

United Fuel Investments
Limited
and
Subsidiary Companies



Eleventh Annual Report

March 31st, 1939

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ELEVENTH ANNUAL REPORT
OF THE DIRECTORS OF
UNITED FUEL INVESTMENTS LIMITED
FOR THE YEAR ENDED MARCH 31st, 1939

Hamilton, Ontario,

June 13th, 1939.

TO THE SHAREHOLDERS:

Your Directors present herewith the Eleventh Annual Report of your Company covering the operations for the fiscal year ended March 31, 1939. Included in the report is the Consolidated Balance Sheet of the Company and its Subsidiaries as at March 31st, 1939, before giving effect to the reorganization which became effective as at close of business on that date, the Consolidated Balance Sheet after giving effect to the reorganization, and the Auditors' Report to the Shareholders. There are also included the related Profit and Loss Account for the past fiscal year, together with the comparative statement for the previous fiscal year and the Surplus Account.

Consolidated profits for the year before deducting Dominion and Provincial income taxes amounted to \$403,299.64 as compared with \$651,114.93 for the previous year. After providing for income taxes the consolidated net profit for the year was \$328,139.35, compared with \$537,101.45 for the previous year.

Provision for income taxes on the year's profits amounted to \$75,160.29 as compared with \$114,013.48 last year, the reduction being due to decreased profits. Direct taxes of all companies (municipal, provincial and dominion) paid or provided for out of the year's profits amounted to \$148,411.71 as compared with \$185,495.33 last year.

OPERATIONS

The profits of the gas distributing companies increased slightly and the reduction in consolidated profits was entirely attributable to the Coke Company operations. The cost of coal used in production was higher and, as was forecast in the Directors' Report last year, accumulations of competitive coke resulted in substantially lower selling prices besides which the volume of coke sold was nearly 8% less than in the previous year due partly to the unusually mild weather in the early part of the winter.

While the total volume of gas sold decreased slightly because of reduced industrial activity, domestic and commercial volume increased and the higher rates obtained for this type of business resulted in a net increase in revenue from sales of gas.

Sales expenses increased somewhat as also did the cost of United States funds but these increases were more than offset by decreases in gas distribution expenses, general administration expenses and interest charges.

UNITED FUEL INVESTMENTS LIMITED

CONSOLIDATED FINANCIAL POSITION

The net working capital of \$1,290,477. after reorganization is \$389,438. less than last year but as will be seen from the following summary this decrease is substantially less than the amount paid or provided for payments to Shareholders.

Net profit after provision for Dominion and Provincial income taxes		\$328,139
<i>Add:</i> Credits to Surplus adjusting prior years' profits		5,326
Charges against earnings which do not represent cash disbursements:		
Depreciation	\$224,226	
Amortization of bond discount	23,085	247,311
Decrease in stores and spare equipment		2,284
		\$583,060
<i>Deduct:</i> Provision out of surplus for reorganization expenses and contingencies		62,345
		\$520,715
Disposition of funds:		
Cost of additions to fixed assets (net)	\$ 62,096	
Cost of \$143,500. of companies' bonds purchased for sinking funds	143,900	
Increase in deferred charges including settlement for prepaid charges acquired from The Dominion Natural Gas Company Limited	9,345	
Payment to Union Gas Company of Canada Limited under terms of reorganization	180,000	
Dividends paid or provided for, including payment of \$2.00 per preferred share provided for as part of the reorganization	517,500	
		\$912,841
<i>Less:</i> Inventories of merchandise and supplies acquired from The Dominion Natural Gas Company Limited and paid for in the issue of bonds to them	2,688	910,153
Net decrease in working capital after reorganization		\$389,438

The net increase in fixed assets after deducting plant replaced and written off amounted to \$1,101,094. including \$1,003,591. representing the distribution system acquired on March 31st, 1939, from The Dominion Natural Gas Company, Limited and Manufacturers Natural Gas Company, Limited. The increase in the reserve for depreciation and renewals amounted to \$210,304.

UNITED FUEL INVESTMENTS LIMITED

Funded debt has been increased \$856,500. represented by a new issue of \$1,000,000. of bonds in payment for the distribution system acquired from the Dominion Company less \$143,500. of other issues retired through sinking funds or purchased in anticipation of sinking fund requirements as follows:

COKE COMPANY	
First Mortgage Bonds	\$ 70,000
General Mortgage Bonds	36,500
UNITED GAS	
First Mortgage Bonds	37,000
	\$143,500

Dividends of \$180,000. were paid during the year consisting of \$1. per old Preference Share paid on May 2, 1938 and \$1. per old Preference Share paid on September 1, 1938. In addition provision was made in the accounts for payment of \$180,000. to shareholders on April 1, 1939, representing \$2. per old Preference Share payable as part of the reorganization plan and also \$157,500. payable on the same date representing the preference dividend on the new Class "A" preference shares accrued for the seven months from September 1, 1938.

GENERAL

The reorganization of your company and the acquisition by your company of the gas distribution system in and about the City of Hamilton of The Dominion Natural Gas Company Limited and Manufacturers Natural Gas Company, Limited, as approved at a special meeting of Shareholders held on December 16, 1938, both became effective as at close of business on March 31st, 1939. The attached consolidated balance sheet shows the position of the company both before giving effect to the reorganization and after giving effect to the reorganization. From this balance sheet it will be noted that the reduction of \$2,300,000. in the nominal or par value of the capital stock as reorganized has been applied in writing down the amount shown on the balance sheet for premium paid on acquisition of subsidiary companies, etc., from \$6,379,954.68 to \$4,079,954.68. The attached balance sheet also reflects the addition to fixed assets representing the gas distribution systems acquired and the second mortgage 5% bonds issued in payment therefor.

Your Directors again wish to express their appreciation of the loyal and efficient services rendered by 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 1939

	31st March 1939	31st March 1938
Profit from operations before charging depreciation or bond interest	\$923,055.08	\$1,178,702.42
<i>Deduct:</i>		
Interest on bonds	\$271,351.40	\$278,645.29
Bond and loan expenses and discount absorbed	24,178.18	25,642.27
	295,529.58	304,287.56
	\$627,525.50	\$ 874,414.86
Provision for depreciation on basis recommended by companies' consulting engineer	224,225.86	223,299.93
Profits for year before provision for Dominion and Provincial income taxes	\$403,299.64	\$ 651,114.93

Note.—The expenses of the companies for the year ended 31st March 1939 include:

Remuneration of directors (not including executive officers)	\$ 3,200.00
Payments to counsel, solicitors and legal advisers	3,600.00
Remuneration of executive officers	22,500.00

Consolidated Earned Surplus Account

Balance at 1st April 1938	\$1,137,480.42
Profit for year as above	\$403,299.64
Less provision for Dominion and Provincial income taxes	75,160.29
	328,139.35
Inventory overages re prior years	5,325.93
	\$1,470,945.70
<i>Less:</i>	
Dividends of 2% declared on old 6% cumulative preferred shares of \$100 each	\$180,000.00
Provision for reorganization expenses (including legal expenses)	62,345.30
	242,345.30
Balance at 31st March 1939 before giving effect to reorganization	\$1,228,600.40
<i>Less:</i>	
Payment to Union Gas Company of Canada Limited on reorganization	\$180,000.00
Dividend of \$2 per share on 90,000 old 6% cumulative preferred shares of \$100 each payable on reorganization 1st April 1939	180,000.00
Dividend of \$1.75 per share declared for period 1st September 1938 to 31st March 1939 on 90,000 new 6% cumulative preferred Class "A" shares of \$50 each payable 1st April 1939	157,500.00
	517,500.00
Balance at 31st March 1939 after giving effect to reorganization	\$ 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>Before giving effect to reorganization</u>	<u>After giving effect to reorganization</u>
PROPERTY:		
Comprising gas and coke manufacturing plant, transmission lines, distribution systems, real estate, buildings, automobiles, fixtures, franchises, rights, organization expenses, interest during construction, etc	\$ 9,925,529.01	\$ 9,925,529.01
Distribution system of Dominion Natural Gas Company Limited and Manufacturers Natural Gas Company Limited in the Hamilton area		1,003,590.51
		\$10,929,119.52
<i>Deduct</i> reserve for depreciation and renewals	3,284,211.41	3,284,211.41
	\$ 6,641,317.60	\$ 7,644,908.11
<i>The above assets are shown at their book value.</i>		
PREMIUMS:		
Paid on acquisition of subsidiary companies, etc.	6,379,954.68	4,079,954.68
	\$13,021,272.28	\$11,724,862.79
CURRENT AND WORKING ASSETS:		
Cash on hand and in banks	\$ 714,425.52	\$ 714,425.52
Cash payable to Union Gas Company of Canada Limited on reorganization—cheque issued 31st March 1939	180,000.00	
	\$ 894,425.52	\$ 714,425.52
Accounts receivable less reserve	451,626.29	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	871,754.22	875,521.38
	\$ 2,217,806.03	\$ 2,092,974.99
DEFERRED AND OTHER ASSETS:		
Bond discount	\$ 277,860.91	\$ 277,860.91
Deferred charges and prepaid expenses	93,646.78	96,221.31
Stores and spare equipment	62,678.45	62,678.45
	\$ 434,186.14	\$ 436,760.67
	\$15,673,264.45	\$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 1939 and the statements of consolidated profit and loss and surplus review of the accounting methods and of the operating and income accounts for the year. The company's internal audit staff checked the Depreciation provided is on a basis which has been approved by the consulting engineer of the companies. We report that in our opinion, statements of consolidated profit and loss and surplus have been drawn up in accordance with accepted principles of accounting so as to exhibit according to the best of our information and the explanations given us and as shown by the books of the companies. We have obtained HAMILTON, CANADA, 25th May 1939.

ESTMENTS LIMITED

SUBSIDIARIES

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

Balance Sheet
March 1939

LIABILITIES	Before giving effect to reorganization	After giving effect to reorganization
CAPITAL:		
Issued (before reorganization):		
90,000 6% cumulative redeemable preferred shares of \$100 each	\$ 9,000,000.00	
100,000 common shares of no par value	100,000.00	
	<u>\$ 9,100,000.00</u>	
Authorized and issued (after reorganization):		
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
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
90,000 common shares of no par value		50,000.00
		<u>\$ 6,800,000.00</u>
Consolidated earned surplus	1,228,600.40	711,100.40
	<u>\$10,328,600.40</u>	<u>\$ 7,511,100.40</u>
FUNDED DEBT:		
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)	2,327,500.00	2,327,500.00
General mortgage 6% bonds due 1st April 1956	675,500.00	675,500.00
United Gas and Fuel Company of Hamilton Limited:		
First mortgage 5½% bonds due 1st July 1948	1,488,000.00	1,488,000.00
Second mortgage 5% bonds due 1st April 1959 (guaranteed by the Hamilton By-Product Coke Ovens Limited)		1,000,000.00
	<u>\$ 4,941,000.00</u>	<u>\$ 5,941,000.00</u>
CURRENT LIABILITIES:		
Accounts payable and sundry accrued charges	\$ 68,363.69	\$ 72,461.68
Customs duty and excise tax payable	117,761.59	117,761.59
The Dominion Natural Gas Company Limited—accounts receivable, etc., less liabilities taken over		42,866.30
Meter deposits	14,314.88	28,684.59
Accrued interest on bonds	95,798.89	95,798.89
Reserve for Dominion of Canada income tax and other taxes	82,425.00	82,425.00
Reserve for expenses of reorganization and contingencies	25,000.00	25,000.00
Dividend of \$2 per share on 90,000 6% cumulative preferred shares of \$100 each payable on reorganization 1st April 1939		180,000.00
Dividend of \$1.75 per share declared on 90,000 6% cumulative preferred Class A shares of \$50 each payable 1st April 1939		157,500.00
	<u>\$ 403,664.05</u>	<u>\$ 802,498.05</u>
	<u>\$15,673,264.45</u>	<u>\$14,254,598.45</u>

Note.—The plan of reorganization provided for the cancellation of the arrears of dividends on the old 6% preferred shares of \$100 each.

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 for the year ending on that date. In connection therewith we made a substantial test audit of the detailed transactions and made a general transactions which were not audited in detail by us. based upon our examination, the attached consolidated balance sheet showing the position "After giving effect to Reorganization" and the a true and correct view of the state of the companies' affairs at 31st March 1939, and of the consolidated results of their operations for the year all the information and explanations we required.

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

UNITED FUEL INVESTMENTS LIMITED



Officers

S. A. MORSE *President*
S. B. SEVERSON *Vice-President*
T. P. PINCKARD *General Manager of Subsidiaries*
T. WEIR, C.A. *Comptroller, Secretary and Treasurer*

Directors

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

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.