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TRUK TRANSPORTATION COMPANY, INCORPORATED

FINANCIAL STATEMENTS

DECEMBER 31, 1970

JOAQUIN CUNANAN & Co.  
MANILA, PHILIPPINES

03-030004

**JOAQUIN CUNANAN & Co.**  
CERTIFIED PUBLIC ACCOUNTANTS

Correspondents of PRICE WATERHOUSE & CO.

SAN MARTIN BUILDING, 1504 A. MABINI  
P. O. BOX 2288  
MANILA, PHILIPPINES

Report of Independent Certified Public Accountants

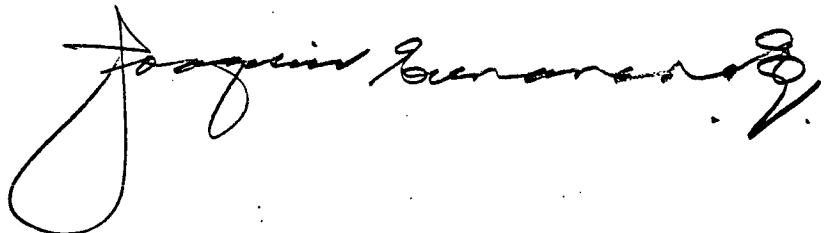
To the Board of Directors of  
Economic Development Loan Fund  
Assignee of Truk Transportation  
Company, Incorporated

We have examined the balance sheet of Truk Transportation Company, Incorporated as of December 31, 1970 and the related statement of income and deficit for the year. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and the related statement of income and deficit present fairly the financial position of Truk Transportation Company, Incorporated as of December 31, 1970 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Manila

February 10, 1971



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TRUK TRANSPORTATION COMPANY, INCORPORATED .

BALANCE SHEET  
DECEMBER 31, 1970 AND 1969  
(Note 1)

A S S E T S

	<u>1970</u>	<u>1969</u>
<b>CURRENT ASSETS</b>		
Cash (Note 2)	\$ 51,980	\$ 2,758
Accounts receivable, net of allowance for doubtful accounts of \$2,042 (1969 - \$10,819)	31,202	67,271
Prepaid insurance premiums	695	1,258
Other prepayment	-	2,164
Total current assets	<u>83,877</u>	<u>73,451</u>
<b>PROPERTY AND EQUIPMENT, at cost (Note 2)</b>		
Net of allowance for depreciation of \$15,059 (1969 - \$5,142)	<u>17,367</u>	<u>13,129</u>
	<u>\$101,244</u>	<u>\$ 86,580</u>
<u>LIABILITIES AND CAPITAL</u>		
<b>CURRENT LIABILITIES</b>		
Trade accounts payable (Note 3)	\$ 8,112	\$ 45,923
Other accounts payable	19,907	18,503
Excess profit in shipping operation refundable to the government	31,528	-
Share of government in net profit from shipping operation	6,903	-
Accrued interest payable	-	5,377
Current portion of long-term loans payable (Note 2)	<u>6,297</u>	<u>35,793</u>
Total current liabilities	<u>72,747</u>	<u>105,596</u>
<b>LONG-TERM LOAN PAYABLE, net of current portion (Note 2)</b>	<u>750</u>	<u>9,750</u>
<b>CAPITAL</b>		
Capital stock		
Authorized - 5,000 shares of \$5 par value each	<u>\$25,000</u>	
Issued and outstanding - 4,277 shares	21,385	21,385
Retained earnings (deficit)	<u>6,362</u>	<u>(50,151)</u>
	<u>27,747</u>	<u>(28,766)</u>
	<u>\$101,244</u>	<u>\$ 86,580</u>

(See accompanying notes to financial statements)

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TRUK TRANSPORTATION COMPANY, INCORPORATED

STATEMENT OF INCOME AND RETAINED EARNINGS (DEFICIT)  
FOR THE YEARS ENDED DECEMBER 31, 1970 AND 1969

	<u>1970</u>	<u>1969</u>
VESSEL OPERATING INCOME (Note 4)		
Passenger fares and freight	\$ 82,022	\$ 42,686
Government subsidy	<u>140,425</u>	<u>38,762</u>
	222,447	81,448
VESSEL OPERATING EXPENSES	<u>210,946</u>	<u>84,791</u>
	<u>11,501</u>	<u>( 3,343)</u>
STEVEDORING, HANDLING AND WAREHOUSING INCOME		
Stevedoring and handling	131,924	120,777
Storage and rental income	<u>19,670</u>	<u>19,169</u>
	151,594	139,946
STEVEDORING, HANDLING AND WAREHOUSING EXPENSES	<u>86,940</u>	<u>94,267</u>
	64,654	45,679
GENERAL AND ADMINISTRATIVE EXPENSES	<u>32,452</u>	<u>29,482</u>
	<u>32,202</u>	<u>16,197</u>
NET INCOME FROM OPERATIONS	43,703	12,854
OTHER INCOME	<u>12,810</u>	<u>3,606</u>
NET INCOME FOR THE YEAR		
Net income per share - \$13.21;		
1969 - \$3.85 (Note 5)	56,513	16,460
RETAINED EARNINGS (DEFICIT)		
Beginning of year	<u>(50,151)</u>	<u>(66,611)</u>
End of year	<u>\$ 6,362</u>	<u>\$(50,151)</u>

(See accompanying notes to financial statements)

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TRUK TRANSPORTATION COMPANY, INCORPORATED  
VESSEL OPERATING INCOME AND EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 1970 AND 1969

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	Palau Islands	Truk Islands	Total	Total
<b>INCOME</b>				
Passenger fares	\$ 26,975	\$ 21,000	\$ 47,975	\$ 19,317
Freight	<u>18,750</u>	<u>15,297</u>	<u>34,047</u>	<u>23,369</u>
	45,725	36,297	82,022	42,686
Government subsidy	<u>86,775</u>	<u>53,650</u>	<u>140,425</u>	<u>38,762</u>
	<u>132,500</u>	<u>89,947</u>	<u>222,447</u>	<u>81,448</u>
<b>OPERATING EXPENSES</b>				
Salaries and wages	49,662	31,733	81,395	27,812
Stores and supplies	29,428	23,401	52,829	21,416
Fuel and lubricants	26,282	13,470	39,752	14,059
Repairs and maintenance	7,089	4,679	11,768	5,964
Insurance		767	767	5,012
Administrative overhead	7,993	9,276	17,269	10,113
Miscellaneous		<u>263</u>	<u>263</u>	<u>415</u>
	120,454	83,589	204,043	84,791
Share of government in net profit	<u>4,216</u>	<u>2,687</u>	<u>6,903</u>	<u>-</u>
	<u>124,670</u>	<u>86,276</u>	<u>210,946</u>	<u>84,791</u>
<b>NET VESSEL OPERATING INCOME (LOSS)</b>	<u>\$ 7,830</u>	<u>\$ 3,671</u>	<u>\$ 11,501</u>	<u>\$ ( 3,343)</u>

TRUK TRANSPORTATION COMPANY, INCORPORATED  
 STEVEDORING, HANDLING, WAREHOUSING  
 AND GENERAL ADMINISTRATIVE EXPENSES  
 FOR THE YEARS ENDED DECEMBER 31, 1970 AND 1969

	<u>1970</u>	<u>1969</u>
STEVEDORING, HANDLING AND WAREHOUSING EXPENSES		
Salaries and wages	\$ 75,178	\$ 80,309
Repairs and maintenance	1,045	988
Fuel and lubricants	1,083	1,401
Depreciation (straight-line method)	7,009	3,044
Provision for claims on cargoes handled	1,154	2,339
Miscellaneous	<u>1,471</u>	<u>6,186</u>
	<u>\$ 86,940</u>	<u>\$ 94,267</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Manager's salary and other expenses	\$ 8,900	\$ 10,599
Office salaries	9,308	6,553
Provision for doubtful accounts	13,158	1,613
Miscellaneous	<u>1,086</u>	<u>10,717</u>
	<u>\$ 32,452</u>	<u>\$ 29,482</u>

TRUK TRANSPORTATION COMPANY, INCORPORATED

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1970

NOTE 1

The company was organized under the laws of the Trust Territory of the Pacific Islands on August 14, 1964. By virtue of an assignment for the benefit of creditors entered into by the boards of directors of Truk Transportation Company, Incorporated, Assignor, and The Economic Development Loan Fund, Assignee, on March 7, 1967, the operation and management of the business of assignor were undertaken by the assignee until all the obligations of the assignor are paid and, until, in the opinion of the assignee, the assignor will be able to resume operation of its business.

NOTE 2

Cash and equipment are pledged to secure the payment of loans in the aggregate amount of \$61,991 which were obtained under TT contract number TT-383 (\$16,991) and TT contract number TT-67-16 (\$45,000), payable in monthly installments. Loan contract TT-383 matured on December 15, 1970 while loan contract TT-67-16 will mature on January 15, 1972. Unpaid balances at December 31, 1970 were \$1,770 for TT-383 and \$5,277 for TT-67-16.

NOTE 3

The balance at December 31, 1970 of trade accounts incurred before the assignment as mentioned in Note 1 was \$8,112. Under the assignment liabilities incurred after the assignment are pre-

ferred to those incurred before, which are to be paid only at such time it is feasible and appropriate to do in the opinion of the assignee. In 1970 total of the payments to accounts payable incurred before the assignment was \$37,811.

NOTE 4

Under the provisions of the charter hire agreements between the company and the Government of the Trust Territory of the Pacific Islands, the owner of M/V "Truk Islander" and M/V "Palau Islander" which the company operates in common carrier service, the government agrees to subsidize the operating costs of the vessels and insure that the company realizes a minimum profit equal to 5% of the gross operating expenses of each vessel. If the minimum net profit is not realized, the government will pay the amount necessary to bring the net profit to the said minimum. In the event the net profit exceeds the 5% minimum, the excess shall be shared between the company and the government in accordance with the following:

1. If the net profit is over 5% but not over 6%, the excess shall be distributed 10% to the company and 90% to the government.

2. If the net profit is over 6% but not over 7%, the excess over 5% shall be distributed first as in (1) above, and the balance distributed 20% to the company and 80% to the government.

3. If the net profit is over 7% but not over 8%, the excess over 5% shall be distributed as in (1) and (2) above, and the balance distributed 30% to the company and 70% to the government.



4. If the net profit is over 8% but not over 9%, the excess over 5% shall first be distributed as in (1), (2) and (3) above, and the balance distributed 40% to the company and 60% to the government.

5. If the net profit is over 9% but not over 10%, the excess over 5% shall first be distributed as in (1), (2), (3) and (4) above, and the balance distributed 50% to the company and 50% to the government.

6. Any profit in excess of 10% shall be returned to the government.

The agreements for charter hire operations of M/V "Truk Islander" and M/V "Palau Islander" expired on December 31, 1970 and were extended to March 31, 1971. The present extended contracts may be terminated by either party upon thirty days written notice to the other party.

NOTE 5

Net income per share was calculated on the basis of 4,277 shares outstanding at December 31, 1970.

NOTE 6

Certain accounts in 1969 financial statements were recast to conform to the presentation in the financial statements at December 31, 1970.