

# United Fuel Investments

Limited

and

## Subsidiary Companies



## Twelfth Annual Report

March 31st, 1940

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TWELFTH ANNUAL REPORT  
OF THE DIRECTORS OF  
UNITED FUEL INVESTMENTS LIMITED  
FOR THE YEAR ENDED MARCH 31st, 1940

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Hamilton, Ontario,  
May 22nd, 1940.

TO THE SHAREHOLDERS:

Your Directors present herewith the Twelfth Annual Report of your Company covering the operations for the fiscal year ended 31st March, 1940. Incorporated in the report is the Consolidated Balance Sheet of the Company and its subsidiaries as at 31st March, 1940, with the related Profit and Loss and Surplus Accounts showing the comparative figures for the corresponding period last year, and the Auditors' Report to the Shareholders. The Profit and Loss Account for the year ended 31st March, 1940, reflects the operating results of your Company including the properties acquired as at 31st March, 1939, from The Dominion Natural Gas Company Limited and The Manufacturers Natural Gas Company Limited, as referred to in the Directors' Report last year.

Consolidated net profits for the year, after interest charges and depreciation but before deducting Dominion and Provincial income taxes amounted to \$608,549.22 as compared with \$403,299.64 for the preceding fiscal year. After providing for income taxes the consolidated net profit for the year was \$473,299.99 compared with \$328,139.35 for the previous year.

Provision for income taxes charged against the year's profits amounted to \$135,249.23 as compared with \$75,160.29, the increase being due in part to the increased profits and also to a substantial increase in the Provincial income tax rate. Direct taxes of all companies (Municipal, Provincial and Dominion) paid or provided for out of the year's profits amounted to \$221,351.35 as compared with \$148,411.71 last year.

OPERATIONS

The increase in consolidated profits was entirely attributable to the Coke Company operations, as there was a slight reduction in the profits of the gas distributing companies. Due to the colder weather prevailing during the heating months of the fiscal year and to increased industrial activity during the past winter, there was a substantial increase in volume of coke sales and the carry-over of unsold coke was reduced from approximately 26,000 tons at 31st March, 1939, to approximately 700 tons at 31st March, 1940. There was also a small increase in the average selling price of coke sold during the year.

The total volume of manufactured gas sales increased substantially due mainly to increased sales to industrial consumers, and there were moderate increases in the volume of domestic and commercial sales, which resulted in a net increase of approximately 7% in gross revenue from the sale of manufactured gas. The total volume

## UNITED FUEL INVESTMENTS LIMITED

and value of natural gas sales were of course greatly increased as compared with last year, as this year's revenue reflects the sales of natural gas to approximately 11,600 customers formerly served by The Dominion Natural Gas Company Limited and The Manufacturers Natural Gas Company Limited in and adjacent to the City of Hamilton.

While the total selling and general expenses of the Coke Company showed a substantial reduction during the year, the distribution, general and administrative and selling expenses of the Gas Companies were necessarily higher due to the additional costs relative to the operation of the distribution systems acquired by your company from The Dominion Natural Gas Company Limited and The Manufacturers Natural Gas Company Limited. It is realized that during the early period of the operations of these additional properties expenses will be higher than normal due to duplication which will be gradually eliminated and due to expenses of consolidating the acquired plant with the distribution system of the United Company.

Total interest charges on bonds increased \$52,783.45 due to the additional interest requirements of \$50,000 per annum on the \$1,000,000 par value of United Gas and Fuel Company of Hamilton Limited Second Mortgage 5% Bonds issued in part payment for the properties acquired on 31st March, 1939, as previously referred to, and to increased United States premium on the interest paid on the United Gas Company First Mortgage Bonds.

### CONSOLIDATED FINANCIAL POSITION

At 31st March, 1940, the net working capital of your Company amounted to \$1,511,094, as compared with \$1,290,477 at 31st March, 1939, an improvement of \$220,617. The following statement shows in summarized form the cash income from profits during the past year and what disposition has been made of these funds.

Net profit after provision for Dominion and Provincial income taxes . . . . .		\$473,300
<i>Add:</i> Charges against earnings which do not represent cash disbursements:		
Depreciation . . . . .	\$241,131	
Amortization of bond discount . . . . .	22,473	263,604
		\$736,904
<b>DISPOSITION OF FUNDS:</b>		
Cost of additions to fixed assets (net) . . . . .	\$ 87,690	
Cost of \$117,000 of Companies' bonds purchased for sinking funds	124,852	
Dividends on capital stock paid or provided for . . . . .	270,000	
Investment in first mortgage . . . . .	10,000	
Increase in stores and spare equipment . . . . .	9,684	
Net increase in deferred charges and prepaid expenses . . . . .	14,061	516,287
Net increase in working capital . . . . .		\$220,617

Your Company subscribed for \$200,000 par value of Dominion of Canada 3¼% First War Loan bonds issued during the year, but only \$80,000 par value was allotted and the total investment in these bonds was later increased to \$100,000 by purchases in the open market.

## UNITED FUEL INVESTMENTS LIMITED

The net increase in fixed assets after deducting plant replaced and written off, amounted to \$64,586.99 and the increase in the reserve for depreciation and renewals amounted to \$218,028.03.

Funded debt has been reduced \$117,000 by retirements through sinking funds and bonds purchased in anticipation of sinking fund requirements as follows:

COKE COMPANY		
First Mortgage Bonds . . . . .	\$11,500	
General Mortgage Bonds . . . . .	24,000	
UNITED GAS		
First Mortgage Bonds . . . . .	81,500	
	\$117,000	

Dividends of \$270,000 were paid during the year, being four quarterly dividends of 75 cents each per share, or a total of \$3.00 per share, on the 6% cumulative preferred Class "A" shares.

### GENERAL

The largest expenditure which your Company is required to make is for the purchase of coal for which payment must be made in United States funds. For the year ended 31st March, 1940, your Company was fortunate in having the large majority of its coal requirements contracted for and to have anticipated its requirements for United States funds with which to pay for this coal by the purchase of futures at an average cost of 21¼% compared with the rate of 11% later established by the Foreign Exchange Control Board which is the currently quoted rate, with the result that the cost per ton of coal entering into production during the past year showed no material change from that of the previous year.

Due to the present unsettled foreign exchange conditions which are adverse to Canada, your Company is now required to pay a substantial additional amount to cover the premium on United States funds required for coal purchases. In addition, as the result of legislation enacted in the United States with a view to controlling bituminous coal prices there will be a considerable increase in the cost at the mine of coal purchased during the fiscal year. Both of these factors will tend to increase the cost of coal entering into production during the current fiscal year with a detrimental effect on the earnings of the Coke Company. Current selling prices for coke are higher than in the corresponding period of last year and if this trend continues will partially offset these increased costs.

The Management is studying means by which the supply of manufactured gas can be augmented to meet the increased demands for gas for industrial use as a result of the increased industrial activity.

Your Directors again wish to express their appreciation of the loyal and efficient services of the Employees of the Company during the past year.

On behalf of the Board of Directors,

S. A. MORSE,  
*President.*

**UNITED FUEL INVESTMENTS LIMITED**  
AND ITS SUBSIDIARIES

HAMILTON BY-PRODUCT COKE OVENS LIMITED, UNITED GAS AND FUEL COMPANY  
OF HAMILTON LIMITED (and its subsidiary The Wentworth Gas Company  
Limited) and THE UNITED SUBURBAN GAS COMPANY LIMITED

*Consolidated Statement of Profit and Loss*  
*for the Year ended 31st March 1940*

	31st March 1940	31st March 1939
Profit from operations before charging depreciation or bond interest . . . . .	\$1,196,741.33	\$ 923,055.08
<i>Deduct:</i>		
Interest on bonds including premium on U.S. exchange . . . . .	\$ 324,134.85	\$ 271,351.40
Bond and loan expenses and discount absorbed . . . . .	22,926.14	347,060.99
	\$ 849,680.34	24,178.18
		295,529.58
		\$ 627,525.50
Provision for depreciation on basis recommended by companies' consulting engineer . . . . .	241,131.12	224,225.86
Profit for year before providing for income taxes . . . . .	\$ 608,549.22	\$ 403,299.64
Provision for Dominion and Provincial taxes on income . . . . .	135,249.23	75,160.29
Net profit for year . . . . .	\$ 473,299.99	\$ 328,139.35

*Note.*—The expenses of the companies for the year ended 31st March, 1940, include:  
Remuneration of directors (not including executive officers). . . . . \$ 1,800.00  
Payments to counsel, solicitors and legal advisers . . . . . 5,038.09  
Remuneration of executive officers . . . . . 22,450.00

*Consolidated Earned Surplus Account*

Balance at beginning of year . . . . .	\$ 711,100.40	\$1,137,480.42
Net profit for year as above . . . . .	473,299.99	328,139.35
Inventory overage . . . . .		5,325.93
	\$1,184,400.39	\$1,470,945.70
Dividends on 6% preferred shares . . . . .	\$ 270,000.00	\$ 180,000.00
Provision for reorganization expenses (including legal expenses) . . . . .	270,000.00	62,345.30
	\$ 914,400.39	242,345.30
Payment to Union Gas Company of Canada Limited and dividends paid on reorganization as at 1st April, 1939 . . . . .		517,500.00
Balance at end of year . . . . .	\$ 914,400.39	\$ 711,100.40

UNITED FUEL INV  
AND ITS  
HAMILTON BY-PRODUCT COKE OVENS LIMITED,  
LIMITED (and its subsidiary The Wentworth Gas Company Limited)  
*Consolidated*  
31st

ASSETS	<u>31st March 1940</u>	<u>31st March 1939 after giving effect to reorganization</u>
<b>PROPERTY:</b>		
Comprising gas and coke manufacturing plant, transmission lines, distribution systems, real estate, buildings, automobiles, fixtures, franchises, rights, organization expenses, interest during construction, etc. . . . .	\$10,993,706.51	\$10,929,119.52
<i>Deduct</i> reserve for depreciation and renewals . . . . .	3,502,239.44	3,284,211.41
	\$ 7,491,467.07	\$ 7,644,908.11
<i>The above assets are shown at their book value.</i>		
<b>PREMIUMS:</b>		
Paid on acquisition of subsidiary companies, etc. . . . .	4,079,954.68	4,079,954.68
	\$11,571,421.75	\$11,724,862.79
<b>CURRENT AND WORKING ASSETS:</b>		
Cash on hand and in banks . . . . .	\$ 629,010.67	\$ 714,425.52
Investment in Dominion of Canada 3¼% bonds due 1952 at cost and accrued interest (market value \$100,535.72) . . . . .	100,535.72	
Accounts receivable less reserve . . . . .	622,115.36	503,028.09
Inventories as determined and certified by the management from book records—coke and by-products valued at estimated cost and other inventories including coal at the lower of cost or market . . . . .	767,413.37	875,521.38
	\$ 2,119,075.12	\$ 2,092,974.99
<b>DEFERRED AND OTHER ASSETS:</b>		
Bond discount . . . . .	\$ 255,387.27	\$ 277,860.91
Deferred charges and prepaid expenses . . . . .	118,134.84	96,221.31
Stores and spare equipment . . . . .	72,362.93	62,678.45
Mortgage receivable . . . . .	10,000.00	
	\$ 455,885.04	\$ 436,760.67
	\$14,146,381.91	\$14,254,598.45

AUDITORS' REPORT TO

We have made an examination of the consolidated balance sheet of United Fuel Investments Limited and its subsidiaries, Hamilton Limited) and The United Suburban Gas Company Limited, as at 31st March, 1940, and of the statements of consolidated profit and loss and a general review of the accounting methods and of the operating and income accounts for the year. The companies' internal audit staff checked depreciation provided is on a basis which has been approved by the consulting engineer of the companies. We report that in our opinion drawn up in accordance with accepted principles of accounting so as to exhibit a true and correct view of the state of the companies' affairs given us and as shown by the books of the companies. We have obtained all the information and explanations we required.

HAMILTON, CANADA, 18th May, 1940.

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## SUBSIDIARIES

UNITED GAS AND FUEL COMPANY OF HAMILTON  
AND THE UNITED SUBURBAN GAS COMPANY LIMITED

### Balance Sheet

March 1940

LIABILITIES	31st March 1940	31st March 1939 after giving effect to reorganization
<b>CAPITAL:</b>		
Authorized and issued:		
90,000 6% cumulative preferred Class "A" shares of \$50 each redeemable at the option of the company or by purchase for cancellation in the open market at a price not exceeding \$60 . . . . .	\$ 4,500,000.00	\$ 4,500,000.00
90,000 Non-cumulative preferred Class "B" shares of \$25 each purchasable by the company for cancellation in the open market at a price not exceeding \$30 . . . . .	2,250,000.00	2,250,000.00
90,000 Common shares of no par value . . . . .	50,000.00	50,000.00
Consolidated earned surplus . . . . .	914,400.39	711,100.40
	<u>\$ 7,714,400.39</u>	<u>\$ 7,511,100.40</u>
<b>FUNDED DEBT:</b>		
General mortgage 6½% bonds due 1st July, 1956 . . . . .	\$ 450,000.00	\$ 450,000.00
Hamilton By-Product Coke Ovens Limited:		
First mortgage 5% bonds due 1st November, 1955 (Series A)	2,316,000.00	2,327,500.00
General mortgage 6% bonds due 1st April, 1956 . . . . .	651,500.00	675,500.00
United Gas and Fuel Company of Hamilton Limited:		
First mortgage 5½% bonds due 1st July, 1948 . . . . .	1,406,500.00	1,488,000.00
Second mortgage 5% bonds due 1st April 1959 (guaranteed by Hamilton By-Product Coke Ovens Limited)	1,000,000.00	1,000,000.00
	<u>\$ 5,824,000.00</u>	<u>\$ 5,941,000.00</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable and sundry accrued charges . . . . .	\$ 126,266.91	\$ 72,461.68
Customs duty, municipal and sales taxes payable . . . . .	115,103.06	117,761.59
The Dominion Natural Gas Company Limited . . . . .		42,866.30
Meter deposits . . . . .	29,829.91	28,684.59
Accrued interest on bonds . . . . .	121,378.63	95,798.89
Reserve for taxes on income . . . . .	138,965.00	82,425.00
Reserve for expenses of reorganization and contingencies . . . . .	8,938.01	25,000.00
Dividends payable . . . . .	67,500.00	337,500.00
	<u>\$ 607,981.52</u>	<u>\$ 802,498.05</u>
	<u>\$14,146,381.91</u>	<u>\$14,254,598.45</u>

Approved on behalf of the Board.

S. A. MORSE, *Director.*

S. B. SEVERSON, *Director.*

### THE SHAREHOLDERS

By-Product Coke Ovens Limited, United Gas and Fuel Company of Hamilton Limited (and its subsidiary, The Wentworth Gas Company surplus for the year ending on that date. In connection therewith we made a substantial test audit of the detailed transactions and made the transactions which were not audited in detail by us. based upon our examination the attached consolidated balance sheet and the statements of consolidated profit and loss and surplus have been at 31st March, 1940, and of the consolidated results of their operations for the year according to the best of our information and the explanations

CLARKSON, GORDON, DILWORTH AND NASH, *Chartered Accountants*

# UNITED FUEL INVESTMENTS LIMITED



## *Officers*

S. A. MORSE . . . . .	<i>President</i>
S. B. SEVERSON . . . . .	<i>Vice-President</i>
T. P. PINCKARD . . . . .	<i>General Manager of Subsidiaries</i>
T. WEIR, C.A. . . . .	<i>Comptroller, Secretary and Treasurer</i>
F. PALIN, C.A. . . . .	<i>Acting Comptroller, Secretary and Treasurer</i>

## *Directors*

H. D. HANCOCK	J. A. RICHIE
S. A. MORSE	D. P. ROGERS
R. L. O'BRIAN	S. B. SEVERSON

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## SUBSIDIARY COMPANIES

### HAMILTON BY-PRODUCT COKE OVENS LIMITED—

Manufacturing gas, coke and by-products in Hamilton, Ontario.

### THE UNITED SUBURBAN GAS COMPANY LIMITED—

Distributing manufactured gas in Oakville, Bronte, Port Nelson and Burlington Beach, Ontario.

### UNITED GAS AND FUEL COMPANY OF HAMILTON LIMITED—

Distributing manufactured and natural gas in Hamilton, Ontario, and its wholly-owned subsidiary:

### THE WENTWORTH GAS COMPANY LIMITED—

Distributing natural gas in Dundas, Waterdown, Burlington and other territory adjacent to Hamilton, Ontario.