

United Fuel Investments

Limited

and

Subsidiary Companies



Sixteenth Annual Report

31st March, 1944

PURVIS HALL
LIBRARIES

MAR 18 1946

McGILL UNIVERSITY

SIXTEENTH ANNUAL REPORT
OF THE DIRECTORS OF
UNITED FUEL INVESTMENTS LIMITED
FOR THE YEAR ENDED 31st MARCH, 1944

Hamilton, Ontario, 14th June, 1944.

TO THE SHAREHOLDERS:

Your Directors present herewith the Sixteenth Annual Report of your Company covering the operations for the fiscal year ended 31st March, 1944. Incorporated in the report is the Consolidated Balance Sheet of the Company and its subsidiaries as at 31st March, 1944, 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.

OPERATIONS

Consolidated Net Profits of your Company and its wholly owned subsidiaries for the year, as compared with the previous year, are as follows:

	Year ended 31st March	
	1944	1943
Net profit for the year before provision for depreciation, reserve for inventory and taxes on income	\$1,266,448	\$1,058,860
<i>Less:</i> Provision for regular depreciation on plant and equipment	\$252,252	\$253,047
Amortization of plants erected for war requirements	84,418	147,708
	336,670	400,755
Net profit before providing for inventory reserve and taxes on income	\$ 929,778	\$ 658,105
<i>Less:</i> Provision for income and excess profits taxes	470,000	298,000
Provision for future price decline in inventory values	91,000	50,000
	561,000	348,000
Net profit for the year	\$ 368,778	\$ 310,105

The increase in net profit before providing for depreciation, inventory reserve and taxes on income was derived mainly from larger gross profit on coke sold for industrial purposes and a net reduction in production and general expenses.

While there was an increase of 6% in the volume of gas sold for domestic and commercial purposes there was a reduction of 6% in volume of industrial gas sales. The major portion of all gas produced or purchased for resale is sold for industrial purposes and as a result of these changes in sales volume, there was a net reduction of 2% in total volume of gas sales. This reduced volume of sales, together with a small decrease in the average rate received for all gas sold resulted in the gross revenue from the sale of gas being approximately 3% less than for last year.

There were substantial reductions in total general, administrative and gas and coke selling expenses, while gas distribution expenses were approximately the same as for last year.

UNITED FUEL INVESTMENTS LIMITED

Interest and bond discount charges on the outstanding funded debt were reduced \$14,002 as the result of debt retirements.

Inventories have been priced at the lower of cost or market and the total value as thus determined has been reduced by the appropriation from earnings of \$91,000 as a reserve against future decline in values, thus increasing to \$241,000 the reserve now being carried against this contingency.

Provision for regular depreciation for the year amounted to \$252,252, a decrease of \$795 compared with last year. In addition, an amount of \$84,418 has been provided from this year's earnings for depreciation and amortization of plants purchased for war production, as compared with \$147,708 provided for this purpose last year.

CONSOLIDATED FINANCIAL POSITION

At 31st March, 1944, the net working capital of your Company amounted to \$1,055,400 as compared with \$1,710,042 at 31st March, 1943, a decrease of \$654,642. The following statement shows in summarized form the cash income from profits during the past year and the disposition made of these funds.

Net earnings for the year before providing for inventory reserve and taxes on income	\$ 929,778		
<i>Less:</i> Provision for income and excess profits taxes	\$470,000		
Provision for future price decline in inventory values	91,000	561,000	\$368,778
<i>Add:</i> Charges against earnings which do not represent cash disbursement:			
Depreciation		252,252	
Amortization of plants purchased for war production		84,418	
Amortization of bond discount		20,398	
		\$357,068	
Sundry items (net)		2,777	359,845
			\$728,623
 DISPOSITION OF FUNDS:			
Par value of Companies' bonds redeemed or called for redemption		\$1,007,000	
Dividends on capital stock paid or provided for		270,000	
Increase in post-war refund under the Excess Profits Tax Act		37,500	
Cost of additions to fixed assets (net)		35,645	
Cost of 6,263 Class "B" preferred shares purchased for cancellation		33,120	1,383,265
Net decrease in working capital			\$ 654,642

The net increase in fixed assets after deducting plant replaced and written off amounted to \$29,618. Expenditures on plant construction during the year were again substantially less than normal, as expansion of the gas distribution system of the Company has been restricted by Government order and no further gas production facilities were constructed during the year. The increase in reserve for depreciation and renewals amounted to \$330,644.

In addition to the normal reductions in funded debt during the year by retirements through sinking funds and the purchase of bonds in anticipation of sinking fund requirements, \$450,000 par value of United Gas and Fuel Company of Hamilton Limited 5% Second Mortgage Bonds and \$207,000 par value of United Fuel Investments Limited 6½% General Mortgage Bonds were purchased at par

UNITED FUEL INVESTMENTS LIMITED

and cancelled. The balance of \$243,000 par value of United Fuel Investments Limited 6½% General Mortgage Bonds outstanding has been called for redemption at par on 1st July, 1944, and for this reason are shown as a current liability in the attached Balance Sheet. The total funded debt thus retired or called for redemption during the year amounted to \$1,007,000 as follows:

UNITED FUEL INVESTMENTS LIMITED:		
6½% General Mortgage Bonds		\$450,000
UNITED GAS COMPANY:		
5½% First Mortgage Bonds	\$ 85,000	
5% Second Mortgage Bonds	450,000	535,000
COKE COMPANY:		
5% First Mortgage Bonds		22,000
		<u>\$1,007,000</u>

The reduction in funded debt will result in substantial interest savings to the Company in future years.

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

There was a further substantial increase in the cost of coal purchased throughout the year due to higher costs at the mines, and as a result of the adverse effect which these steadily increasing costs were having on the operations of your Company, authority was granted to increase the selling price of coke produced from such coal and sold for industrial purposes. The upward trend of coal prices is still continuing and it is now certain that there will be further increases in the laid-down cost per ton of coal delivered to your Company's plant to meet the production requirements of the current fiscal year.

The distribution and sale of gas for certain domestic and commercial purposes and the expansion of the Company's gas distribution plant are still restricted by Government regulations issued for the purpose of making as large a supply of gas as possible available to war industries.

In previous annual reports covering the operations of your Company, reference was made to the construction of a plant by the Dominion Government to produce gas and coke on property adjacent to your Company's present coke oven plant. The project was substantially completed by the Government and further units came into production during the fiscal year ended 31st March, 1944. The plant is being operated and its products marketed by your Company under a temporary arrangement with the Government. This arrangement is subject to confirmation by an agreement presently being negotiated with the Crown.

We are proud to report that 85 employees of your Company have joined the armed forces of Canada for active service and have been granted leave of absence from the Company. Many other employees are serving in the reserve army or are engaged in various wartime activities.

Your Directors again express their appreciation of the loyal and efficient service of the employees of the Company during the past year.

On behalf of the Board of Directors.

DAVID P. ROGERS,
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 1944 (With comparative figures for the year 1943)

	1944	1943
Profit from operations before charging bond interest, depreciation, etc.	\$1,582,691.57	\$1,389,105.74
<i>Deduct:</i>		
Interest on bonds including premium on United States funds	\$288,938.17	\$302,795.18
Bond discount absorbed and premium on bonds redeemed for sinking fund	27,305.92	330,246.35
	\$1,266,447.48	\$1,058,859.39
Provision for depreciation on the bases approved by companies' consulting engineer	\$252,251.76	\$253,046.91
Amortization of plants erected for war requirements	84,417.94	400,754.64
Net profit before providing for inventory reserve and taxes on income	\$ 929,777.78	\$ 658,104.75
Provision for income and excess profits taxes	\$ 507,500.00	\$ 300,000.00
<i>Less:</i> Refundable portion thereof	37,500.00	2,000.00
	\$ 470,000.00	\$ 298,000.00
Provision for future price decline in inventory values	91,000.00	348,000.00
Net profit for the year	\$ 368,777.78	\$ 310,104.75
<i>Note (1)</i> Cost of gas purchased and other expenses and revenues arising out of the operation of the Government owned plant are included in the accounts for the year on a basis which it is expected will be acceptable to the Crown, but which is subject to confirmation by an agreement presently being negotiated.		
<i>(2)</i> The expenses of the companies for the year ended 31st March, 1944, include:		
Remuneration of directors (not including executive officers)		\$ 2,700.00
Payments to counsel, solicitors, and legal advisers		3,992.94
Remuneration of executive officers		23,600.00

Consolidated Earned Surplus Account

	1944	1943
Balance at beginning of year	\$1,267,207.45	\$1,187,679.05
<i>Add:</i>		
Net profit for the year as above	368,777.78	310,104.75
Coal overage <i>re</i> prior years	\$ 5,737.46	\$ 46,177.07
<i>Less:</i> Provision for income and excess profits taxes thereon	2,979.81	27,706.24
Refund of Provincial corporation taxes for 1941.		11,717.41
	\$1,638,742.88	\$1,537,207.45
<i>Deduct:</i>		
Dividends on 6% preferred shares	\$270,000.00	\$270,000.00
Balance of bond discount on 6½% general mortgage bonds written off	33,748.56	270,000.00
Balance at end of year	\$1,334,994.32	\$1,267,207.45

UNITED FUEL INV

AND ITS

HAMILTON BY PRODUCT COKE OVENS LIMITED,
LIMITED (and its subsidiary The Wentworth Gas Company Limited)

Consolidated

31st

PROPERTY:	ASSETS	<u>31st March 1944</u>	<u>31st March 1943</u>
Comprising gas and coke manufacturing plant, transmission lines, distribution systems, real estate, buildings, automobiles, fixtures, franchises, rights, organization expenses, interest during construction, etc.			
		\$11,765,844.17	\$11,736,225.90
<i>Deduct</i> reserve for depreciation and renewals			
		4,870,242.67	4,539,599.44
		<u>\$ 6,895,601.50</u>	<u>\$ 7,196,626.46</u>
<i>The above assets are shown at their book value.</i>			
PREMIUMS:			
Paid on acquisition of subsidiary companies			
		4,079,954.68	4,079,954.68
		<u>\$10,975,556.18</u>	<u>\$11,276,581.14</u>
CURRENT ASSETS:			
Cash on hand and in banks			
		\$ 556,962.50	\$ 800,981.69
Investment in marketable securities at cost and accrued interest (market value 31st March, 1944, \$552,935):			
Dominion of Canada 3% Victory Loan Bonds			
		354,384.62	126,541.10
City of Hamilton ninety-day treasury bills.			
		199,426.20	149,856.39
Accounts receivable less reserve			
		750,335.82	684,532.52
Inventories as determined and certified by the management from book records and valued at the lower of cost or market, less reserve of \$241,000 in 1944 and \$150,000 in 1943 for future price decline in inventories			
		693,431.96	754,484.64
		<u>\$ 2,554,541.10</u>	<u>\$ 2,516,896.34</u>
DEFERRED AND OTHER ASSETS:			
Bond Discount			
		\$ 136,380.00	\$ 190,526.98
Deferred charges and prepaid expenses			
		153,150.82	152,525.60
Stores and spare equipment			
		141,446.11	142,091.46
Post-war refunds under the Excess Profits Tax Act			
		39,500.00	2,000.00
		<u>\$ 470,476.93</u>	<u>\$ 487,144.04</u>
		<u>\$14,000,574.21</u>	<u>\$14,280,121.52</u>

AUDITORS' REPORT TO

We have examined the consolidated balance sheet of United Fuel Investments Limited and its subsidiaries, Hamilton By Product Coke United Suburban Gas Company Limited, as at 31st March, 1944, and the statements of consolidated profit and loss and earned surplus for the and examined or tested accounting records but we did not make a detailed audit of the transactions. We have obtained all the information and

Depreciation of capital assets has been provided for on the bases approved by the consulting engineer of the companies in 1942 with thereto we report that in our opinion, based upon our examination, the above consolidated balance sheet and the attached statements of affairs at 31st March, 1944, and of the consolidated results of their operations for the year ended on that date, according to the best of our

ESTMENTS LIMITED

SUBSIDIARIES

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

Balance Sheet

March 1944.

LIABILITIES

CAPITAL AND SURPLUS:	<u>31st March 1944</u>	<u>31st March 1943</u>
Capital:		
Class "A" 6% cumulative preferred shares of \$50 each redeemable at the option of the company or by purchase in the open market for cancellation at a price not exceeding \$60:		
Authorized and issued—90,000 shares	\$ 4,500,000.00	\$ 4,500,000.00
Class "B" non-cumulative preferred shares of \$25 each purchasable in the open market by the company for cancellation at a price not exceeding \$30:		
Authorized and outstanding at 31st		
March, 1943 78,412 shares		1,960,300.00
Less redeemed during the		
year ended 31st March, 1944 6,263 shares		
Authorized and outstanding at		
31st March, 1944 72,149 shares	1,803,725.00	
Common shares of no par value:		
Authorized and issued 90,000 shares	50,000.00	50,000.00
Capital surplus arising from discount on redemption of Class "B" preferred shares	370,214.13	246,759.50
Consolidated earned surplus	1,334,994.32	1,267,207.45
	<u>\$ 8,058,933.45</u>	<u>\$ 8,024,266.95</u>
FUNDED DEBT:		
General mortgage 6½% bonds due 1st July, 1956		\$ 450,000.00
Hamilton By Product Coke Ovens Limited:		
First mortgage 5% bonds due 1st November, 1955 (Series A) \$	2,097,500.00	2,119,500.00
General mortgage 6% bonds due 1st April, 1956	587,000.00	587,000.00
United Gas and Fuel Company of Hamilton Limited:		
First mortgage 5½% bonds due 1st July 1948 (payable as to principal and interest in United States funds)	1,208,000.00	1,293,000.00
Second mortgage 5% bonds due 1st April, 1959 (guaranteed by Hamilton By Product Coke Ovens Limited)	550,000.00	1,000,000.00
	<u>\$ 4,442,500.00</u>	<u>\$ 5,449,500.00</u>
CURRENT LIABILITIES:		
Accounts payable and accrued charges including meter deposits \$	591,996.35	\$ 364,530.83
Accrued interest on bonds	97,380.32	113,365.95
Reserve for income, excess profits and other taxes	499,264.09	260,957.79
Dividend payable	67,500.00	67,500.00
General mortgage 6½% bonds due 1st July, 1956, called for redemption 1st July, 1944	243,000.00	
	<u>\$ 1,499,140.76</u>	<u>\$ 806,354.57</u>
	<u>\$14,000,574.21</u>	<u>\$14,280,121.52</u>

Approved on behalf of the Board.

DAVID P. ROGERS, *Director*.
S. B. SEVERSON, *Director*.

THE SHAREHOLDERS

Ovens Limited, United Gas and Fuel Company of Hamilton Limited (and its subsidiary, The Wentworth Gas Company Limited) and The year ended on that date. In connection therewith we reviewed the system of internal control and the accounting procedures of the companies explanations we required.

the exception of plant erected for war requirements during the fiscal year 1942, which is being amortized over a period of four years. Subject consolidated profit and loss and earned surplus have been drawn up so as to exhibit a true and correct view of the state of the companies' information, the explanations given us and as shown by the books of the companies.

HAMILTON, CANADA, 14th June, 1944.

CLARKSON, GORDON, DILWORTH & NASH, *Chartered Accountants*.

UNITED FUEL INVESTMENTS LIMITED
AND
SUBSIDIARY COMPANIES



Officers

D. P. ROGERS *President*
S. B. SEVERSON *Vice-President*
T. P. PINCKARD *General Manager of Subsidiaries*
F. PALIN, C.A. *Comptroller, Secretary and Treasurer*
W. M. COMMON *Assistant Secretary and Assistant Treasurer*

Directors

H. D. HANCOCK	D. P. ROGERS
S. B. IRELAN	S. B. SEVERSON
R. L. O'BRIAN	T. WEIR

SUBSIDIARY COMPANIES

HAMILTON BY PRODUCT COKE OVENS LIMITED—

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

UNITED GAS & 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.

THE UNITED SUBURBAN GAS COMPANY LIMITED—

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