

**NATIONAL
STEEL CAR
CORPORATION
LIMITED**

**EIGHTEENTH
ANNUAL
REPORT**
JUNE THIRTIETH
1938

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HAMILTON - ONTARIO - CANADA

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**NATIONAL
STEEL CAR
CORPORATION
LIMITED**

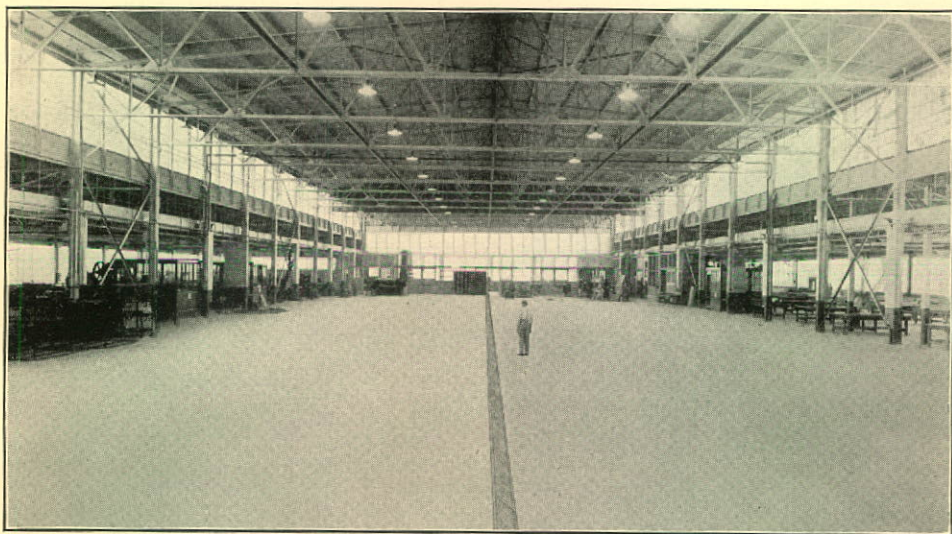
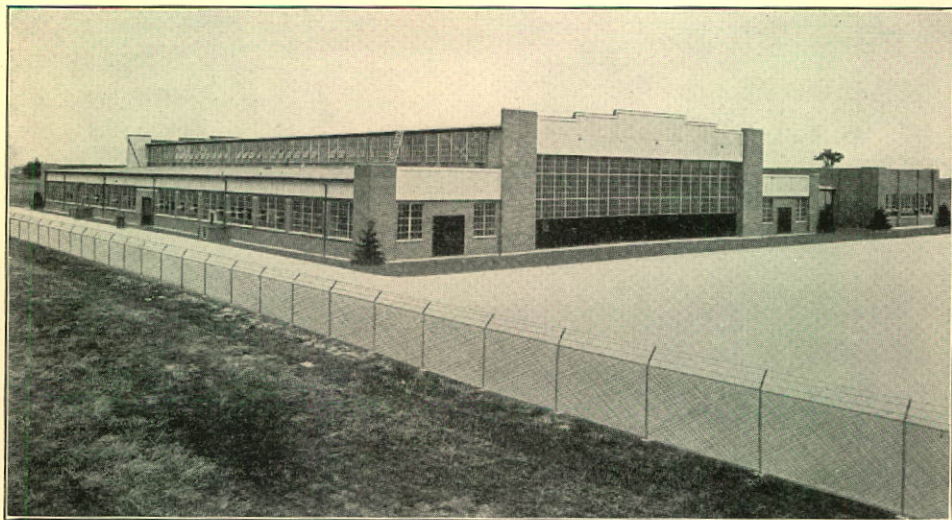
**EIGHTEENTH
ANNUAL
REPORT
JUNE THIRTIETH
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HAMILTON - ONTARIO - CANADA

: : NATIONAL STEEL CAR CORPORATION, LIMITED : :

AIRCRAFT PLANT, MALTON, ONTARIO



BOARD *of* DIRECTORS

ROBERT J. MAGOR, Chairman

HUGH N. BAIRD

GLYN OSLER, K.C.

RUSSELL D. BELL

F. E. MEREDITH, K.C.

D. B. DEWAR

W. E. PHIN

OFFICERS

ROBERT J. MAGOR PRESIDENT

HUGH N. BAIRD VICE-PRESIDENT

ROBERT S. HART VICE-PRESIDENT

CHARLES W. ADAM SECRETARY-TREASURER

ABRAM VAN HASSEL ASSISTANT SECY.-TREAS.

BANKERS

THE CANADIAN BANK OF COMMERCE

BARCLAYS BANK LIMITED

SOLICITORS

BLAKE, LASH, ANGLIN & CASSELS, TORONTO, ONTARIO

GENERAL OFFICES, HAMILTON, ONTARIO

EXECUTIVE AND SALES OFFICE

437 ST. JAMES ST., MONTREAL, QUEBEC

To the Shareholders:

Statement of Capital and Surplus reflecting operations for the fiscal year ending June 30th, 1938, and Balance Sheet at June 30th, 1938, are submitted herewith.

Materials produced under the headings of "Parts" and "Diversified Products" have for the year under review reached much higher figures than ever before and have contributed materially toward lowering cost of building railway equipment, which is your Corporation's principal line of production.

The net profit for the year under review was \$1,205,396.49—this against \$160,983.23 in the preceding year—an increase of \$1,044,413.26. A more accurate view of the results obtained would be afforded by averaging the combined profits of both years over the whole twenty-four months' period because most of the business produced during the year was booked in the previous period.

Working Capital has been built up from \$1,243,251.20 to \$1,779,976.12—an increase of \$536,724.92, after deducting dividends totalling \$260,000.00, \$25,515.09 covering capital expenditures on our Hamilton works and \$495,266.63 expended in buildings and equipment of a modern aircraft plant on the new Toronto-Malton Airport at Malton, Ontario (photographs of same are embodied in this report). This new adjunct to your Corporation's activities is now in operation on the production (under a Canadian Government contract) of some twenty-eight Westland Lysander army co-operation airplanes for The Royal Canadian Air Force.

There has been reserved for depreciation of buildings, plant and machinery \$113,783.82, which is the maximum allowable as a charge against gross profits, under the present ruling of the Income Tax Department. By providing the above amount it brings the total depreciation reserve to \$2,884,567.03 at June 30th, 1938.

Due to the volume of work going through the plant, Current Assets have been built up from \$2,389,608.56 to \$3,615,873.41, showing an increase of \$1,226,264.85.

Due to the same condition Current Liabilities (plus payables in connection with the building of the Malton plant) have been

increased from \$1,146,357.36 to \$1,835,897.29, an advance of \$689,539.93.

With the exception of the above no special reference to the Current Assets and Current Liabilities is necessary. Each item under the former heading represents either cash or the equivalent and under the latter heading reflects current payables directly connected with the operations of the Corporation.

Deferred charges, consisting of prepaid taxes, insurance, etc., are shown at \$13,918.88 as against \$13,516.01, an increase of \$402.87.

Capital and Surplus Account is given in considerable detail. As a result of your Corporation's operations there has been an increase from \$4,620,691.28 to \$5,566,087.77, an improvement of \$945,396.49, which represents the balance of net profit for the year less payment of dividends.

Since its organization in 1919, when your Corporation acquired the Hamilton works of the old National Steel Car Company, it has received in all some \$3,500,000.00 in cash from subscription and issue of its presently outstanding no par value shares. Expenditures for capital extension, replacements and improvements have absorbed this amount. When extensions and improvements were made in 1929 and 1930 your Directors had in mind the possibility of going in for the production of aircraft, as it came directly within the limits of what is known as secondary industry. This is the classification in which your Corporation specializes.

In May, 1936, your Directors felt that with the air defence programme in the offing your Corporation's study of all phases pertaining to this question should be intensified. As a result your Management acquired sufficient information and facts to be able to properly provide for the production of the Canadian Government contract referred to above. Many of the production operations carried on at our aircraft plant at Malton coincide closely with the departmental activities in your Hamilton car works. As examples: fabricating and assembly of wood and light metals, wiring and general electrical installation, mixing and application of paints, riveting and welding, treatment of metals, design and manufacture of dies, jigs, machine tools, etc.

Your Directors and Management feel that not only will aircraft production not interfere in any way with our main production—railroad equipment—but rather, it will be of material assistance in lowering costs. It will also make it possible to retain during depressed periods a larger number of our efficient personnel.

It is gratifying to be able to submit such a report as is attached hereto. The figures are satisfactory and they directly reflect the high degree of efficiency demonstrated by your works organization functioning in a shop which has been and is being fully maintained with adequate buildings, equipment and other facilities. Based on this accomplishment your Directors wish to express appreciation to the whole staff for loyal and efficient service.

Respectfully submitted on behalf of the Directors.

ROBERT J. MAGOR,

Chairman and President.

August 26th, 1938.

Balance Sheet,

ASSETS

CURRENT ASSETS:

Cash on hand and in bank	\$ 805,820.77
Call loan and accrued interest	400,657.50
Investment in bonds, at cost and accrued interest (Market value \$443,533.91)	444,336.41
Accounts receivable	471,557.31
Cash surrender value of life insurance policy	160,000.00
Inventories of raw materials, supplies, work in process and finished stock, valued on the basis of cost or market prices, which ever were lower—as determined and certified by responsible officials of the company	1,333,501.42

TOTAL CURRENT ASSETS \$ 3,615,873.41

DEFERRED CHARGES:

Prepaid taxes, insurance, etc. 13,918.88

PATENTS AND GOODWILL 1.00

FIXED ASSETS:

Land	\$ 380,562.09
Buildings, machinery and equipment	6,026,196.71
Estimated additional expenditures to complete plant under construction at June 30, 1938	250,000.00
	<u>6,656,758.80</u>

NOTE:—The fixed assets are valued on the basis of the book value of the predecessor company from which they were acquired in December, 1919, plus subsequent additions at cost.

\$10,286,552.09

AUDITORS' REPORT

We have made an examination of the balance sheet of National Steel Car accounts for the year ending on that date. In this connection we examined or tested and explanations which we required; we made a general review of the accounting detail transactions was confined to tests thereof. In our opinion, based upon such the fiscal year ending June 30, 1938, and previous years, we report that the above drawn up so as to exhibit a true and correct view of the state of the affairs of the ending on that date, according to the best of our information and the explanations

Approved on behalf of the Board:

R. J. MAGOR, Director.
GLYN OSLER, Director.

June 30, 1938

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 1,104,362.49
Estimated additional expenditures to complete plant under construction at June 30, 1938	250,000.00
Accrued wages, etc.	44,800.96
Reserve for taxes	371,733.84
Dividend payable July 15, 1938	65,000.00

TOTAL CURRENT LIABILITIES ...	<u>\$ 1,835,897.29</u>
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RESERVE:

For depreciation of buildings, machinery and equipment	2,884,567.03
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CAPITAL AND SURPLUS:

Capital Stock—	
Authorized and issued for cash—130,000 shares without nominal or par value	\$ 3,500,000.00
Capital Surplus (no change during the year) ..	934,325.95
Earned Surplus—	
As per statement attached	<u>1,131,761.82</u>

TOTAL CAPITAL AND SURPLUS, represented by 130,000 shares with- out nominal or par value	<u>5,566,087.77</u>
	<u><u>\$10,286,552.09</u></u>

TO SHAREHOLDERS

Corporation Limited as at June 30, 1938, and of the statement of capital and surplus accounting records and other supporting evidence and obtained all the information methods and of the operating and income accounts for the year, but our audit of the examination and subject to the adequacy of the provision for depreciation made in balance sheet and related statement of capital and surplus accounts are properly company as at June 30, 1938, and the results of the company's operations for the year given to us and as shown by the books of the company.

PRICE, WATERHOUSE & Co.,
Chartered Accountants.
Toronto, August 9, 1938.

CAPITAL AND SURPLUS ACCOUNTS

For the year ending June 30, 1938

PARTICULARS	AMOUNT
Operating profit for the year ending June 30, 1938, before providing for depreciation and income taxes, etc., as under	\$ 1,681,498.19
DEDUCT—	
Executive officers' salaries	\$76,400.00
Directors' fees and expenses	3,733.05
Legal fees	2,775.39
Interest charges	10,489.07
	93,397.51
	<hr/>
	\$ 1,588,100.68
ADD—	
Income from investments	\$ 8,338.80
Profit on sale of investments	2,000.00
Interest on notes receivable	571.38
	10,910.18
	<hr/>
PROFIT FOR THE YEAR, BEFORE PROVIDING FOR DEPRECIATION AND INCOME TAXES	\$ 1,599,010.86
DEDUCT—	
Provision for depreciation of buildings, plant and machinery	\$113,783.82
Provision for amortization of special equipment	54,102.74
	167,886.56
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PROFIT FOR THE YEAR, BEFORE INCOME TAXES	\$ 1,431,124.30
DEDUCT—	
Provision for Dominion income tax for year ending June 30, 1938	\$225,000.00
Balance of Dominion income tax for previous year	727.81
	225,727.81
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NET PROFIT FOR YEAR	\$ 1,205,396.49
Balance at credit of Earned Surplus July 1, 1937	186,365.33
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	\$ 1,391,761.82
DEDUCT—Dividends	260,000.00
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BALANCE AT CREDIT OF EARNED SURPLUS, JUNE 30, 1938	\$ 1,131,761.82
Capital surplus (no change during the year)	934,325.95
CAPITAL STOCK—	
130,000 shares without nominal or par value	3,500,000.00
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TOTAL CAPITAL AND SURPLUS, JUNE 30, 1938	\$ 5,566,087.77

NOTE:—In addition to the legal fees shown above, an amount of \$2,950.00 was charged to Fixed Assets account during the year.

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