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Newfoundland Telephone Co. Ltd.

# The Avalon Telephone Company, Limited

47th  
Annual  
Report

PURVIS HALL  
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MAR 29 1967  
ST. JOHN'S DISTRICT

*Directors*

L. H. M. AYRE, Chairman of the Board .....	St. John's, Nfld.
G. OSBERG President and Managing Director .....	St. John's, Nfld.
H. COLLINGWOOD .....	St. John's, Nfld.
J. V. LEWORTHY .....	Montreal, Que.
A. LUNDRIGAN .....	Corner Brook, Nfld.
A. MARTIN .....	Corner Brook, Nfld.
F. D. MOORES .....	Hr. Grace, Nfld.
HON. F. A. O'DEA, Q.C. ....	St. John's, Nfld.
G. C. WALLACE .....	Montreal, Que.
L. D. WICKWIRE .....	Grand Falls, Nfld.

*Officers*

L. H. M. AYRE .....	<i>Chairman of the Board</i>
G. OSBERG .....	<i>President and Managing Director</i>
D. E. HOWLEY, C.A. ....	<i>Secretary-Treasurer</i>

*Registrar,  
and Transfer Agent*

**Montreal Trust Co.**  
At the following offices—  
Montreal, P.Q.,  
St. John's, Nfld.  
Halifax, N.S.

THE 47th ANNUAL REPORT OF THE DIRECTORS  
TO THE SHAREHOLDERS OF  
THE AVALON TELEPHONE COMPANY, LIMITED

Your Board sees the year 1966 as one of the most noteworthy in the history of the Company. It was one of accomplishment but attended by some temporary set-backs to which reference will be made in this report.

A Revised Rate Schedule, the first general increase since 1952, was approved by the Board of Commissioners for Public Utilities and became effective on October 15, 1966. Earnings had continued at a totally unsatisfactory level up to that time but results in the last quarter of the year indicate that a sound financial position is attainable.

The revised rates approved by the Board are designed to permit the Company to earn a prescribed rate of return on a rate base the determination of which was arrived at following a physical inventory and evaluation of the Company's telephone properties, in accordance with the provisions of the Public Utilities Act.

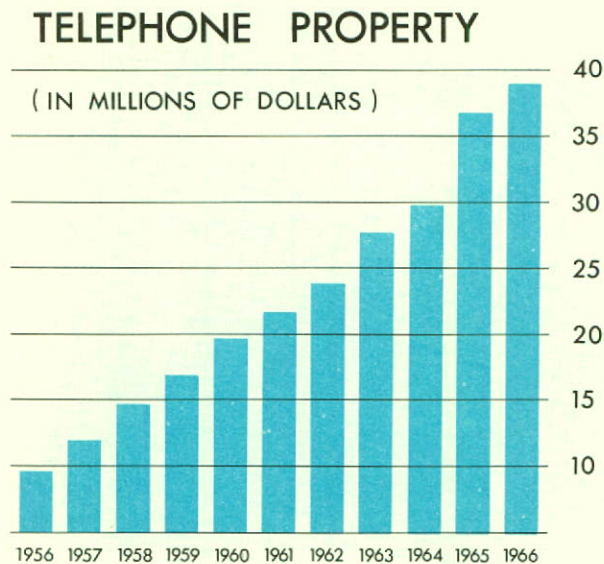
In calculating the Company's income for this purpose, the Board reversed its previous decisions with respect to benefits obtained from claiming currently for income tax purposes, more depreciation than the amount of straight-line depreciation it is required to record in its books of account. The Board has also ordered that the amount accumulated as deferred credits through past accruals in accordance with accepted accounting practice, be transferred to the accumulated depreciation account.

These orders are in conflict with a number of decisions of other regulatory bodies and the Company is applying for a re-hearing on these vital issues.

Revenues for the year increased by \$1,591,295 while expenses increased by \$1,407,466. Comparison of these figures with the 1965 results must take into account several significant factors. Depreciation has been charged at the increased rate of 4.65% (previously 3.3%) since July 1, 1966. This revised rate has been arrived at as a result of engineering study carried out in connection with the determination of the rate base, and has been approved by the Board of Commissioners of Public Utilities. It is subject to periodic review by the Company and the Board. A major change in the arrangements for leased circuits was effective January 1, 1966; affecting both Revenues and Operating Expenses, and 1966 Revenues include the effect of the revised rates from October 15.

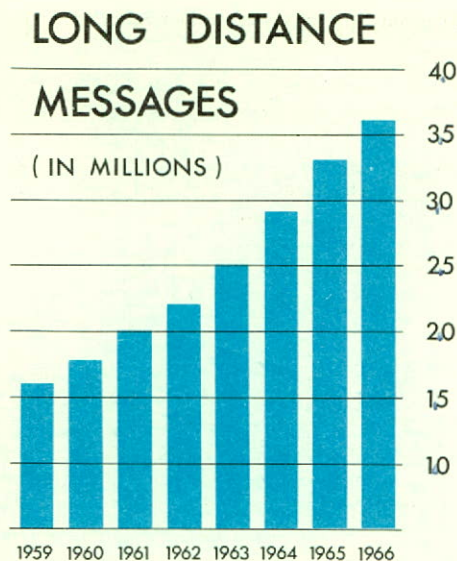
Throughout the year financing was arranged through temporary bank loans to permit continued improvement and development of our service. Following the rate award permanent financing became possible to the extent of \$3,000,000 through the issuance on December 29 of 25 year first mortgage bonds sold at par, at an interest rate of 7%. In December regulatory approval was sought and later obtained to issue Ordinary shares through an offer to shareholders. The proceeds, approximately \$3,300,000, scheduled for receipt in February 1967, will be used to further reduce the bank loan, which, because of our investment in new plant and the maturing of two bond issues, had reached a record high.

The Company's 1966 construction program, although extensive, was delayed because of a six week strike involving Craft and Long Distance employees. Telephone service was maintained by supervisory staff but some construction jobs had to be deferred. Total investment in telephone property increased to \$39,013,618 or \$563 per telephone at the year end.



Highlighting the program was the placing in service on June 5th of the 20,000 line capacity, #5 Cross-bar Exchange and Long Distance Centre at St. John's, the largest initial installation of its kind ever completed in Canada. This undertaking also involved a major rebuild of outside plant in the city, increased Long Distance circuits from 274 to 571 and Long Distance switchboards from 27 to 40. Touch tone calling was introduced in St. John's coincident with the cut-over. Other jobs included the opening of a new exchange at Long Harbour, cable relief for areas served by the St. John's Anderson Exchange and work was well underway at Corner Brook and Grand Falls to extend outside plant for new sub-divisions. A new radio system was completed to provide more circuits and improved transmission between Grand Falls and Botwood. Additional switchboards were installed as follows—Bay Roberts 11, Grand Falls 4, Grand Bank 2 and Burin 1, and switching equipment was added at Bay Roberts, Long Pond, Carbonear, Bishop's Falls, Deer Lake and Mount Pearl.

At year end there were 69,285 telephones in service—a gain of 2,387 for the year despite the loss of 1,219 telephones; 405 at Bell Island and 814 at Stephenville. There were 4,122 less multi-party in service at December 31, 1966, which indicates the extent of upgrading made possible by the new and rearranged plant. The volume of Long Distance messages was running 11.9% over 1965 up to August but was reduced to a gain of 4.3% for the year on a whole. The slower growth is considered temporary and a direct result of the strike and increased rates on short haul messages.



Organizational changes during the year included the formation of a personnel group and appointment of staff personnel in each department. Management training was established on a local level. Craft training continued and encompassed such subjects as Basic principals of Electricity, Cross-bar and Microwave maintenance, Safe driving, Merchandising of Auxiliary Services, etc. Thirteen supervisors on contract from Bell of Canada were replaced by promotion of Avalon personnel. Marketing activities were stepped up, resulting in sales of updated PBX equipment for many of our larger subscribers.

On October 19, 1966 the Board accepted with regret the resignation of Mr. A. J. Groleau. His experience and sound judgment contributed much to our progress during several trying years.

Your Board affirms that there is no reason for complacency because of the improved earnings situation. Controls are established and results closely scrutinized to assure that consistently good service is coupled with prudent expense.

On behalf of the Board of Directors,  
G. OSBERG,  
President and Managing Director.

St. John's, March 6th., 1967.

# THE AVALON TELEPHO

*(Incorporated under the*

BALANCE

ASSETS	December 31 1966	December 31 1965
TELEPHONE PROPERTY .....	\$39,013,617	\$37,370,145
Land, Buildings, Plant and Equipment valued, as at December 31, 1963 by The Bell Telephone Company of Canada after a complete physical inventory, substantially on the basis of actual cost but where necessary on developed unit costs for each year of placing, with subsequent additions at cost		
Less: Accumulated depreciation (Note 3) .....	1,844,587	2,626,521
	37,169,030	34,743,624
 SPECIAL REFUNDABLE TAX .....	 30,840	
 CURRENT ASSETS		
Cash .....	22,536	
Special Deposit for redemption of long term debt due January 1, 1966 .....		405,000
Marketable Securities, at cost (market value \$23,000) .....	23,500	23,500
Accounts Receivable .....	1,632,164	1,374,004
Materials and Supplies, at cost .....	1,397,877	422,757
Prepayments .....	114,168	102,601
	3,190,245	2,327,862
 DEFERRED CHARGES		
Unamortized Discount and Expense on Long Term Debt .....	226,606	210,456
Other .....	961,570	513,738
	1,188,176	724,194
TOTAL ASSETS .....	\$41,578,291	\$37,795,680

The notes to financial statement are

Signed on behalf of the Board of Directors:

L. H. M. AYRE, Director

H. COLLINGWOOD, Director.

# NE COMPANY, LIMITED

(Incorporated under the laws of Newfoundland)

SHEET

## LIABILITIES

	December 31 1966	December 31 1965
<b>SHAREHOLDERS' EQUITY</b>		
Ordinary Shares (Note 1) .....	\$12,709,760	\$12,709,760
Premium on Ordinary Shares .....	140,911	140,910
Retained Earnings .....	404,950	275,739
	<u>13,255,621</u>	<u>13,126,409</u>
LONG TERM DEBT (Note 2) .....	12,413,089	9,566,177
	<u>12,413,089</u>	<u>9,566,177</u>
<b>CURRENT LIABILITIES</b>		
Bank Overdraft .....		365,574
Bank Loan .....	10,810,000	8,500,000
Accounts Payable .....	3,001,033	2,667,844
Due to Parent Company .....	82,942	109,707
Interest Accrued .....	143,397	156,490
Taxes Accrued .....	89,104	73,366
Long Term Debt due within one year .....	91,589	1,588,088
	<u>14,218,065</u>	<u>13,461,069</u>
<b>DEFERRED CREDITS</b>		
Income Tax (Note 4) .....	1,691,516	1,642,025
	<u>1,691,516</u>	<u>1,642,025</u>
<b>TOTAL LIABILITIES</b> .....	<u><u>\$41,578,291</u></u>	<u><u>\$37,795,680</u></u>

an integral part of this statement.

# THE AVALON TELEPHONE COMPANY, LIMITED

## INCOME STATEMENT

for the year ended December 31, 1966

	<u>1966</u>	<u>1965</u>
<b>OPERATING REVENUES</b>		
Local Service .....	\$3,590,880	\$2,980,500
Long Distance Service .....	3,998,047	2,823,690
Miscellaneous .....	182,811	169,409
Less: Provision for Uncollectibles .....	267,082	60,238
	7,504,656	5,913,361
 <b>OPERATING EXPENSES</b>		
Maintenance .....	1,397,704	1,652,098
Depreciation (Note 3) .....	1,410,175	946,157
Traffic .....	829,252	636,973
Commercial .....	475,643	361,627
Other .....	1,778,669	942,220
	5,891,443	4,539,075
 <b>NET OPERATING REVENUES</b> .....	1,613,213	1,374,286
 <b>OPERATING TAXES</b>		
Income Taxes (Note 4) .....	50,644	134,888
Other Taxes .....	152,736	97,637
	203,380	232,525
 <b>OPERATING INCOME</b> .....	1,409,833	1,141,761
 <b>OTHER INCOME</b> .....	62,280	130,400
 <b>TOTAL INCOME BEFORE INTEREST CHARGES</b> ....	1,472,113	1,272,161
 <b>INTEREST CHARGES</b>		
Interest on Long Term Debt .....	559,084	596,645
Other Interest .....	801,161	410,182
Amortization of Discount and Expense on Long Term Debt .....	15,003	14,937
	1,375,248	1,021,764
 <b>NET INCOME FOR THE YEAR</b> .....	\$ 96,865	\$ 250,397

The notes to financial statements are an integral part of this statement.



# THE AVALON TELEPHONE COMPANY, LIMITED

## STATEMENT OF RETAINED EARNINGS for the year ended December 31, 1966

	<u>1966</u>	<u>1965</u>
BALANCE AT BEGINNING OF YEAR .....	\$275,739	\$ 6,428
Add: Net income for the year .....	96,865	250,397
Adjustments, net after tax, of prior years' revenue settlements .....		32,301
Adjustment to 1963 valuation of assets .....	31,293	
Miscellaneous additions — net .....	1,053	4,028
	404,950	293,154
Deduct: Capital reorganization and refinancing charges .....		17,415
BALANCE AT END OF YEAR .....	\$404,950	\$275,739

The notes to financial statements are an integral part of this statement.

## AUDITORS' REPORT

The Shareholders,  
The Avalon Telephone Company, Limited,  
St. John's, Newfoundland.

We have examined the accompanying balance sheet of The Avalon Telephone Company, Limited as at December 31, 1966 and the statements of income and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the inadequacy of the amount of accumulated depreciation and the change in depreciation rates referred to in note 3, the aforementioned financial statements present fairly the financial position of the company as at December 31, 1966 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, ROSS, BAILEY & SMART,  
Chartered Accountants,

Montreal, Que.  
February 28, 1967.

# THE AVALON TELEPHONE COMPANY, LIMITED

## NOTES TO FINANCIAL STATEMENTS

as at December 31, 1966

### Note 1

#### Capital Stock

Ordinary shares — par value \$5 per share

Authorized .....	4,000,000 shares	
Outstanding at December 31, 1966 .....	2,541,952 shares	\$12,709,760

Preference shares — par value \$25 per share

Authorized .....	500,000 shares	
Issued .....	230,000 shares	
Redeemed or converted to December 31, 1966 .....	230,000 shares	
Outstanding at December 31, 1966 .....	—	

### Note 2

#### Long Term Debt

First mortgage twenty year sinking fund bonds

Series	Maturity	Issued	Redeemed or held for Redemption	Outstanding
4%	August 1, 1969	\$ 900,000	\$148,000	\$ 752,000
5½%	May 1, 1973	500,000	65,500	434,500
5½%	May 15, 1977	1,500,000	135,000	1,365,000
5½%	June 1, 1978	1,000,000	70,000	930,000
6%	June 1, 1979	1,000,000	60,000	940,000
7%	May 1, 1980	2,000,000	100,000	1,900,000
				6,321,500
First mortgage bonds				
5½%	June 1, 1988	3,000,000		3,000,000
7%	December 15, 1991	3,000,000		3,000,000
Notes payable				
5¾%	March 1, 1967 to 1968			183,178
				12,504,678
Less long term debt due within one year				91,589
Long Term Debt				\$12,413,089

### Note 3

#### DEPRECIATION

The provision for depreciation for the six months ended June 30, 1966 has been calculated at a rate of 3.3%, being the rate approved January 14, 1952 by the Board of Commissioners of Public Utilities of the Province of Newfoundland. Commencing July 1, 1966 the provision for depreciation has been calculated at rates for each class of plant determined by the Company's engineers and approved by the Board in their order dated October 4, 1966, resulting in a composite rate of approximately 4.8%. Had the rates approved by the Board on October 4, 1966 been applied throughout the year the provision for depreciation would have been greater by \$290,000. The accumulated deficiency at December 31, 1966 is estimated to be \$3,390,000. In their order dated October 4, 1966 the Board of Commissioners provided direction as to the method of eliminating this deficiency over a period of years commencing in 1967.

### Note 4

#### INCOME TAX

As a result of the company's intention to claim for income tax purposes capital cost allowances in excess of the depreciation recorded in the accounts, income taxes of \$49,491 charged to income in the year are not currently payable and have been transferred to deferred credits — income tax.

The order of the Board of Commissioners of Public Utilities of the Province of Newfoundland dated October 4, 1966 allows only the minimum income taxes payable as expense for the purpose of establishing rates. The Company intends to request the Board for a review of this ruling.

### Note 5

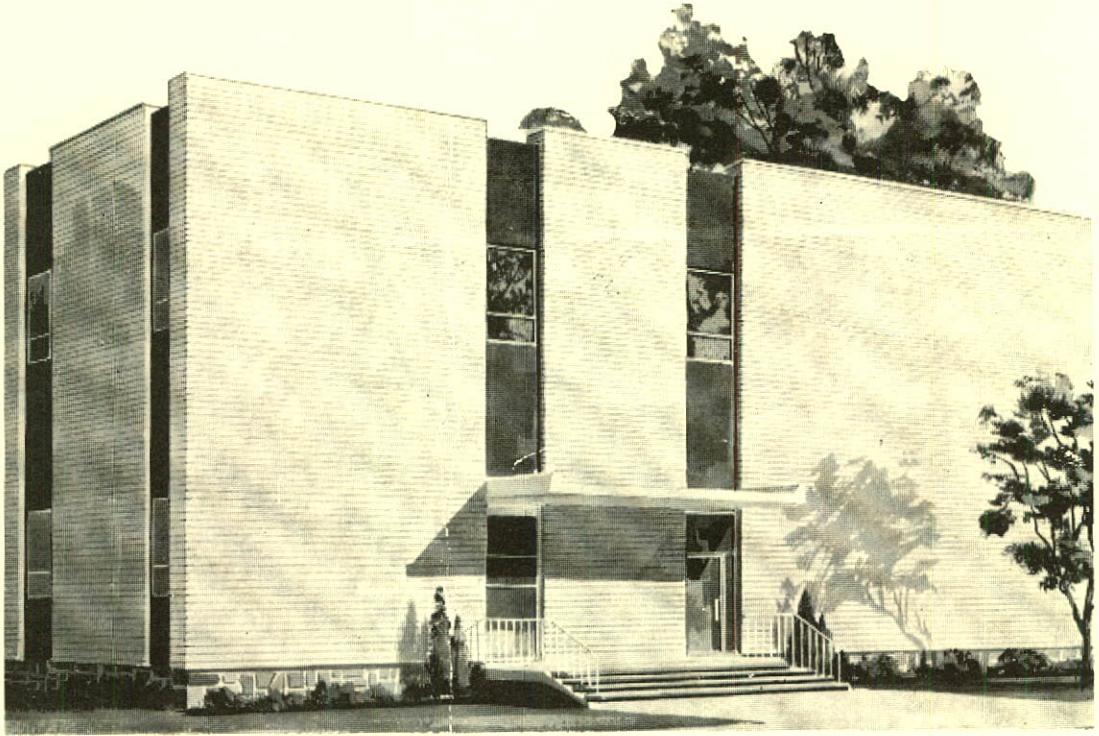
Subsequent to December 31, 1966 the company has issued 634,461 ordinary shares of its capital stock at a price of \$5.25 per share pursuant to an offer of "rights" approved by the Board of Commissioners of Public Utilities of the Province of Newfoundland on January 4, 1967.

## THE AVALON TELEPHONE

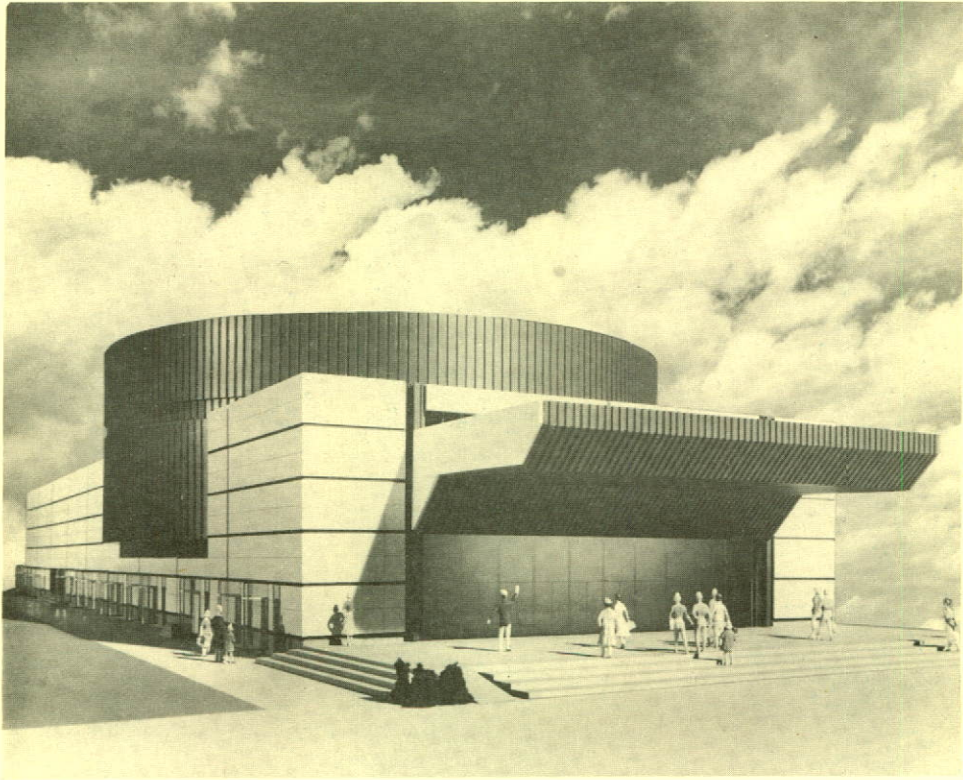
	1966	1965	1964	1963
No. of Telephones .....	69,285	66,898	64,023	60,364
Business .....	21,288	20,708	19,009	17,647
Residence .....	47,997	46,190	45,014	42,717
Per Cent Dial .....	91.9	92.3	92.6	93.9
Telephones added .....	2,387	2,875	3,659	3,890
No. of Exchanges .....	49	48	47	42
Dial .....	24	24	23	21
Magneto .....	9	9	12	14
Common Battery .....	16	15	12	7
Total Plant and Equipment .....	\$39,013,617	\$37,370,145	\$30,093,012	\$27,894,344
Per telephone .....	\$ 563	\$ 559	\$ 470	\$ 462
No. of Employees .....	819	731	686	595
Wages and Salaries paid .....	\$ 2,810,461	\$ 2,517,687	\$ 2,148,271	\$ 1,793,678
Total Operating Revenues .....	\$ 7,504,656	\$ 5,913,361	\$ 4,900,058	\$ 4,680,957
Total Operating Expenses and Taxes ..	\$ 6,094,823	\$ 4,771,600	\$ 4,094,597	\$ 3,730,370
Net Income .....	\$ 96,985	\$ 250,397	\$ 60,784	\$ 398,804
Available for Ordinary Shares .....	\$ 96,985	\$ 250,397	\$ Nil	\$ 72,975
Per Average Share .....	\$ 0.04	\$ 0.10	\$ (0.08)	\$ 0.09

**COMPANY, LIMITED**

1962	1961	1960	1959	1958	1957
58,708	53,505	49,818	45,754	42,423	38,216
17,164	16,134	14,870	14,671	14,354	12,014
41,544	37,371	34,948	31,083	28,069	26,202
96.3	97.5	95.5	91.2	89.0	86.0
5,203	3,687	4,064	3,331	4,207	4,156
35	31	32	30	30	30
21	20	18	14	11	10
14	11	12	14	14	14
—	—	1	2	5	6
\$24,362,935	\$21,766,871	\$19,711,928	\$17,007,481	\$14,714,810	\$11,811,136
\$ 415	\$ 407	\$ 396	\$ 372	\$ 347	\$ 309
558	521	545	541	514	495
\$ 1,606,163	\$ 1,455,012	\$ 1,365,000	\$ 1,218,790	\$ 1,148,301	\$ 939,526
\$ 3,632,665	\$ 3,263,824	\$ 2,919,455	\$ 2,534,462	\$ 2,107,821	\$ 1,676,851
\$ 2,657,286	\$ 2,247,546	\$ 2,037,229	\$ 1,832,979	\$ 1,518,014	\$ 1,249,169
\$ 482,873	\$ 570,345	\$ 498,590	\$ 441,284	\$ 392,095	\$ 312,062
\$ 157,028	\$ 255,749	\$ 217,706	\$ 183,270	\$ 179,992	\$ 132,043
\$ 0.31	\$ 0.61	\$ 0.62	\$ 0.58	\$ 0.68	\$ 0.57



**The Allandale #5 Cross-bar Exchange and Long Distance Centre which was placed in service on June 5, 1966 at St. John's.**



**The Pavilion of The Telephone Association of Canada is located on Ile Verte, the man-made extension to the west of Ile Ste-Hélène.**

**The interior is designed to provide an atmosphere of fun, entertainment and interest for adults and children of all ages, with a circular theatre and exhibit area on one level.**

**In keeping with Expo's theme — "Man and his World", the Canadian man is shown at work and play in a spectacular film recorded in the new and unique Walt Disney "Circular Vision 360" technique. Visitors will find themselves in the centre of action as the cameras move from Newfoundland to Vancouver Island.**

**Exhibits will present the fascinating story of telecommunications allowing the visitors to see and use the working displays. An "Enchanted Forest" will thrill the kiddies and all will have a glimpse of what the future holds for man in communications.**



Avalon Telephone, part of  
**Trans-Canada Telephone System**