, we have made an examination of the
financial books and records of the Treasurer's office of the Stone Cabin
Consolidated Mines, Inc. for the period April 26, 1934 to December 31, 1934,
and present herewith our report, which includes: (1) text of comments and
explanatory detail; (2) statement of financial condition as at December 31,
1934; (3) analysis of changes in donated surplus--April 26, 1934 to
December 31, 1934.

We did not examine the records of original entry maintained at the
mine office nor the auditor's records compiled by the Los Angeles office. The
transactions of those offices during the period covered by our examination
have been classified in this report in accordance with information contained
in the statements and analyses prepared by Mr. T. A. Frazer, the company's
auditor.

The following comments have to do with certain of the items appearing on
the statement of financial condition:

bases can be established for the purpose of accruing depreciation and depletion
reserves. The cost of finished product cannot, of course, be fully stated unless

MINING PROPERTY, BUILDINGS, ETC.--\$1,721,499.81: desirable that development expenses

The following analysis is in accordance with the explanations shown in the accounts kept by the Treasurer's office: lighting, timbering, tracks,

etc. All of the vouchers, invoices, payrolls, cancelled checks, etc.,

ACQUISITIONS--APRIL 24, 1931 (DATE OF INCORPORATION) TO APRIL 25, 1934:

Original cost of various mining claims, together with all improvements, machinery, equipment, tools, etc., acquired from W. W. Charles by resolution of Board of Directors on April 24, 1931. The company issued in payment therefor 6,000,000 shares of its capital stock (the entire authorization) having a par value of \$1,500,000.00, and assumed \$10,000.00 of debts of Pony Meadows Mining Company \$1,510,000.00

Development of property 38,611.62

Improvements and repairs to roads 1,359.70

Construction of buildings, mill, etc. 29,112.96

Cost of Hilltop Nevada Mining Company property acquired for 220,000 shares of treasury stock, at par, and \$500.00 cash, by resolution of Directors on June 30, 1933 55,500.00

Miscellaneous 849.03

AUTO TRUCK--\$733.90:

TOTAL COST AT APRIL 25, 1934 1,635,433.31

This item consists of a Dodge truck purchased in February 1934. Depreciation

was taken at the rate of 20% and amounted to \$153.12 for the ten months ended

ACQUISITIONS--APRIL 25, 1934 TO DECEMBER 31, 1934:

December 31, 1934.

Assessment work \$ 710.93

Sinking winze, station and cross-cut, 250 foot level 7,021.55

Development of property 11,268.02

Work on road to camp 196.83

Mill enlargement and construction 22,069.77

Cyanide unit construction 35,725.54

Power line changes and new transformers 1,638.11

Assay office construction and equipment 1,646.09

Mine equipment 2,012.06

New bunk house and remodeling old bunk house 1,383.50

Boarding house enlargement and equipment 939.45

Living quarters for cook 536.95

Miscellaneous 917.70

Petty cash was not counted. Cash on deposit with banks was verified 86,066.50

TOTAL COST AT DECEMBER 31, 1934 \$1,721,499.81

Production started in January 1935. It is necessary, therefore, that the property accounts be carefully analyzed and reclassified in order that permanent bases can be established for the purpose of accruing depreciation and depletion credit due from Shell Oil Company 12.52

reserves. The cost of finished product cannot, of course, be fully stated unless

\$ 75.62

these items are included therein. It is also desirable that development expenses be classified into certain primary accounts, such as explosives, engineering, labor, hoisting, tramping, pumping, ventilating, lighting, timbering, tracks, tools, etc. All of the vouchers, invoices, payrolls, cancelled checks, etc., in support of the acquisitions summarized above were at the western offices and were not examined by us.

FURNITURE AND FIXTURES--\$995.60:

Of this amount, \$263.60 was carried on the books as in use at the Treasurer's office and \$732.00 in use at the mine. The latter consisted principally of cots and cot pads, fire extinguisher pumps and an electric refrigerator at the boarding house.

AUTO TRUCK--\$735.00:

This item consists of a Dodge truck purchased in February 1934. Depreciation was taken at the rate of 25% and amounted to \$153.12 for the ten months ended December 31, 1934.

CASH ON HAND AND IN BANKS--\$362.22:

Cash consisted of:

Petty cash--western office	\$ 25.00
Wilmington Trust Company--Wilmington, Delaware	248.34
The Continental Bank and Trust Company of New York	84.39
The Pennsylvania Company, etc., Philadelphia	4.49
	<u>\$362.22</u>

COMMON CAPITAL STOCK--\$1,500,000.00:

Petty cash was not counted. Cash on deposit with banks was verified by certifications received from the depositories.

ACCOUNTS RECEIVABLE--\$73.62:

Accounts receivable were as follows:

Credit due from Standard Oil Company	\$ 1.58
Credit due from Shell Oil Company	12.52
Interest receivable from Sierra Pacific Power Company	59.52
	<u>\$ 73.62</u>

UNFINISHED PRODUCT IN MILL--\$3,509.97:

SUPPLIES IN STOCK--\$4,739.67:

The valuations of these items were certified to us by Mr. T. A. Frazer, who stated that supplies were priced at cost or less and that the value of unfinished product was conservatively estimated on the basis of information available at December 31, 1934. We made no verifications or tests of these items.

CASH IN SUSPENDED BANKS--\$2,006.53:

RESERVE FOR LOSS OF CASH IN SUSPENDED BANKS--\$2,006.53:

Deposit accounts with Reno National Bank, Reno, Nevada--\$2,000.00, and Carson Valley Bank, Carson City, Nevada--\$6.53, remained unchanged during the

period. These accounts originated from the Western office of the company and Mr. T. A. Frazer was unwilling to give an opinion respecting the possibility of the ultimate recovery of the amounts stated. We have offset the entire amount by a reserve. We did not communicate with the receivers or liquidators of

these banks. per 31, 1934, there were 44,021 shares under options, as follows:

DEPOSITS WITH PUBLIC UTILITIES--\$1,444.58:

These deposits were confirmed by communication with the utilities, and were as follows:

Sierra Pacific Power Company	\$1,350.00
Nevada Industrial Commission	94.58

\$1,444.58

COMMON CAPITAL STOCK--\$1,500,000.00:

Security Registrar & Transfer Company, San Francisco, California, certified to us that the entire authorization of 6,000,000 shares, par value of 25¢ per share, was outstanding at December 31, 1934.

TREASURY STOCK--\$137,584.75:

Treasury stock at December 31, 1934 consisted of the following: for the purpose of determining that all shares had been issued under proper authorizations

Open certificate confirmed by Security Registrar and Transfer Company--reconciled by us	485,385 shares
Open voting trust certificate, representing balance unsold of the 330,000 shares purchased during period	9,000 shares
Voting trust certificate #E-235, which was on hand and examined by us	<u>100,000 shares</u>
Total	<u>594,385 shares</u>

Of this total, 44,021 shares were reserved for the payment of commissions and bonuses, and 25 shares for issue to C. F. Clothier, Jr. and John A. Harris, Jr., trustees, to adjust error in company's records. The shares reserved for payment of commissions and bonuses were as follows:

G. C. Snyman	40,321 shares
G. B. Street	1,225 shares
H. M. Pierce	1,225 shares
W. B. Austin	<u>1,250 shares</u>
	<u>44,021 shares</u>

At December 31, 1934, there were 214,000 shares under options, as follows:

Optioned to Darrow & Belaski, Inc. at 25¢ per share, expiring September 15, 1935	200,000 shares
Optioned to Willard B. Austin at 25¢ per share, expiring 30 days beyond payment by the company of a \$2,500 note payable to Mr. Austin	<u>14,000 shares</u>
	<u>214,000 shares</u>

We were also informed by Mr. Graham C. Woodward that Mr. G. C. Snyman had been given an option on 10,000 voting trust shares out of the 330,000 shares purchased during period, at 5¢ per share (you will note that only 9,000 of these shares remain in treasury). Neither this option nor the option to Mr. Willard B. Austin are recorded in the minutes.

One of the most important verifications that came within the scope of our engagement was the examination of all records having to do with the issuance of treasury stock during the period April 26, 1934 to December 31, 1934 for the purpose of determining that all shares had been issued under proper authorizations

The accuracy and propriety of the transactions recorded in the treasury of the directors of the company and that they had been fully accounted for. Bank accounts and records prior to July 1, 1934 were not satisfactorily verified.

This verification could not be accomplished to our satisfaction because of the fact that no detailed inventory of treasury stock was available as at April 26, 1934 from which we could obtain a list of the certificates of treasury stock that were registered, at that date, in the names of Graham C. Woodward and/or Frank M. Kattenstroth, for the purpose of identifying the disposition of such certificates.

However, we did have available a balance sheet prepared by Alexander H. Watt & Company, as at June 30, 1934, showing treasury stock of 916,600 shares at that date. Mr. Woodward obtained for us from the accountants their work sheets showing the detail of this treasury stock, and from that detail we verified the transactions from July 1, 1934 to December 31, 1934. The following analysis summarizes these transactions.

	<u>Shares</u>	
<u>BALANCE, JUNE 30, 1934:</u>		
Shown by Alexander H. Watt & Company report	916,600	
Add: Shares reserved by Alexander H. Watt & Company to pay commissions:		
Miller, Murray & Company	7,838	
G. C. Snyman	27,351	35,189
Total shares on hand at June 30, 1934		951,789
<u>ISSUED--JULY 1, 1934 TO DECEMBER 31, 1934:</u>		
Sales (cash traced by us to cash book)	54,600	
Sales--voting trust certificates	63,834	
Payment of liabilities	22,500	
Commissions and bonuses:		
Willard B. Austin	400	
Conrad F. Clothier, Jr.	3,000	
Darrow & Bielaski, Inc.	175,000	
George Grossman	100	
L. P. Mahoney	1,000	
Miller, Murray & Company	7,820	
H. M. Pierce	1,200	
W. F. Raskob	1,000	
G. C. Snyman	10,000	
G. B. Street	16,200	
Robert J. Walton, Jr.	750	216,470
		<u>357,404</u>

BALANCE, DECEMBER 31, 1934 594,385

which is based on the preceding rates of commission and on other information obtained from the company's records.

The accuracy and propriety of the transactions recorded in the treasury stock accounts and records prior to July 1, 1934 were not satisfactorily verified and we cannot certify, therefore, that the 594,385 shares known to be on hand at December 31, 1934 represented the exact number of shares that should have been on hand at that date. We see no way, satisfactory to us, of verifying this important point except by a review of all transactions in treasury stock since the inception of the company.

For the period July 1, 1934 to December 31, 1934, we computed the commissions earned on account of sales of stock and other financing on the bases given to us by Mr. Graham C. Woodward. On sales of stock these bases were as follows:

Totals	216,438 7	44,081
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1. On sales made by P. H. Charles:
 - 25% in cash to P. H. Charles
 - 15% in cash to G. C. Snyman

2. On sales made by Pierce, Street, et al:
 - 25% in stock to Pierce, Street, et al
 - NOTE B: 15% in stock to G. C. Snyman

3. On sales made by Robert J. Walton, Jr.:
 - 25% in stock to Robert J. Walton, Jr.
 - NOTE D: 15% in cash to G. C. Snyman

4. On sales made by Willard B. Austin:
 - Sale of 500 shares to William H. Sayer:
 - NOTE E: 20% in stock to Willard B. Austin
 - 20% in cash to G. C. Snyman
 - NOTE F: Includes adjustment Gray & Company, Inc.
 - Sale of 1,200 shares to Robert Wier, Jr.:
 - 25% in stock to Willard B. Austin
 - 15% in cash to G. C. Snyman

5. On purchase of 5,000 shares by Conrad F. Clothier, Jr.
 - 7,000 shares were issued to him, the additional
 - 2,000 shares representing 40% commission, in stock

Commissions and bonuses payable in cash are commented upon in a subsequent section of this report. Commissions and bonuses payable in stock are analyzed for the period July 1, 1934 to December 31, 1934 in the following tabulation, which is based on the preceding rates of commission and on other information obtained from the company's records.

SHOWN IN SHARES

Payable To	Bonus On Loans and Financing			Total Commissions And Bonuses Credited	Shares Owed At 6/30/1934 Shown By "Watt" Report	Paid Or Adjusted 7/1/1934 to 12/31/1934	Shares Owed At 12/31/1934
	Commission On Sales Of Stock	Approval Shown In Minutes	Approval Not Shown In Minutes				
Willard B. Austin	1,650	.....	.....	1,650	.....	400	1,250
Conrad F. Clothier, Jr.	2,000	1,000 A	.....	3,000	.....	3,000	.....
Darrow & Bielaski, Inc. . . . .	.....	175,000 C	.....	175,000	.....	175,000	.....
George Grossman	100	.....	.....	100	.....	100	.....
L. P. Mahoney . . . . .	.....	1,000 B	.....	1,000	.....	1,000	.....
Miller-Murray & Company, Inc. . . . .	.....	.....	.....	.....	7,838	7,838 F	.....
H. M. Pierce	2,425	.....	.....	2,425	.....	1,200	1,225
W. F. Raskob . . . . .	.....	1,000 B	.....	1,000	.....	1,000	.....
G. C. Snyman	2,970	.....	20,000 D	22,970	27,351	10,000	40,321
G. B. Street	2,425	5,000 A	10,000 E	17,425	.....	16,200	1,225
Robert J. Walton, Jr.	750	.....	.....	750	.....	750	.....
Totals	<u>12,320</u>	<u>183,000</u>	<u>30,000</u>	<u>225,320</u>	<u>35,189</u>	<u>216,488 F</u>	<u>44,021</u>

NOTE A: Payment for services rendered in financing.

NOTE B: Bonus on temporary loans to company.

NOTE C: Bonus on sale of \$60,000 face amount of Secured 6% notes dated October 1, 1934, due October 1, 1935. (See comments under subsequent section of this report).

NOTE D: Bonus of 10% on amount received by company (\$50,000) from sale of Secured 6% notes in accordance with contract dated June 23, 1934, renewed as at August 23, 1934 for sixty days. The contract was signed for the company by Graham C. Woodward, Secretary. The minutes of the directors do not contain a record of approval of this contract.

NOTE E: Mr. Graham C. Woodward informed us that the payment of these shares had been authorized by the directors. However, the minutes do not show the authorization.

NOTE F: Includes adjustment of 18 shares, representing excess credit at June 30, 1934 on account of commissions earned by Miller-Murray & Company, Inc.

TO DIRECTORS:

DONATED SURPLUS--\$260,447.24:

An analysis of the changes in donated surplus during the period April 26, 1934 to December 31, 1934 is presented in exhibit B. Following the practice established by the directors of the company in their previous annual statements, we have reflected in the donated surplus account the cost of financing, the expenses of officers and agents, taxes and all other financial transactions that did not directly represent development costs or equipment and construction costs.

Commencing in January 1935, when production was started, production costs should be separately accumulated and profits or losses arising therefrom should be reflected in the earned surplus accounts. December 31, 1934. With the exception

of the note payable to C. C. Ashley and the loan payable to P. H. Charles, neither

BANK OVERDRAFT--\$1,292.08:

There was a net book overdraft in the accounts with The Farmers and Merchants National Bank of Los Angeles, as follows:

	Balance		Outstanding Checks, Per List From T. A. Frazer	Balance Shown By Company's Books
	Confirmed By Depository	Confirmed By Depository		
Regular account	\$ 170.34	\$ 1,546.93	\$1,376.59	
Special account #2	283.45	198.94	84.51	
Total	\$ 453.79	\$1,745.87	1,292.08	

Cancelled checks were not available for our examination.

Notes and loans payable to directors--\$13,200.00:

Notes and loans payable to others--\$6,200.00:

These liabilities were as follows:

of New York, Trustee, and on October 2, 1934, the sixty notes were forwarded to the trustee for certification. The entire authorization was sold by Darrow & Michaeli, Inc., and the proceeds of \$50,000 were placed to the company's credit before December 31, 1934.

TO DIRECTORS:

G. B. Street--due 11/9/35	\$10,000.00	
C. C. Ashley--no term	2,300.00	
C. F. Clothier, Jr.--no term	900.00	
		<u>\$13,200.00</u>

TO OTHERS:

Leslie P. Mahoney--due 1/3/35	2,500.00	
William Richter--due 1/24/35	500.00	
Willard B. Austin--due 12/28/34	2,500.00	
Benj. C. Charles--no term	400.00	
P. H. Charles--no term	300.00	
		<u>6,200.00</u>
		<u>\$19,400.00</u>

These notes and loans were unsecured at December 31, 1934. With the exception of the note payable to C. C. Ashley and the loan payable to P. H. Charles, neither of whom have replied to our request for confirmation, these liabilities were confirmed by certification received from the creditors or by payments made by the company subsequent to December 31, 1934.

NOTES PAYABLE--SECURED--\$60,000.00:

In their meeting of September 11, 1934, the directors authorized the issuance of sixty notes, face value of \$1,000 each, to be sold by Darrow & Bielaski, Inc., to yield the company a total of \$50,000. The notes were to be secured by a deed of trust creating a lien on the mill and milling equipment of the company, as specifically described in the indenture, and were to be paid out of 50% of the mint returns of the product of the company's mine and mill.

Pursuant to this authorization, a deed of trust was created under date of September 20, 1934 between the company and The Continental Bank and Trust Company of New York, Trustee, and on October 2, 1934, the sixty notes were forwarded to the trustee for certification. The entire authorization was sold by Darrow & Bielaski, Inc., and the proceeds of \$50,000 were placed to the company's credit before December 31, 1934.

Although these commission payments did not represent compensation for their services as officers and directors, there is a possibility that they could be construed as coming within the intent of the phrase "other compensation paid to officers and directors".

The indenture specifically stated that "all obligations of the company, other than current accounts payable, payroll, and operating expenses incurred in the normal operation of the company, will, by instrument in writing by the company prior to or upon the execution of this instrument, be subordinated to the notes secured by this indenture and shall be defaulted as to payment so long as any of the notes intended to be hereby secured are outstanding, etc.".

The following obligations were subordinated, in compliance with the above requirement: the Sinking Fund for redemption of the notes. Fire insurance in

Charles C. Ashley	\$ 2,300.00
Graham C. Woodward, Trustee	\$10,750.00
Willard B. Austin	\$ 2,500.00

In addition to these debts, there existed, at September 20, 1934, contracts requiring the payment of \$5,100 on account of sales of product for future delivery, and notes payable to Leslie P. Mahoney--\$2,500.00 and William Richter--\$500.00. These obligations, aggregating \$8,100.00, were not subordinated. Whether they should, or should not have been subordinated depends, upon whether or not they represented "current accounts payable, payroll and operating expenses". So far as we can determine, these obligations were similar in nature to those that were subordinated, and it therefore follows that either all of the items herein listed should have been subordinated or none of them. In our opinion, none of them come within the meaning of the phrase above quoted and therefore all of them should have been subordinated by written instrument.

The indenture also included a provision that no salary or other compensation should be paid to any officer or director of the company so long as any of the secured notes were outstanding. No such salaries had been paid from September 20, 1934 to December 31, 1934. However, cash commissions on account of sales of treasury stock and other financing had been paid and/or credited to Mr. G. C. Snyman and Mr. Graham C. Woodward during that period. Although these commission payments did not represent compensation for their services as officers and directors, there is a possibility that they could be construed as coming within the intent of the phrase "other compensation paid to officers and directors".

It will be noted that we have included in exhibit A, as a deferred charge, \$7,500 of the \$10,000 discount on the sale of the 6% Secured Notes, representing the portion of the discount that was applicable to the period January 1, 1935 to October 1, 1935. The balance of \$2,500 has been stated in exhibit B as cost of financing applicable to the period ended December 31, 1934.

The Continental Bank & Trust Company certified to us that \$60,000 face amount of these notes were outstanding at December 31, 1934, and that no funds were then in the Sinking Fund for redemption of the notes. Fire insurance in the face amount of \$25,000 had been assigned to the Trustee.

ACCOUNTS PAYABLE--\$13,823.46:

The accounts included in this caption represented balances owing to trade creditors on open account. We did not confirm these balances by correspondence.

Mr. T. A. Frazer certified to us that \$12,805.61 of this total represented the full liability on open accounts payable at December 31, 1934, contracted by the Western office at or prior to that date, and Mr. Graham C. Woodward similarly certified to us respecting the remainder of \$1,017.85 contracted by the Treasurer's office.

Federal Capital Stock Tax as at June 30, 1935	\$1,000.15
Federal Capital Stock Tax as at June 30, 1934	1,510.00
Revenue stamps (per T. A. Frazer)	387.50
COMMISSIONS PAYABLE--\$1,785.59:	60.00
State and county taxes accrued at mine (per T. A. Frazer)	448.34

The following summary presents an analysis of the commissions payable in cash at December 31, 1934.

PURCHASE CONTRACT--\$4,500.00: G. C. Snyman G. C. Woodward

Balance at June 30, 1934:		
Per Alexander H. Watt & Company report	\$	\$
Credited--July 1, 1934 to December 31, 1934:		

See analysis and comment on this item in subsequent section captioned "Cash commission on sales of treasury stock, etc."	8,540.00	500.00
Charges--July 1, 1934 to December 31, 1934:	8,540.00	500.00

Checks drawn for payments to G. C. Snyman,		
P. H. Charles and Thomas Morch	6,809.41	
Checks drawn to G. C. Woodward		445.00
Balance at December 31, 1934	<u>\$1,730.59</u>	<u>\$ 55.00</u>

LIABILITY ON CONTRACTS FOR FUTURE
The balance of \$1,730.59 owing to G. C. Snyman includes \$1,000.00 to be paid to Thomas Morch by Mr. Snyman, in accordance with contract dated June 23, 1934, previously described in Note D, page 8 of these comments.

We asked Mr. Snyman and Mr. Woodward to confirm to us the balances of commissions owing to them at December 31, 1934, as shown by their records. Mr. Woodward's certification was in agreement with the balance shown in the preceding analysis. Mr. Snyman's certification was presented to us without signature for comparison with our computation. Differences existed in both the balance owing in cash and the number of shares owing on commissions payable in stock (see comments under treasury stock). We attempted to locate these differences by comparing our computations with memoranda furnished by Mr. Woodward, but could not reconcile. We have used our own computation, therefore, and the balances shown were not substantiated by Mr. Snyman.

FEDERAL, STATE AND COUNTY TAXES PAYABLE--\$3,594.99:

Taxes payable were as follows:

Federal Capital Stock Tax as at June 30, 1933	\$1,089.15
Federal Capital Stock Tax as at June 30, 1934	1,610.00
Revenue stamps (per T. A. Frazer)	387.50
Revenue stamps on \$60,000 note issue	60.00
State and county taxes accrued at mine (per T. A. Frazer)	448.34
	<u>\$3,594.99</u>

LIABILITY ON EQUIPMENT PURCHASE CONTRACT--\$4,500.00:

According to a letter dated May 4, 1935, signed by T. A. Frazer, there was a liability at December 31, 1934 of \$4,500.00 on account of the purchase of Merrill-Crowe Precipitation Unit. The total price of this unit was \$7,582.00, of which \$3,082.00 was paid on November 3, 1934. Mr. Frazer certified to us that there were no additional liabilities of this nature at December 31, 1934.

NOTES PAYABLE:LIABILITY ON CONTRACTS FOR FUTURE
DELIVERY OF PRODUCTS--\$5,100.00:

The following contracts were recorded in the Treasurer's office as outstanding at December 31, 1934. They each covered 50 ounces of gold to be delivered within one year from the dates shown.

<u>Date</u>	<u>Purchaser</u>	<u>Guaranteed Price Per Ounce</u>	<u>Total Liability</u>
April 5, 1934	J. Reed Collingwood	\$40.00	\$2,000.00
June 28, 1934	Fleurette B. Lloyd	\$32.00	1,600.00
July 7, 1934	James H. Beattie	\$30.00	1,500.00
			<u>\$5,100.00</u>

These contracts were sold at \$20.00 per ounce, a total sales price of \$3,000.00. Of the discount of \$2,100.00, we have shown, on exhibit A, \$812.00 as unamortized discount applicable subsequent to December 31, 1934, and have included \$1,288.00, in exhibit B, as cost of financing for the period ended that date.

The following summary analyzes this liability.

LOAN PAYABLE TO GRAHAM C. WOODWARD, TRUSTEE--\$5,750.00:

At April 26, 1934, this liability amounted to \$10,750.00. Since that date, \$5,000.00 has been liquidated by the issuance of 20,000 shares of treasury stock at 25¢ per share. The balance of \$5,750.00, at December 31, 1934, was confirmed to us by the trustee who informed us that the liability was due and payable, bore no interest and was unsecured.

ACCRUED WAGES PAYABLE--\$2,765.48:

This liability is stated at the amount certified to us by Mr. T. A. Frazer.

ACCRUED INTEREST PAYABLE--\$985.59:

This amount was computed by us, except the interest payable to Mr. C. C. Ashley, which was certified to us by Mr. T. A. Frazer. The details were as follows:

verify the computations recorded in the treasury stock accounts prior to July 1, 1934. Therefore, the credits for the period April 24, 1934 to July 1, 1934 have been shown separately in this exhibit, from the credits for the period July 1, 1934 to December 31, 1934.

NOTES PAYABLE:

Willard B. Austin	\$ 75.00	
L. P. Mahoney	75.00	
William Richter	13.12	July 1, 1934
G. B. Street	86.66	
		<u>\$ 249.78</u>

C. C. ASHLEY 497.15

FEDERAL CAPITAL STOCK TAXES:

Due June 30, 1933	174.26	
Due June 30, 1934	64.40	
		<u>238.66</u>
		<u>\$ 985.59</u>

The following comments have to do with certain of the items appearing on the analysis of changes in donated surplus.

PROFIT ON PURCHASES AND SALES OF VOTING TRUST CERTIFICATES--\$6,298.52:

The following summary analyzes this profit.

SALES:

321,000 shares at 5¢ per share \$16,050.00

COST:

330,000 shares at agreed price	\$ 9,000.00	
Fee to Walter Rowson	1,000.00	
Revenue stamps	24.88	
		<u>10,024.88</u>
Less: Cost of 9,000 shares on hand at December 31, 1934 (9,000 x \$.030378) . .	273.40	
		<u>9,751.48</u>

NET PROFIT \$ 6,298.52

Following analysis shows in detail the number of shares of stock to each individual for commissions and/or bonus during the period April 26, 1934 to December 31, 1934. We have previously stated that we were unable to satisfactorily verify the transactions recorded in the treasury stock accounts prior to July 1, 1934. Therefore, the credits for the period April 26, 1934 to June 30, 1934 have been shown separately in this analysis, from the credits for the period July 1, 1934 to December 31, 1934.

CASH COMMISSIONS ON SALES OF
TREASURY STOCK, ETC.--\$9,040.00:

An analysis of the cash commissions credited during the period July 1, 1934 to December 31, 1934 is presented in the following tabulation:

	Shares	Total	Shares	Total
Willard E. Austin	1,650	1,650		\$ 412.50
CREDITED TO G. C. SNYMAN:	300 A	3,000		250.00
20% on sale of gold futures contract to	100	100		25.00
James H. Beattie	1,000	1,000		200.00
10% on \$50,000 received by company from		77,535		19,383.25
sale of secured notes (The contract referred to		2,425		606.25
in Note D, page 8 of these comments provided for		1,000		250.00
commissions of 10% in cash and 10% in stock).		70,531		17,500.25
The minutes of directors do not contain a record		17,423		4,356.25
of approval of this contract		5,000.00		125.00
Guarantee to Thomas Morch, per contract referred to				
in preceding item		1,000.00		247.50
Commission on sales of treasury stock		2,340.00		
				<u>\$8,540.00</u>

The above items noted A, B, and C were recorded in the books through journal entries at June 30, 1934, and the purpose of the explanations for these entries

CREDITED TO G. C. WOODWARD:

On conversion into treasury stock of \$5,000 of the liability to Graham C. Woodward, Trustee. (The minutes of directors do not contain a record of authorization for the payment of this commission)

500.00

\$9,040.00

Bonus of 50,000 shares as required in memorandum of agreement between Miller-Murray & Company, Inc., and the company

The total commissions paid on sales of treasury stock (combining cash commissions and stock commissions) was 40% during the period July 1, 1934 to December 31, 1934. For list of rates at which commissions were credited, see page 7 of these comments.

STOCK COMMISSIONS ON SALES OF
TREASURY STOCK, ETC.--\$87,701.00:

The following analysis shows in detail the number of shares of stock credited to each individual for commissions and/or bonus during the period April 26, 1934 to December 31, 1934. We have previously stated that we were unable to satisfactorily verify the transactions recorded in the treasury stock accounts prior to July 1, 1934. Therefore, the credits for the period April 26, 1934 to June 30, 1934 have been shown separately in this analysis, from the credits for the period July 1, 1934 to December 31, 1934.

Shares				
The adjustments to close the agreement Miller-Murray & Company, Inc.				
Shares	to	Shares	Total	
Apr. 26, 1934	Dec. 31, 1934	Apr. 26, 1934	Value	
to	(See page 8	to	at 25¢ per	
June 30, 1934	of Comments)	Dec. 31, 1934	Share	
Willard B. Austin	1,650	1,650	\$	412.50
Conrad F. Clothier, Jr. 800 A	3,000	3,800		950.00
Darrow & Bielaski, Inc.	175,000	175,000		43,750.00
George Grossman	100	100		25.00
L. P. Mahoney	1,000	1,000		250.00
Miller-Murray & Co. Inc. 77,333 B	77,333	77,333		19,333.25
H. M. Pierce	2,425	2,425		606.25
W. F. Raskob	1,000	1,000		250.00
G. C. Snyman 47,351 C	22,970	70,321		17,580.25
G. B. Street	17,425	17,425		4,356.25
Robert J. Walton, Jr.	750	750		187.50
Totals	125,484	225,320	350,804	\$87,701.00

Miller-Murray & Company, Inc., under the agreement referred to in the preceding The above items noted A, B, and C were recorded in the books through journal entries at June 30, 1934, and the purport of the explanations for these entries was as given in the following comments:

NOTE A: Commissions on sale to Fleurette B. Lloyd of gold futures contract.

NOTE B: Bonus of 50,000 shares as required in memorandum of agreement between Miller-Murray & Company, Inc., and the company dated December 28, 1933, said agreement having to do with the appointment at that date of Miller-Murray & Company, Inc., as dealers for the sale of treasury stock. Under this agreement, the dealers were to receive an additional 50,000 shares at the rate of one share for every 10 shares paid for by them. On this basis, the company's records showed a credit for 27,351 shares (10% of 273,513 shares sold), which we reduced to 27,333 shares as a result of our communication with the dealers. This brought the total credit up to 77,333 shares, the number shown in the preceding analysis.

NOTE C: This credit is based on the resolution adopted by the directors at their meeting on December 23, 1933, which stated that Mr. Snyman should be compensated with the directors 100,000 shares, of which 20,000 shares were to be delivered to him at once, and 80,000 more shares as 800,000 shares were sold and paid for by Miller-Murray & Company, Inc., or by any other contact which Mr. Snyman might obtain. The 47,351 shares were credited on the basis of 20,000 shares payable at the date of the resolution and 27,351 shares, representing 10% of the 273,513 shares sold by Miller-Murray & Company, Inc.

The adjustments to close the agreement with Miller-Murray & Company, Inc. were made as at June 30, 1934, and the adjustments for the bonus to G. C. Snyman on account of that agreement were made as at the same date. The largest part of these adjustments was applicable prior to April 26, 1934, and the several accounts affected should have been adjusted before the preparation of the annual report as at that date. Had they been so reflected, stock commissions would have been correspondingly less than the amount shown (\$87,701.00) in exhibit B. construction, machinery, equipment, operations, etc. were maintained

DISCOUNT ON SALES OF TREASURY STOCK--\$35,556.49:

This item represents the discount at which treasury stock was sold to Miller-Murray & Company, Inc., under the agreement referred to in the preceding comments. There were 273,513 shares sold to that company at 12¢ per share, which was 13¢ per share under par, a total discount of \$35,556.49. As was the case with stock commissions (see preceding section of these comments), the largest part of this discount was applicable prior to April 26, 1934 and should have been given effect to before the preparation of the annual report as at that date.

EXPENSES OF OFFICERS AND AGENTS--\$4,148.62:

We did not examine vouchers in support of the checks drawn in payment of these expenses. According to minutes of directors under date of September 29, 1931, Mr. W. W. Charles was authorized to draw upon the treasury of the company for his reasonable expenses on company business, not exceeding \$1,000.00 per month, without being required to account for the expenditure thereof. This authorization has never been rescinded in any subsequent minutes of the directors and, therefore, Mr. Charles' expenditures of \$2,993.60 during the period under audit, being within the maximum authorization, were properly paid by the company.

All of the items charged to G. C. Snyman were earmarked on the company's records as travel expenses. to meet expenditures for operations and development.

GENERAL

The details contained in the financial records maintained by the Treasurer's office were inadequate to permit us to readily verify the transactions relating to sales of treasury stock and the payment of commissions and bonuses thereon. Commission records were available for only a part of the period and they were in memoranda form only.

The records and supporting data covering the costs incurred at the mines for development, construction, machinery, equipment, operations, etc. were maintained at the Western office. None of the transactions covering these costs were taken up currently on the Treasurer's office records. At irregular intervals journal entries were furnished by the Western office to record the net changes, in the various accounts, and these changes were then reflected in the Treasurer's office ledger in totals only. Similarly, the Treasurer's office rendered a monthly statement to the Western office, consisting of a chronological recapitulation of the items shown in its cash book and journal. We were informed by Mr. W. W. Charles that the Western office ledger, at the end of every month, reflected the complete picture of the company's financial condition and that the Treasurer's office was looked upon as a financing office, interested only in such records as were necessary to control that particular phase of the company's activities.

It is our opinion, however, that the complete and final accounting records should be located at the Treasurer's office, and that the mine office should be subject to daily or weekly control through detailed reports, to be furnished by it, covering purchase commitments, payrolls, cash disbursements, etc., and that these reports should be taken up currently in the Treasurer's office records.

The mine office account on the Treasurer's office ledger should at all times show the balance of cash in the revolving fund available at the mine and the mine office reports should be the bases for reimbursements of that fund by the Treasurer's office. We have not overlooked the fact that the company has been hard pressed for cash to meet expenditures for operations and development.

The change of accounting control here suggested would not be rendered inefficient, however, because of that situation. As a matter of fact the financing of the operations could be more efficiently undertaken by the Treasurer's office if the exact status of the company's finances were continuously available to those to whom such information is most necessary.

We also suggest that the minutes of the directors be reviewed and action taken to bring them into conformity with the facts where conflictions or differences exist. We noted, for instance, that the salary of Mr. T. A. Frazer, as approved on January 14, 1932, was not to exceed \$150.00 per month. We understand that \$200.00 per month was paid during at least the latter part of the period reviewed in this report. We also noted that certain important transactions respecting commissions and bonuses were not covered by authorizations. The final disposition of certain proposed contracts was not found in the minutes, such as the contract with John W. Fry & Company, dated December 2, 1933 (see minutes of December 12, 1933) and contract with Lyon, Pruyn & Company mentioned in minutes of July 10, 1934.

We were informed by Mr. W. W. Charles that no fidelity bonds were in force on any of the officers or employees of the company.

It was noted that sales of treasury stock since December 31, 1934 had reduced the numbers of shares in the treasury to a point that was only slightly in excess of effective options.

We have found it necessary to comment at unusual length upon the results of our audit, the scope of our examination and the exceptions to our verifications. We have not intended that inferences should be drawn therefrom that the differences of omission and commission noted herein resulted from anything other than oversight. We feel, however, that such important records should have been given more careful and experienced attention. The changes recently made in the accounting system at the Treasurer's office, if followed exactly as instructed, will cure all of the defects heretofore present in those records.

Inasmuch as the statement of financial condition as presented in exhibit A materially differs in certain of the accounts from the statement included in the published report at December 31, 1934, we ask that a copy of the final statement be sent to those who received the annual report.

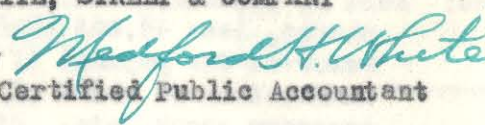
PROPERTY ASSETS:

Mining property, buildings, machinery, equipment, tools, etc.
Furniture and fixtures
Auto truck
Less: Reserve for depreciation

Very truly yours,

WHITE, STREET & COMPANY

By


 Certified Public Accountant
CURRENT ASSETS:

Cash on hand and in banks
Outstanding receivable
Unshipped product in mill
Supplies in stock

137,584.75

\$1,562,415.25

250,447.24

\$1,822,862.49

OTHER ASSETS:

Cash in suspended banks
Less: Reserve for loss
Deposits with public utilities

1,292.08

15,200.00

2,200.00

DEFERRED CHARGES:

Expired insurance
Unamortized discount on gold futures contracts
Unamortized discount on secured

60,000.00

15,225.46

1,785.59

5,594.25

4,500.00

5,100.00

5,750.00

2,755.48

985.59

181.75

119,178.94

\$1,742,041.45

CERTIFICATE: We have made a
Cabin Consolidated Mines, Inc.,
in our report dated July 12, 1935
correctly reflects the financial

STONE CABIN CONSOLIDATED MINES, INC.

Statement of Financial Condition
December 31, 1934ASSETSPROPERTY ASSETS:

Mining property, buildings, machinery, equipment, tools, etc.	\$1,721,499.81	
Furniture and fixtures	995.60	
Auto truck	\$ 735.00	
Less: Reserve for depreciation	153.12	
	<u>581.88</u>	
		\$1,723,077.29

CURRENT ASSETS:

Cash on hand and in banks	362.22	
Accounts receivable	73.62	
Unfinished product in mill	3,509.97	
Supplies in stock	<u>4,739.67</u>	
		8,685.48

OTHER ASSETS:

Cash in suspended banks	2,006.53	
Less: Reserve for loss	<u>2,006.53</u>	
	
Deposits with public utilities	<u>1,444.58</u>	
		1,444.58

DEFERRED CHARGES:

Unexpired insurance	522.08	
Unamortized discount on gold futures contracts	812.00	
Unamortized discount on secured notes	<u>7,500.00</u>	
		8,834.08

\$1,742,041.43LIABILITIES, CAPITAL AND SURPLUSCAPITAL AND SURPLUS:

Common capital stock, authorized-- 6,000,000 shares, par value 25¢ each, all issued	\$1,500,000.00	
Less: Held in treasury--594,385 shares, less 44,046 shares reserved for payment of commissions on sales of treasury stock, etc. Of the balance, 214,000 shares are under option	<u>137,584.75</u>	
		\$1,362,415.25
Donated surplus--exhibit B	<u>260,447.24</u>	
		\$1,622,862.49

CURRENT LIABILITIES:

Bank overdraft	1,292.08	
Notes and loans payable--unsecured: To directors	13,200.00	
To others	<u>6,200.00</u>	
Notes payable--secured: Under indenture between the Corporation and The Continental Bank & Trust Company of New York, as trustee	60,000.00	
Accounts payable	13,823.46	
Commissions payable	1,785.59	
Federal, state and county taxes payable	3,594.99	
Liability on equipment purchase contract	4,500.00	
Liability on contracts for future delivery of products	5,100.00	
Loans payable to Graham C. Woodward, trustee--unsecured	5,750.00	
Accrued wages payable	2,765.48	
Accrued interest payable	985.59	
Accrued insurance payable	<u>181.75</u>	
		119,178.94

\$1,742,041.43

CERTIFICATE: We have made an examination of the financial books and records of Stone Cabin Consolidated Mines, Inc., as at December 31, 1934. Subject to the comments contained in our report dated July 18, 1935, we certify that, in our opinion, the above statement correctly reflects the financial condition of the corporation at December 31, 1934.

STONE CABIN CONSOLIDATED MINES, INC.Analysis of Changes in Donated Surplus
April 26, 1934 to December 31, 1934

BALANCE, APRIL 26, 1934---

SHOWN BY PUBLISHED REPORT

\$410,283.98

Less: Adjustments made by Alexander H.
Watt & Company at June 30, 1934
resulting from the omission of
certain commissions on sales of
treasury stock that should have
been included in such prior period

\$128,090.81

\$ 3,643.75

Adjustments to show liability to
Conrad F. Clothier, Jr. and John
A. Harris, Jr., Trustees, on
account of 25 shares of treasury
stock owing to them at April 26,
1934

\$ 2,993.60

934.91

56.72

161.59

4,148.62

6.25

3,650.00

BALANCE, APRIL 26, 1934--ADJUSTED

766.16

762.15

1,528.31

406,633.98

INCREASES:

Federal Capital Stock Tax at

75.00

Royalties received from lessor of

1,610.00

Hilltop property

597.72

461.90

Estimated mint value of unfinished product

3,257.54

Interest on deposit with Sierra Pacific

287.54

59.52

Power Company

125.00

102.11

Discounts earned

151.95

6,298.52

Profit on purchases and sales of

voting trust certificates

1,749.09

1,976.60

Valuation, at 25¢ each, of 9,000 shares
of voting trust certificates on hand
at December 31, 1934

12,155.99

Experimental expenses

2,665.20

418,789.97

Depreciation--Dodge truck

1,429.85

DECREASES:

Cost of financing:

980.04

153.12

200.00

7,175.30

Cash commissions on sales of treasury

all stock, etc.

9,040.00

Stock commissions on sales of treasury

563.07

stock, etc.

87,701.00

Discount on sales of treasury stock .

35,556.49

Amortized discount on sale of secured

260.63

notes

2,500.00

Interest on secured notes

628.51

Interest on other indebtedness

2,716.81

Revenue stamps--secured notes

560.00

Trustee fee and counsel fee--secured

600.00

notes

Amortized discount on gold futures

1,288.00

contracts

138,090.81

Forwarded

\$138,090.81

150,342.73

\$200,447.34

\$418,789.97

STONE CABIN CONSOLIDATED MINES, INC.

Analysis of Changes in Donated Surplus
April 26, 1934 to December 31, 1934

BROUGHT FORWARD

\$418,789.97

DECREASES (CONT'D):

Brought forward \$138,090.81

Expenses of officers and agents:

W. W. Charles	\$ 2,993.60	
G. C. Snyman	936.91	
C. F. Clothier, Jr.	56.72	
G. C. Woodward	161.39	
	<hr/>	4,148.62

Technical expenses:

Legal and accounting	766.16	
Engineering	762.15	
	<hr/>	1,528.31

Taxes:

Franchise tax--State of Delaware . . .	75.00	
Federal Capital Stock Tax at		
June 30, 1934	1,610.00	
State and county taxes	597.79	
	<hr/>	2,282.79

Stock transfer expense, etc.:

Security Registrar and Transfer Co. .	287.54	
Cost of stock certificates	125.00	
Corporation Trust Company of America .	151.95	
	<hr/>	564.49

Test runs at mine, experimental, etc.:

Cost of mining--July, August, December	1,749.09	
Cost of milling--July, August,		
December	2,663.20	
Experimental expenses	1,429.85	
Sampling expenses.	980.04	
Depreciation--Dodge truck	153.12	
Salary of watchman	200.00	
	<hr/>	7,175.30

All other decreases:

Stationery, printing and postage . . .	363.07	
Rent of Philadelphia office	355.00	
Telephone and telegraph	707.12	
Annual meeting	260.63	
Publicity	320.00	
Anticipated loss of cash in suspended		
banks	2,006.53	
Miscellaneous	540.06	
	<hr/>	4,552.41

158,342.73

BALANCE, DECEMBER 31, 1934--exhibit A . .

\$260,447.24