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FREE CITY OF DANZIG

FIRST REPORT BY THE TRUSTEE FOR THE MUNICIPALITY OF DANZIG
SEVEN PER CENT MORTGAGE LOAN OF 1925,*covering the period from March 15th, 1925, till March 15th, 1926.*

INTRODUCTION.

In conformity with the Council resolution of March 14th, 1925, I have the honour to submit to the Council of the League of Nations my first annual report as Trustee for the Seven per Cent Danzig Municipal Loan 1925, covering the period up to March 15th, 1926.

As it will perhaps be useful to have available in a public document a rather detailed description of the system of supervision set up in connection with this loan, it was necessary somewhat to enlarge this report.

The original task of the Trustee for the Danzig Loan falls into three parts (see document C.204.M.63.1925.II, page 14)

I. The control of the mortgages given as security for the Loan, which are made out in the name of the Trustee.

II. The right to inspect the accounts in which the gross receipts of the municipal undertakings are entered, these receipts being pledged as security

III. The supervision of the expenditure of the proceeds of the Loan in order to confine the expenditure to the purposes for which the Loan was raised.

In its resolution of September 15th, 1925 (document C.528. (1) — A.67.1925.II, page 7), the Council entrusted one further function to the Trustee, namely, that of permitting transfers between the various items of the programme of expenditure.

The Contract for the Loan allows the Trustee to appoint a representative or nominee to act on his behalf in his various functions. To my great satisfaction, the Bank of Danzig consented to do this. The detailed arrangements, which were approved by the Government of Danzig and by the Bankers who issued the loan, were concluded in an exchange of letters and other documents on April 17th, 1925, copies of which are annexed to this report. I am glad to have this opportunity of expressing my thanks to the Bank of Danzig, and especially to its President, Dr. Meissner, for the valuable help they have constantly given me, which has considerably facilitated my task. Thanks to their collaboration and to that of the Danzig Government and the Bankers, the system of supervision approved by the Council has worked smoothly and efficiently

I. MORTGAGES.

Article 7 of the Contract for the Loan (document C.204.M.63.1925.II, page 6) lays down that first mortgages on a number of buildings and other real estate belonging to the Municipality of Danzig and defined in the Contract, should be inscribed in the name of the Trustee or of his nominee. The Bank of Danzig is acting as my nominee for this purpose (see first paragraph of my letter of April 17th, 1925 (Annex A), Annex B, and clause IV of Annex A I).

The Contract provides that the President of the Danzig Court of Appeal should state that all the mortgages specified had been rendered legally valid (Article 18). This declaration was given on April 9th, 1925.

The Municipality is entitled to dispose of parts of the mortgaged real estate with the consent of the Trustee, on condition that real estate of an equal value is brought into mortgage (Article 9). Any such exchange has not taken place during the year under review. As a matter of fact, a request to this effect regarding three mortgaged properties has been handed in by the Municipality under date of January 22nd, 1926, but, inasmuch as on March 15th, 1926, all formalities to be complied with had not yet been fulfilled, the actual transfer of the mortgage has not yet been made.

II. SUPERVISION OF ACCOUNTS.

All gross receipts from the municipal undertakings have to be credited to a central account, from which the Municipality is required to transfer fortnightly to the Bank of Danzig one twenty-sixth part of the total annual amount required for the service of the Loan (Article 11). This central account must be available at all times for inspection by the Trustee or his representative. Article 18 of the Contract gives the representative of the Trustee full access to

the accounts of the Municipality and of its undertakings. The same article binds the Municipality to keep these accounts in a clear way and also to manage the undertakings as separate commercial undertakings.

In June 1925, Messrs. Frese & Hogeweg, accountants in Amsterdam, made a thorough investigation on my behalf into the Municipality's system of bookkeeping. I am glad to inform the Council that they reported to me that the books of the Municipality and of its undertakings are kept in a very clear and satisfactory way and that the gross receipts from the undertakings are regularly entered in the central account.

III. EXPENDITURE OF THE LOAN.

In accordance with Article 18 of the Contract, the proceeds of the Loan were placed on an account in the name of the Trustee at the Bank of Danzig. They could only be withdrawn by the Municipality on the production of vouchers certifying that expenditure had been incurred for purposes approved in the Loan Contract. The form of the vouchers had to be agreed between the Trustee and the Municipality. The forms agreed upon to meet the various cases are given in Annexes A II to A VI (see also paragraphs I and II of Annex A I). They must be signed by the responsible official of the financial administration of the Municipality and verified and countersigned by the Independent Audit Office ("Unabhängige Rechnungsstelle") of the Free State.

The proceeds of the Loan may be spent for the following purposes

- (1) For the items mentioned in the programme of expenditure
- (2) For expenditure made upon the Radaune Water-Power scheme before April 3rd, 1925, and paid out of revenue
- (3) For the redemption of a small Mortgage Dollar Loan on the Municipal Electrical Works issued by the Municipality in 1923
- (4) For the purchase of bonds of the Danzig Municipal Loan itself
- (5) For an advance from the Municipality to the Harbour Board.

The Council having authorised me, in its resolution of September 15th, 1925, to permit transfers between the various items of the programme of expenditure, I approved on October 1st, 1925, after consultation with the Bankers, certain transfers requested by the Municipality. The transfers are shown in the following table

<i>Programme of Expenditure.</i>		
Items	As agreed on March 31st, 1925 £	As modified on October 1st, 1925 £
A. 1. Development of the Radaune Water-Power Station	436,000	546,000
2. Extension of system of electrical distribution network	200,000	90,000
3. Extension of water-works	40,000	40,000
B. Development of real estate		
1. Opening up of factory sites on the Niederer front	101,000	101,000
2. Opening up of land for residential purposes at Brosen	125,000	125,000
3. Construction of new sewage filter-bed system	55,000	55,000
C. Other purposes	320,000	320,000
	£1,277,000	£1,277,000

For the purposes mentioned in the programme of expenditure, there had been expended up to March 15th, 1926

A. 1. Development of the Radaune Water-Power Station (total sum disposed of)	Gulden	£	s.	d.
	13,650,000:00	=	546,000	0 0
2. Extension of system of electrical distribution network.	195,549:76	=	7,821	19 10
B. 1. Opening up of factory sites on the Niederer front	74,363:91	=	2,974	11 1
3. Construction of new sewage filter-bed system	91,093:29	=	3,643	14 8
C. Loan to the Harbour Board (total sum disposed of)	8,000,000:00	=	320,000	0 0
	22,011,006:96	=	£880,440	5 7

Out of the proceeds of the Loan, an amount of \$216,349 = £45,451 9s. 5d. has been blocked for redeeming bonds of the Mortgage Dollar Loan, of which amount up to the present £26,147 17s. 11d. (equivalent of \$124,464 Bonds) has been paid.

The net proceeds of the Loan, which were credited to the Trustee's account at the Bank of Danzig, amounted in all to	£	s.	d.
out of which have been expended	1,260,000	0	0
plus	£880,440	5s.	7d.
	£26,147	17s.	11d.
	906,588	3	6
so that a sum of	£353,411	16	6
is still available on the Trustee's account.			

This includes the balance of \$91,885 = £19,303 11s. 6d., which is blocked and earmarked for further redemption of the Mortgage Dollar Loan (see Annex A I, clause V paragraph (a) 5).

Amsterdam, March 1926.

(Signed) C. E. TER MEULEN.

LIST OF ANNEXES.

	Page
A. Letter from the Trustee to the President of the Bank of Danzig, dated April 17th, 1925, with Annexes	737
A I. Agreement between the Trustee and the Bank of Danzig	738
A II. Form of voucher for expenditure upon the programme of expenditure.	739
A III. Form of voucher for previous expenditure upon the Radaune Water-Power Station	739
A IV. Form of voucher for amortisation of the Mortgage Dollar Loan	740
A V. Form of voucher for loans to the Harbour Board	740
A VI. Form of voucher for the purchase of the Seven per Cent Danzig Municipal Loan 1925	740
B. Reply from the President of the Bank of Danzig to the Trustee, dated April 17th, 1925	740

ANNEX A.

LETTER FROM THE TRUSTEE TO THE PRESIDENT OF THE BANK OF DANZIG.

Amsterdam, April 17th, 1925.

[*Translation from the German.*]

With reference to our conversation of to-day during which you stated your willingness on behalf of the Bank of Danzig to act for me as Trustee for the Danzig Municipal Loan of 1925, I herewith transfer to the Bank of Danzig my powers of representation in accordance with the following conditions

1. The Bank of Danzig shall have inscribed in its own name those mortgages which are provided for in the Loan Contract between the Municipality and the Bankers, dated February 19th, 1925, and in the General Bond, and have to be inscribed in the name of the Trustee. The accompanying certificate from Dr. Crusen, President of the Courts in the Territory of the Free City of Danzig, shows that this inscription has in the meantime been effected.

2. In its capacity as my representative, the Bank of Danzig must examine the vouchers provided for by the above-mentioned Loan Contract and the General Bond and in virtue of which the Municipality may dispose of the proceeds of the Loan.

The examination of these vouchers and accompanying documents shall be carried out in accordance with the instructions contained and in the form prescribed in Annexes A I to A VI to this letter.

I reserve to myself the right at any time to supplement or alter the regulations regarding the presentation of the vouchers and their examination, and in that case the Bank of Danzig is bound to act in accordance with the modified instructions.

In handing over my trusteeship, I reserve to myself the right to revoke the transfer at any time, while the Bank of Danzig is at liberty to notify to me its intention of terminating its agreement to act as my representative at six weeks' notice.

Should there be a change in the person of the Trustee, the Bank of Danzig undertakes to discharge the duties of such Trustee until another has been appointed and until the new Trustee has entered upon his duties.

The remuneration to be paid to the Bank of Danzig for the discharge of its duties as representative of the Trustee will be determined later.

I should be glad if you would notify me in writing of your agreement to this letter and its Annexes.

(Signed) C. E. TER MEULEN.

Annex A I. — AGREEMENT BETWEEN THE TRUSTEE AND THE BANK OF DANZIG.

[*Translation from the German.*]

I. As regards the form of the vouchers provided for in clause 18 of the Loan Contract of February 19th, 1925, and in clauses 24 and 26 of the General Bond, the following conditions have been decided upon.

(a) Vouchers relating to payments in connection with the programme of expenditure (Third Schedule of General Bond) must be made out by the Municipality in such a way that these payments appear in the form of lists made out either for a definite period or for a definite amount and accompanied by proper receipts showing the expenditure by the Municipality on the Loan programme. These lists must be examined by the Independent Audit Office and must be accompanied by a certificate to show

- (1) That the list tallies with the books and individual receipts
- (2) That the figures in the lists and the receipts are correct
- (3) That each item in the list is vouched for by receipts and
- (4) That each item in the lists represents expenditure incurred in the execution of the Loan programme.

These vouchers will be made out in the form shown in Annex A II.

(b) As regards expenditure so far incurred by the Municipality on the construction of the Radaune Power Station and which, according to clause 18 of the Loan Contract and clause 24a of the General Bond, is to be repaid out of the proceeds of the Loan, a statement must be made out on the same lines as that referred to under (a)

These statements shall be made out in the form shown in Annex A III.

(c) The repayment out of the proceeds of the Loan of the cost of the amortisation of the Dollar Loan will be made by means of a statement in which the Independent Audit Office certifies that a number of bonds have been cancelled corresponding to the number shown in the statement.

This statement will be made out in the form shown in Annex A IV

(d) The repayment — not provided for under the programme of expenditure — of the cost of the amortisation of the 1925 Municipality Loan requires a statement in which the Independent Audit Office certifies that guarantees have been given by the London Bankers that the number of 1925 Municipality Loan Bonds shown in the statement has been cancelled.

This statement must be made out in the form shown in Annex A V

(e) With regard to the loan to the Harbour Board provided for in the Loan conditions, the official receipt of the Board made out in accordance with the form shown in Annex A VI. is all that is required.

II. In virtue of these statements, as prescribed in Annexes A II. to A VI., the Bank of Danzig, as representative of the Trustee, must release the total amount shown in these statements from the Trustee's account, after the Bank has communicated with the Trustee and the latter has given his consent.

III. The Trustee may transfer to the Bank of Danzig his right to examine and inspect the books of the Municipality. In this case, the Bank undertakes to make the examination in accordance with the special instructions of the Trustee.

IV. The mortgages inscribed in the name of the Bank of Danzig as representing the Trustee may only be used by the Bank in agreement with the Trustee and in accordance with his directions. In so far as such mortgages are to be released in accordance with the provisions of the Loan Contract, the Bank of Danzig must examine whether the release is justified and whether the supplementary mortgages offered or the proposed payment of the proceeds from the released objects can be accepted as an equivalent, and must apply to the Trustee for a decision on this matter.

The Bank of Danzig must further control the extension of the mortgages provided for in clause 18 of the General Bond to the further development of productive undertakings paid for out of the proceeds of the Loan, and must report to the Trustee thereon.

V. The Bank of Danzig must keep the following accounts for the Trustee

(a) The capital account, to which the proceeds of the Loan will be credited as soon as they are handed over to the Municipality by the Bankers in accordance with the provisions of the Loan Contract.

The request for these transfers must be submitted to the Bankers by the Municipality. Sums will only be handed over from this account to the Municipality in conformity with the regulations contained in Nos. I to III and on the production of the prescribed statements. This account will be kept for the Trustee free of interest and bank charges. The Bank of Danzig may conclude an agreement with the Municipality whereby the latter shall receive from the investment of the sums thus transferred to the Bank of Danzig interest corresponding to the yield from such investment.

Apart from the notification required under II, the Trustee must be informed of all sums released from this account.

The capital account must be kept by the Bank of Danzig in pounds sterling. The Trustee, however, will raise no objection if the Municipality and the Bank of Danzig agree that the account shall be kept wholly or partly in gulden.

Nevertheless, the Bank of Danzig must make sure that an amount in pounds sterling corresponding to the still outstanding Dollar Loan of the Danzig Municipality and converted at the rate of \$4.76 is set aside, to be used only in accordance with and on the production of the statements shown in Annex A IV

(b) An account showing the proceeds, if any, to be paid in by the Municipality out of the realisation of securities. The amounts inscribed in this account constitute securities for the creditors of the Loan. They may only be released with the express consent of the Trustee, subject to the furnishing of other securities to take their place.

Annex A II. — FORM OF VOUCHER FOR EXPENDITURE UPON THE PROGRAMME OF EXPENDITURE.

[Translation from the German.]

Period from (June 1st, 1925) to (June 30th, 1925).

Date (June 17th, 1925.)

Date.	Voucher No.	Recipient.	Object.	Amount in Gulden.

Above statement certified correct.

Danzig (July 3rd, 1925).
The Senate (Section O)
(Dr. LESKE).

We hereby certify

- (1) That all the items of expenditure shown in the above statement are intended for the purposes laid down in the programme of expenditure on the Loan (Annex 3 of the General Bond)
- (2) That all the items of expenditure are vouched for by duly certified receipts
- (3) That all the items of expenditure tally with the books of the Municipality or of their business undertakings and with the receipts
- (4) That the figures in the above statement are correct.

Danzig (July 10th, 1925).
Independent Audit Office.
(Two signatures)

Annex A III. — FORM OF VOUCHER FOR PREVIOUS EXPENDITURE UPON THE RADAUNE WATER-POWER STATION.

[Translation from the German.]

According to the accounts for the construction of the Radaune Power Station, the following sum has been spent up to April 3rd, 1925

. gulden.

The above statement certified correct.

Danzig (date).
The Senate (Section B):
().

We hereby certify

- (1) That a sum corresponding to the above amount has, according to the books of the Danzig Municipality, been spent on the construction of the Radaune Power Station
- (2) That this amount has been spent for the purpose of installing the Radaune Power Station (capital investment)
- (3) That the above amount was provisionally furnished out of the current resources of the Municipality

Danzig, April 1925.
Independent Audit Office.
().

Annex A IV — FORM OF VOUCHER FOR AMORTISATION OF THE MORTGAGE DOLLAR LOAN.

[Translation from the German.]

Date	Voucher No.	Nominal amount in Dollars	Amount in £ sterling at the rate of £1 sterling = \$1.76

The above statement certified correct.

Danzig (date).
The Senate (Finance Department)
().

We hereby certify that, out of the still outstanding part of the Dollar Loan mentioned in the Agreement of February 19th, 1925, Loan Bonds up to the nominal amount of \$ mentioned above have been cancelled.

Danzig (date).
Independent Audit Office.
().

Annex A V — FORM OF VOUCHER FOR LOANS TO THE HARBOUR BOARD.

[Translation from the German.]

On (April 22nd, 1925) the Harbour Board received from the Municipality of Danzig the sum of ., for which it gave the attached receipt.

The above statement certified correct.

Danzig (April 23rd, 1925).
The Senate (Finance Department)
().

Annex A VI. — FORM OF VOUCHER FOR THE PURCHASE OF THE SEVEN PER CENT DANZIG MUNICIPAL LOAN 1925.

[Translation from the German.]

Date	Voucher No.	Nominal amount in £ sterling	Actual amount in £ sterling	Bank charges, etc.	Total amount in Gulden

The above statement certified correct.

Danzig (date).
The Senate (Finance Department)
().

We hereby certify that the London Bankers have given the guarantees laid down in clause 13 of the Agreement of February 19th, 1925, certifying to the cancellation of £ of the 1925 Municipality Loan.

Danzig (date).
Independent Audit Office.
().

ANNEX B.

REPLY FROM THE PRESIDENT OF THE BANK OF DANZIG TO THE TRUSTEE.

[Translation from the German.]

Bank of Danzig, April 17th, 1925.

We have the honour to acknowledge the receipt of your letter of the 17th instant, with Annexes A I. to A VI., and to signify our willingness to act as your representative in your capacity as Trustee for the Danzig Municipal Loan in accordance with that letter and its Annexes.

(Signed) Bank of Danzig.
MEISSNER.