

TD 224  
A1A5

Book of 1936

TCU-MILC

# AMERICAN WATER WORKS AND ELECTRIC COMPANY

INCORPORATED

## *Annual Report* 1936

D  
2  
7  
8  
0



FOR THE FISCAL YEAR  
ENDED DECEMBER 31, 1936

AMERICAN WATER WORKS  
AND ELECTRIC COMPANY  
INCORPORATED

*Annual Report*  
1936

FOR THE FISCAL YEAR  
ENDED DECEMBER 31, 1936

T D 224  
.A1 A5

**DIRECTORS**

*Terms Expire 1937*

RANDOLPH CATLIN  
CHESTER DALE  
W. S. FINLAY, JR.  
H. HOBART PORTER  
W. C. ROBINSON

*Terms Expire 1938*

WILBUR L. CUMMINGS  
JAMES A. HILL  
N. BAXTER JACKSON  
THOMAS H. McINNERNEY  
EARLE S. THOMPSON

*Terms Expire 1939*

GEORGE W. BIGGS, JR.  
THOMAS H. BLODGETT  
SETON PORTER  
PHILIP L. ROSS  
WARREN R. VOORHIS

**EXECUTIVE COMMITTEE**

THOMAS H. BLODGETT    H. HOBART PORTER  
WILBUR L. CUMMINGS    SETON PORTER  
CHESTER DALE    EARLE S. THOMPSON

**OFFICERS**

H. HOBART PORTER, *President*  
EARLE S. THOMPSON, *Exec. Vice-Pres.*    GILBERT W. CHAPMAN, *Treasurer*  
WARREN R. VOORHIS, *Vice-President*    HUGH D. McDOWELL, *Asst. Sec. and Asst. Treas.*  
PHILIP L. ROSS, *Vice-President*    C. Y. MORSE, *Assistant Treasurer.*  
HAROLD F. BUTLER, *Vice-President*    ARTHUR L. RAE, *Comptroller*  
LORENZO SEMPLE, JR., *Asst. Vice-Pres.*    JOHN YOUNG, *Assistant Comptroller*  
WILLIAM K. DUNBAR, *Secretary*    LEWIS E. SHARPE, *Assistant Comptroller*  
JOHN P. EATON, *Assistant Comptroller*

---

GEORGE W. BIGGS, JR., *Chief Engineer, Water Properties*

---

**GENERAL COUNSEL**

SULLIVAN & CROMWELL, 48 Wall Street, New York City

**TRANSFER AND DIVIDEND AGENTS**

AGENTS OF THE CORPORATION, 50 Broad Street, New York City

**REGISTRAR OF TRANSFERS**

GUARANTY TRUST COMPANY OF NEW YORK, 140 Broadway, New York City

**GENERAL OFFICES**

50 Broad Street, New York City

*Gift of publisher*

# AMERICAN WATER WORKS AND ELECTRIC COMPANY

INCORPORATED

March 31, 1937.

*To the Stockholders:*

The Board of Directors presents herewith the report of the Company for the year ended December 31, 1936, together with a statement of its finances as of that date.

## FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries and also the financial statements of the Company alone may be found in the later pages of this report. Preceding these statements will be found the report of Messrs. Price, Waterhouse & Co., independent auditors. There are also included income accounts for the water works subsidiaries as a group and for The West Penn Electric Company and its subsidiaries as a group, together with certain statistical information. In addition, there are included separate financial statements of Community Water Service Company and its consolidated subsidiaries, control of which companies was acquired during the year as more fully set forth on pages 9 and 10. The accounts of the Community companies are not included in the consolidated financial statements of American Water Works and Electric Company, Incorporated, and its subsidiaries, and wherever reference is made herein to consolidated financial statements, earnings, expenses, etc., of subsidiaries, it should be understood that such reference is to the Company and its subsidiaries other than the subsidiaries comprising the Community Water Service system.

The Statistical and Corporate Manual which is published annually by the Company gives additional detailed information and is in course of preparation for the year 1936. It will be available later for distribution upon request.

## INCOME STATEMENT

The gross earnings of the Company's subsidiaries showed a substantial increase during the year as a result of the improved business of both the electric

and water companies. Increased operating expenses and taxes, however, offset to a substantial degree the improvement in earnings; an increase in maintenance and operating expenses of nearly \$500,000 being caused by the flood which occurred in March in the territories served by the electric subsidiaries and certain of the water subsidiaries, and a further increase in such expenses of approximately \$200,000 resulting from the extreme freezing conditions which existed in the territories served by a number of the water subsidiaries in the early part of the year 1936. The consolidated net income for 1936 was equivalent, after preferred dividends had been paid, to \$1.58 per share on the average number of shares of Common Stock outstanding during the year, which compares with \$1.32 per share for the previous year. The net income of the Company alone, after preferred dividends, that is, the actual income which the Company received and which was available for payments of dividends on its Common Stock, amounted to 42 cents per share on the average number of shares outstanding during the year compared with 57 cents per share for the previous year.

The consolidated statement of earnings shows a larger net income than the statement of the actual earnings of the Company alone. This wide difference in net income between the two statements is due to the fact that the entire earnings of each subsidiary available for dividends on its common stock which is owned by the Company cannot always wisely be paid out as dividends. Frequently it is advisable in the best interest of the operating company that substantial amounts of its earnings available for dividends be retained. The difference for 1936 was large because certain electric subsidiaries found it desirable to conserve their cash for the purpose of assisting in temporarily financing an extensive construction program.

#### DIVIDENDS

Four quarterly dividends, each of \$1.50 per share, were paid during the year on the \$6 Series, First Preferred Stock.

Two dividends aggregating 40 cents per share were paid on the Common Stock in 1936, a dividend of 20 cents per share being paid in September and December respectively.

#### PUBLISHED EARNINGS STATEMENTS

During the year the Company published interim statements each month showing the consolidated earnings for the month and for the twelve-month period ending with the same month. In addition, it made public quarterly the income of the Company alone for the preceding twelve-month period.

The Company proposes hereafter to discontinue the publication each month of the consolidated earnings for the month and for the twelve-month period. It will publish the consolidated earnings at the end of each quarter for the current year to date and for the twelve-month period ending with the same date. It will also publish quarterly the income of the Company alone for the same periods.

The purpose of this change is to minimize the fluctuations which are frequently reflected in a monthly statement but which may be contrary to the general trend of the earnings and therefore give an inaccurate impression of the results of the Company's activities. By publishing statements quarterly as proposed the Company believes it will more fairly present the results of its operations to its security holders.

### TAXES

The utility industry continues to bear the burden of greatly increased taxes and perhaps suffers more than other industries because of its inability to pass on such taxes to its customers, as is possible to a large extent in many industries.

Total taxes of all kinds, accrued or paid by the Company and its subsidiaries in 1936, were \$6,182,006, an increase of \$515,766 over the previous year, and represent 11.9% of gross earnings for the year. Such taxes for 1936 are equivalent to \$2.75 per share on the average number of shares of Common Stock of the Company outstanding during the year.

### MAINTENANCE AND RESERVES

The Company's subsidiaries maintain their properties at a high standard of operating efficiency. They expended \$4,384,207 during the year on maintenance and in addition reserved for renewals, retirements and depletion \$3,804,728, making a total of \$8,188,935 expended and reserved. The amounts applicable to the electric properties and the water properties are set forth hereinafter in their respective income statements.

### ELECTRIC SUBSIDIARIES

Improved business conditions continued throughout the territories served by the electric subsidiaries. This improvement was reflected in increased power sales by the subsidiaries which generated and sold the largest amount of energy for any one year in the system's history. There were substantial

increases in the amount sold for residential and commercial use but by far the largest increase was in power sold for industrial purposes. All of the major industries in the territory served—coal, steel, glass and textiles—enjoyed increased business and took increasingly large amounts of energy.

Rate reductions made in 1935 by the electric subsidiaries affected 1936 revenues, although a substantial increase is shown nevertheless. Reduced residential and commercial lighting rates were put into effect on July 1, 1936, by Monongahela West Penn Public Service Company and a new industrial rate, effective September 18, 1936, by West Penn Power Company which were estimated to reduce revenues \$284,000 per annum. In 1937, revised residential, commercial, and street lighting rates were filed by West Penn Power Company which are estimated to reduce revenues approximately \$973,000 per annum, with approximately \$700,000 thereof affecting the current year. As a result of the last revision, residential rates of the latter company are now uniform throughout its territory.

Both the number of electric customers and the average use of energy per customer increased during the year. The total number of customers increased by 16,278. The average annual use per residential customer increased from 696 kwh. in 1935 to 754 kwh. in 1936 and the average annual use per commercial customer from 2,943 kwh. to 3,368 kwh. Total sales to industrial customers increased from 1,390,000,000 kwh. (revised) to 1,635,000,000 kwh. To meet the increasing demands for service in the rural areas served by the subsidiaries, those companies during 1936 arranged for the construction of approximately 730 miles of rural lines and the connection thereto of more than 6,770 new rural customers.

The Company's electric subsidiaries have made considerable progress in their endeavors to increase the use of electricity by residential customers, as shown by the averages mentioned above. Larger sales of electric appliances to such customers during 1936 may be expected to effect a further substantial increase in residential usage during the current year.

During the year, the electric companies began to carry out carefully considered plans for increasing their generating capacity to meet the rising demand for energy.

The Potomac Edison Company installed an additional boiler in its Williamsport plant, increasing the capacity of that plant. Plans are also under way for increasing the capacity of the company's plant at Cumberland, and an order for a new 30,000 kw. turbo-generator has already been placed with the manufacturer. Under a contract with a large customer, the Celanese Corporation of America, a new 10,000 kw. turbo-generator is in process of

installation by The Potomac Edison Company on the former's property at Cumberland, Maryland. This is to be a process steam project, jointly operated, and all power developed thereby will be used in the customer's plant to supplement a large amount of central-station power now furnished by The Potomac Edison Company.

A new 25,000 kw. superimposed high-pressure generating unit and two pulverized fuel-fired boilers are being installed in the Rivesville Station of the Monongahela West Penn Public Service Company. It is expected that this installation will be completed in the latter half of 1937 and that the productive capacity of the station will be increased approximately 60%.

West Penn Power Company began early in the year the installation of an additional 50,000 kw. superimposed high-pressure turbo-generator and three pulverized fuel-fired boilers in its Springdale Station. In anticipation of enlarging the capacity of its Windsor Station, an order has been placed for a new 60,000 kw. turbo-generator of a similar type, the installation date of which will depend upon demands for energy. West Penn Power Company is also beginning the construction of a 132,000 volt transmission line on steel towers between the substations located at Charleroi and Luxor, Pennsylvania.

These new installations will add approximately 175,000 kw. to the capacity of the electric system making total generating capacity when completed of 681,300 kw.

In addition to this major construction program, there was much other construction work to enlarge substation capacity and extend distribution lines and customer connections. The properties were well maintained and excellent service to customers was given throughout the year. Relations with customers and the communities served were generally satisfactory.

As of January 1, 1937, a new uniform system of accounts, prescribed by the Federal Power Commission acting under authority of the Public Utility Act of 1935, became effective for electric operating utilities. The Company's electric subsidiaries intend to adhere to the new system of accounts. What material changes in accounting requirements will result or what the additional cost of the new system will be, it will not be possible to state until the system has been in operation for at least a full year.

#### TRANSPORTATION SUBSIDIARIES

In spite of a substantial reduction of fares, in line with a similar reduction in steam railroad fares, the net earnings from the Company's bus operations showed a small increase over those of the previous year. The earnings of the



electric railways also showed an increase chiefly because of the improved business conditions in the territories served.

During the year, the Company continued its policy of abandoning unprofitable traction lines. West Penn Railways Company and a subsidiary abandoned approximately 20.8 miles of track and The Potomac Edison Company abandoned approximately 1.5 miles.

In addition to these abandonments, one of the subsidiaries of West Penn Railways Company, Pan Handle Traction Company, whose earnings had not been consolidated for some years with the earnings of West Penn Railways Company, went into receivership and is in process of reorganization under Section 77 B of the Federal Bankruptcy Act. The lines are now being operated by the Trustee in bankruptcy. It is anticipated that West Penn Railways Company will receive a small minority interest in the common stock of the reorganized company but will no longer be active in the management of the lines. The statistics at the end of this report reflect the elimination of approximately 19.8 miles of track of Pan Handle Traction Company.

### FLOOD EXPERIENCE

In March, 1936, the severest flood on record occurred in western Pennsylvania and also in the Potomac River and its tributaries. The rise of the Allegheny River forced the closing of the Springdale Power Station of the West Penn Power Company for six days. Distribution lines and service were affected, and in the central office building of the company situated in the main business section of Pittsburgh, water rose ten feet above the first floor. The properties of the Monongahela West Penn Public Service Company in West Virginia were only slightly affected, but the properties of The Potomac Edison Company suffered some damage, because of the height of the flood of the Potomac River. The steam generating stations at Williamsport and Cumberland were forced to shut down, as were two hydro stations of the latter company located on the Potomac River.

The great value of the interconnection of the electric subsidiaries with each other and with neighboring utilities was amply demonstrated during the flood period. Although interruptions occurred in the operation of several of the power stations of the subsidiaries, service was generally maintained over the system as a whole through the use of reserve stations and interconnections within the system and with unrelated companies. Substantial amounts of energy were delivered during the emergency to a neighboring company for use in maintaining service to hospitals, water supply systems and other essential needs.

South Pittsburgh Water Company which serves a large portion of the

City of Pittsburgh and its suburban area was obliged to cease pumping for two days, as the unprecedented flood rose above the operating floor. A well-organized motor truck distribution service, set up by the company, supplied residents of the territory served with pure water for essential needs. None of the other water subsidiaries situated in the flood area was forced at any time to interrupt its services.

The exceptional floods, which caused such widespread havoc throughout the Ohio River Valley during the early part of 1937, fortunately resulted in but relatively slight damage to the properties of the Company's subsidiaries.

### WATER WORKS SUBSIDIARIES

The communities served by the water works properties experienced improved business conditions during the year. The gross earnings of the water works properties showed a substantial increase in spite of the loss of revenue occasioned by the sale of the Little Rock property of the Arkansaw Water Company early in the year. The net income, however, was greatly reduced by a large increase in operating expenses due principally to the unusual weather conditions which existed in most of the territories in which the water companies are located. The extremely cold weather and its long duration resulted in the frost penetrating the ground to depths hitherto unknown and consequently in the freezing of services, meters and mains. Only a few of the water plants, located in the South, escaped. In addition, the extraordinary flood expenses in connection with the South Pittsburgh Water Company referred to above added to the operating expenses. During the remainder of the year, additional maintenance costs were incurred in lowering mains and other work to avoid severe damage in case of a recurrence of these extreme conditions.

There was some agitation in a few of the communities served for municipal ownership, resulting in the sale of two properties. A substantial number of water companies were acquired, as hereafter set forth. In the properties owned throughout the year, there was an increase of 8,161 customers and of approximately 5,590,000,000 gallons of water sold. Rate reductions were made during the year amounting to approximately \$96,000 per annum. Satisfactory relations were maintained between the water companies and their customers.

### ACQUISITION OF CONTROL OF COMMUNITY WATER SERVICE COMPANY

During the year the Company acquired control of Community Water Service Company and now holds such control through American Communities Company, a new corporation, which at December 31, 1936, owned 22,223

shares (or 56.89%) of the \$7 Cumulative First Preferred Stock, 896,500 shares (or 79.72%) of the Common Stock, \$169,500 principal amount of 6% Debentures, Series A and \$220,000 principal amount of 5.50% Debentures, Series B of Community Water Service Company. An additional 1,118 shares of such \$7 Cumulative First Preferred Stock was owned directly by American Water Works and Electric Company, Incorporated. Because of arrears of dividends on the \$7 Cumulative First Preferred Stock of Community Water Service Company, the holders thereof have had for some time and now have the right to vote at all stockholders' meetings and to elect a majority only of the Board of Directors of that company.

Community Water Service Company controls over forty water companies, whose operating revenues in 1936 amounted to approximately \$7,000,000, and which at December 31, 1936, had 194,203 water customers connected to approximately 2,588 miles of transmission and distribution mains.

American Communities Company has outstanding 14,000 shares of Preferred Stock and 10,000 shares of Common Stock, of which 5,000 shares of Preferred Stock and 6,000 shares of Class B Common Stock (the latter being all of the voting stock) were acquired during the year by American Water Works and Electric Company, Incorporated.

Since American Water Works and Electric Company, Incorporated, maintains an organization experienced in the operation and construction of water works properties, it was able to take over the management of the water works subsidiaries of the Community Company without proportionately increasing its management costs. Since such management costs are now borne by a larger number of companies, the expenses of each individual company will be reduced. Certain of these services were formerly rendered by the Community Company to its subsidiaries. The change in management became effective May 1, 1936. Mr. Reeves J. Newsom, the President and Mr. M. B. Rogers, the Executive Vice-President and Treasurer of Community Water Service Company, together with several engineers, accountants and other employees, joined the staff of the American Company.

This report includes financial statements of Community Water Service Company and also consolidated financial statements of that company and its consolidated subsidiary companies.

#### SALE OF WATER WORKS PROPERTY

In the report of this Company for the year 1935, the negotiations and subsequent contract between the Arkansaw Water Company and the City of

Little Rock for the purchase of the physical property of that company which served the city, were outlined. On April 1, 1936, the sale was consummated. On April 6, 1936, part of the proceeds of the sale was used by that company to retire all of its \$3,180,000 principal amount of First Mortgage 5% Gold Bonds, Series A, which were called for payment at 100 and accrued interest.

On December 9, 1936, all of the securities, namely, \$150,000 principal amount of First Mortgage 6% Gold Bonds, Series A, 640 shares of 7% Non-Cumulative Preferred Stock (par value \$50) and 1,200 shares of Common Stock (par value \$50), of the Mt. Vernon Water Works Company, which served the City of Mt. Vernon, Indiana, a city of 5,100 people, were sold to the city for a total amount of \$260,000. This sale was the result of a referendum called on October 10, 1935, at which the citizens of Mt. Vernon voted in favor of the acquisition of the water company by the city, since which time negotiations between the city and the company resulted in the consummation of the sale.

Following an election in which the citizens of Marinette, Wisconsin, a city of 13,900 people, voted in favor of the acquisition of the water company by the city, the Company, on December 10, 1936, offered to sell all of the issued and outstanding capital stock and bonds of the City Water Company of Marinette, consisting of \$320,000 principal amount of First Mortgage 6% Gold Bonds, Series A, 660 shares of 7% Non-Cumulative Preferred Stock (\$100 par value) and 2,000 shares of Common Stock (\$100 par value), to the City of Marinette at a price of \$596,000. The offer was accepted by the City of Marinette on January 26, 1937, and the price was approved by the Public Service Commission of the State of Wisconsin on March 8, 1937. The transfer of property will be made on or before April 1, 1937.

#### CALIFORNIA PROPERTIES

The land, orchard, and farming subsidiaries of the Company situated in the Sacramento Valley, California, which were acquired in 1914, were operated successfully during 1936. A substantial profit which was indicated by the trend of operations during the earlier part of the year was somewhat reduced during the latter months of the year by the transportation tie-up resulting from the maritime strike on the Pacific coast. The tie-up not only raised the most difficult transportation problems but also had injurious effects on the market for the products of these companies. The net operating earnings of these companies for the year available for interest on their indebtedness to American Water Works and Electric Company, Incorporated, amounted to \$30,514. A detailed statement is shown on page 38.

## FINANCING

In April, 1936, The St. Joseph Water Company sold an issue of \$2,600,000 principal amount of General (now First) Mortgage Bonds, Series A, 4%. The bonds were sold to a group of bankers at 99¼, who in turn offered them to the public at 102. Out of the proceeds from the sale of the bonds, the company redeemed on June 10, 1936, \$2,500,000 principal amount of its 5% Forty Year Gold Bonds.

After American Water Works and Electric Company, Incorporated, acquired control of Community Water Service Company and its subsidiaries, three issues of securities were sold by those subsidiaries.

In July, The Cairo Water Company sold privately \$50,000 principal amount of First Mortgage 4½% Bonds, Series A, at 101 and paid a commission of ½ point to bankers for negotiating the sale.

In December, the Pennsylvania State Water Corporation sold \$7,250,000 principal amount of First Collateral Trust Bonds, 4¼% Series Due 1966. These bonds were sold to bankers at 100½ who offered them to the public at 103. Out of the proceeds of the sale \$6,900,000 principal amount of First Lien 5½% Gold Bonds, Series A, of that company were redeemed on January 13, 1937.

The three issues above were registered with the Securities and Exchange Commission under the Federal Securities Act.

In December, Bristol County Water Company sold \$850,000 principal amount of First Mortgage 3¾% Bonds, Series A, at 102½ and paid a commission of 1 point to bankers for negotiating the sale. Out of the proceeds, the company redeemed, on January 1, 1937, \$425,000 principal amount of First Mortgage 5% Gold Bonds, Series A and \$325,000 principal amount of such bonds of Series B at 105. This issue was sold privately to a single purchaser and was not registered under the Federal Securities Act.

### RETIREMENT OF TEN YEAR 5% CONVERTIBLE COLLATERAL TRUST BONDS

The facts of the conversion of most of the Company's Ten Year 5% Convertible Collateral Trust Bonds into Common Stock early in 1936 were outlined in last year's report. The \$2,941,000 principal amount of such bonds which remained outstanding were called for redemption on June 15, 1936 at 102 and accrued interest. Funds for such redemption were obtained by a bank loan of \$3,000,000 on terms which resulted in substantial interest savings to the Company.

The retirement of these bonds leaves the Company for the first time in its history with no secured debt outstanding, and with none of the securities which it owns pledged as collateral.

#### THE PUBLIC UTILITY ACT OF 1935

Following the decision of Judge Mack on January 29, 1937, in the United States District Court for the Southern District of New York, that the registration provisions of the Public Utility Holding Company Act of 1935 are separable, and that the rule of the Securities and Exchange Commission effectually protects the rights of registering companies to question the validity of the regulatory provisions of the Act, the Company registered with the Commission on February 26, 1937. The Company's suit to enjoin the enforcement of the Act against the Company, which has been pending in the District Court of the District of Columbia since the latter part of November, 1935, is to be withdrawn.

During all the time that the Public Utility Holding Company Act was before Congress, the Company took the position, as did some of the other holding companies, that it favored the regulation of public utility holding companies. It urged, however, that regulation should not be such as would destroy values to the injury of investors or substitute Government control for the sound and experienced management which many of the companies enjoyed. The Act as passed seemed designed to accomplish both these things. The Company's opposition to the Act as passed was not because of any fear that it would not be administered with the utmost fairness by the Commission entrusted with the duty of administration, but because of the very provisions of the Act itself which might be construed to leave the Commission no alternative but to impose severely burdensome restrictions upon the Company. The effect of Judge Mack's decision was that a company registering would not waive its right to question in the Courts the validity of such provisions.

The Company welcomes the opportunity to cooperate with the Commission in the administration of the Act, and will afford the fullest cooperation consistent with its duty to protect its security holders. Only in the event of threatened injury will it appeal to the Courts. The necessity may never arise. If it does arise and the validity of any provision injuriously applied to the Company must be determined by the Courts, the Company believes it will be able to obtain a prompt adjudication of the question.

The Company's subsidiaries, The West Penn Electric Company and West Penn Railways Company, have also registered as holding companies under the Act.

#### GENERAL

During the year the Company and its subsidiaries effected a change in the manner of amortizing bond discount, call premiums and expense, details of which are fully set forth in the notes to the Consolidated Income Account which follows. As a result of this change, charges against income on account of such amortization were approximately \$445,000 greater for the year 1936 than they would have been had the method of amortization in effect in the year 1935 been followed in the year 1936.

Briefly, the method of amortization in use by the Company and its subsidiaries during the years 1928 to 1935, inclusive, was what is known as the "effective rate method," under which charges are made against income on the basis of the computed sum which, set aside annually and accumulated at compound interest at the effective rate of the bond issue, will, at the maturity date of the bond issue, amount to the total bond discount, premium and expense involved. Prior to 1928, the Company and its subsidiaries followed what is known as the "straight line method" of amortization, under which bond discount, call premiums and expense are charged against income in equal annual installments over the life of the respective bond issues. The Company and its subsidiaries returned to the use of this method in 1936 and propose to use it hereafter.

Under the "straight line method" the amounts charged to income annually on account of amortization are, as stated above, in equal installments. Under the "effective rate method" the amounts charged in the earlier years of the life of a particular bond issue are considerably less than the charges under the "straight line method," and in the later years of the bond issue are considerably more. The total charges to income over the entire life of the bond issue are of course the same under either method. As a result of the return to the use of the "straight line method" by the Company and its subsidiaries, charges for amortization for a number of years to come will be considerably higher than they would have been under the "effective rate method," although eventually this increase will be offset by lower charges in the later years.

Mention has been made in previous annual reports of a revaluation of the property and assets of American Water Works and Electric Company, Incorporated, of Virginia, predecessor of the Company, made in 1927, as a result of which the securities acquired by the Company from the Virginia cor-

poration were set up on the books of the Company shortly after its incorporation at a value of approximately \$51,000,000 in excess of the amount at which they were carried on the books of the Virginia corporation.

It is a matter of common knowledge that in recent years public utility holding companies have been subjected to considerable criticism with respect to so-called write-ups resulting from revaluations, and that little, if any, discrimination has been made between those write-ups which are justified and those which are not. While the action of the Board of Directors in 1927 in revaluing the property and assets acquired from the Virginia corporation was considered amply justified, it has been determined by the Board of Directors, in keeping with the apparent spirit of the times, that the books should be readjusted so as to eliminate therefrom the additional values which were recorded in 1927 as a result of the revaluation.

Accordingly, entries have been made on the books of the Company, effective as of December 31, 1936, removing from investment account, with concurrent charge to capital surplus, the amount of the original write-up resulting from the revaluation, of approximately \$51,000,000, less an amount of approximately \$1,000,000 already written off in respect to the Company's investments in certain companies whose properties or securities have been sold in whole or in part in the intervening period, or a net adjustment of approximately \$50,000,000. As a result of this adjustment, investments acquired by the Company in 1927 from the Virginia corporation and still owned by the Company are now reflected on the books of the Company at the carrying values thereof on the books of the Virginia corporation at the date of such acquisition. The foregoing adjustment did not affect the actual value of the investments of the Company or involve any determination by the officers and directors of the actual value of such investments.

By Order of the Board of Directors,

H. HOBART PORTER,

*President.*

This report and the financial statements contained herein are submitted to the stockholders of the Company for their general information and not in connection with any sale or offer to sell or solicitation of an offer to buy any securities.



# PRICE, WATERHOUSE & CO.

86 PINE STREET

NEW YORK, March 31, 1937.

TO THE BOARD OF DIRECTORS OF  
AMERICAN WATER WORKS AND ELECTRIC COMPANY, INCORPORATED:

We have made an examination of the balance sheet of American Water Works and Electric Company, Incorporated (of Delaware), the parent company, as of December 31, 1936, and of the statements of income and surplus for the year ended on December 31, 1936. We have also made an examination of the consolidated balance sheet of American Water Works and Electric Company, Incorporated, as of December 31, 1936, and of the statements of consolidated income and surplus for the period mentioned above. In connection therewith, we examined or tested accounting and other corporate records of the parent company and its consolidated subsidiary companies, including confirmation of cash and securities by inspection or certificates from depositaries. In the case of the subsidiary water companies, our examination was made as of September 30, 1936, but we were furnished with financial statements of such subsidiaries as of December 31, 1936, and found that the changes during the intervening period were normal. We have obtained information and explanations from the officers and employees of the companies; we also have made a general review of the accounting methods and of the operating, income and surplus accounts, but we did not make detailed audits of the transactions.

As set forth more fully in notes appended to the consolidated income account, the operating subsidiary companies, in conformity with the general practice of other public utility companies engaged in the same business, have followed the policy of charging to operating expenses provisions for a reserve for renewals and retirements and of deducting from or charging against said reserve any loss in asset value due to units of property being replaced or retired in the ordinary course of business. The operating subsidiary companies do not set up reserves for depreciation, obsolescence, or the like based on the estimated or theoretical useful life of various classes of physical property.

Losses in asset value on account of certain abandonments of street railway operations have been charged on the books of certain subsidiary companies against surplus or special reserves arising from reappraisal of assets.

Neither the practice of the companies nor general accounting practice calls for provision for such losses out of income or out of reserves created out of income, and in our opinion they are properly chargeable against any capital surplus, including surplus arising from reappraisal of assets, assuming the correctness of such reappraisals (which, being a question of valuation, we, as accountants, cannot pass upon). In the absence of appraisal surplus, sound accounting practice would, in our opinion, permit the charge of such losses against capital surplus created by reduction of capital or otherwise or, alternatively, they might have been charged against surplus earned prior to abandonment or over a period of years following abandonment. The extent to which the surplus account on December 31, 1936, would have been reduced if the latter alternative had been followed cannot be stated. The earnings would not have been affected.

As explained in Note B to the consolidated income statement, effective January 1, 1936, but without revision of the balances of unamortized discount and expense then existing on the books, the Company and its subsidiary companies adopted the policy of amortizing bond discount and expense on the straight-line basis. This method differs from that in effect over the past several years, namely, the "effective rate method." This change in method resulted in increasing the charges to consolidated income in the year 1936 on account of amortization of bond discount and expense by approximately \$445,000 over the amount it would have been on the basis used in the year 1935.

In our opinion based upon such examinations and with the foregoing explanations, the attached balance sheets and related statements of income and surplus together with the notes appended thereto, fairly present, in accordance with accepted principles of accounting maintained consistently (except as to the change in method of amortizing bond discount and expense as outlined above) by the companies during the year under review, the position of the Company and of the Company and its consolidated subsidiary companies as of December 31, 1936, and the results of their operations for the year ended on that date.

PRICE, WATERHOUSE & Co.

**AMERICAN WATER WORKS AND ELECTRIC COMPANY  
INCORPORATED**

**BALANCE SHEET AS OF DECEMBER 31, 1936**

*Assets and Deferred Charges*

<b>Investments:</b>		
Securities and notes of subsidiary companies (see Note A).....		\$54,133,537.23†
Other security investments (see Note B).....		76,759.00
		\$54,210,296.23*
Accounts receivable from subsidiary companies.....		5,601,885.02*
<b>Current assets:</b>		
Cash in banks and on hand.....	\$2,194,860.60	
Cash in banks for payment of matured interest payable (see Note D).....	1,065,730.50	
Miscellaneous notes and accounts receivable.....	17,952.39	
Accrued interest and dividends receivable.....	67,732.08	
Other current assets.....	3,645.65	
		3,349,921.22
<b>Deferred charges:</b>		
Unamortized debt discount and expense (see Note C)...	\$1,997,587.94	
Other deferred charges.....	30,344.13	
		2,027,932.07
Total assets and deferred charges.....		\$65,190,034.54

† Includes total investment of \$549,412.50 in securities of American Communities Company and Community Water Service Company.

\* These are book figures and do not purport to represent realizable values or sums which could be realized upon the sale thereof.

**AMERICAN WATER WORKS AND ELECTRIC COMPANY  
INCORPORATED**

**BALANCE SHEET AS OF DECEMBER 31, 1936**

***Liabilities, Capital and Surplus***

Long-term debt:

Six Per Cent. Gold Debentures, Series A, due November 1, 1975 .....	\$ 8,000,000.00
Five Per Cent. Gold Debentures, Series B, due December 1, 1975.....	3,000,000.00
Installment note payable to bank.....	2,550,000.00

Total long-term debt.....	\$13,550,000.00
---------------------------	-----------------

Current liabilities:

Note installments payable to bank, due in 1937.....	\$ 300,000.00
Accounts payable to subsidiary company.....	24,076.74
Accounts payable to others.....	189,457.26
Matured interest payable (see Note D).....	1,065,730.50
Taxes accrued.....	348,670.08
Interest accrued.....	94,281.25
Dividend declared on preferred stock payable January 2, 1937.....	300,000.00

Total current liabilities.....	2,322,215.83
--------------------------------	--------------

Capital stock:

First Preferred Stock:

Authorized 500,000 shares—no par value	
Issued 200,000 shares—\$6. Series (cumulative).....	\$20,000,000.00

Common Stock:

Authorized 2,500,000 shares—no par value	
Issued 2,352,950 shares.....	23,529,500.00

Surplus:

Capital surplus (see Note A).....	\$ 560,894.48
Earned surplus of American Water Works and Electric Company, Incorporated (of Virginia), predecessor company....	2,109,864.79
Earned surplus of American Water Works and Electric Company, Incorporated (of Delaware).....	3,117,559.44

Total capital stock and surplus.....	49,317,818.71
--------------------------------------	---------------

Total liabilities, capital and surplus.....	\$65,190,034.54
---	-----------------

## NOTES TO BALANCE SHEET

*Note A:* As stated in previous annual reports, the Company, shortly after its incorporation, acquired in July, 1927, all of the property and assets of American Water Works and Electric Company, Incorporated, a corporation of Virginia, pursuant to a Plan and Agreement providing for its reorganization. Pursuant to the Plan also the Company issued 1,328,219 shares of its common capital stock, without par value. As permitted by the law of the State of Delaware, the Board of Directors of the Company, at the time of acquisition, valued the said property and assets so acquired and also determined that only a part of the consideration received by the Company for such shares of its common capital stock, to wit, \$10 per share, should be capital. The value placed upon such property and assets was \$51,095,652.24 in excess of the amount at which such assets were carried on the books of the Virginia corporation, and the amount of such excess, after giving effect to certain adjustments, was set up on the books of the Company as capital surplus.

In recent years public utility holding companies have been subjected to considerable criticism with respect to so-called write-ups resulting from revaluations, and little, if any, discrimination has been made between those write-ups which are justified and those which are not. While the action of the Board of Directors in 1927 in revaluing the property and assets acquired from the Virginia corporation was considered amply justified, it has been determined by the Board of Directors, in keeping with the apparent spirit of the times, that the books should be readjusted so as to eliminate therefrom the additional values which were recorded in 1927 as a result of the revaluation. Accordingly, entries have been made on the books of the Company, effective as of December 31, 1936, removing from investment account, with concurrent charge to capital surplus, the amount of the original write-up resulting from the revaluation, namely \$51,095,652.24, less an amount of \$1,106,085.62 already written off in respect of the Company's investments in certain companies whose properties or securities have been sold in whole or in part in the intervening period, or a net adjustment of \$49,989,566.62. As a result of this adjustment, investments acquired by the Company in 1927 from the Virginia corporation and still owned by the Company are now reflected on the books of the Company at the carrying values thereof on the books of the Virginia corporation at the date of such acquisition. The foregoing adjustment did not affect the actual value of the investments of the Company or involve any determination by the officers and directors of the actual value of such investments.

*Note B:* Except for one investment carried in "Other security investments" no active market exists for any securities included herein. The market value of the one security at December 31, 1936, was in excess of the amount at which it was carried on the books.

*Note C:* Included in the above item of unamortized debt discount and expense are (a) unamortized debt discount and expense on a debenture issue of the Company, (b) the balance of unamortized debt discount and expense on one issue of the predecessor company of the Company, American Water Works and Electric Company, Incorporated (of Virginia), (c) the unamortized portion of the difference between the amount paid by the Company to certain subsidiary companies for securities issued by them and the amount realized by the Company on the sale of such securities, and (d) the unamortized portion of similar items taken over from the books of the said predecessor of the Company, American Water Works and Electric Company, Incorporated (of Virginia), at the time of the transfer of the property and assets thereof to the Company, the aggregate of items (c) and (d) approximating \$876,000.

*Note D:* This item consisted principally of interest payable on January 1, 1937, on bonds of subsidiary electric and water companies, funds for the payment of which had been accumulated with the Company.

*Note E:* The Company has as a contingent liability at December 31, 1936, the guaranty of payment of principal and interest on certain bonds of subsidiary water companies in the principal amount of \$17,277,500. The Company has never been called upon to make any payments under its guaranties on any of these bonds; and earnings applicable to total bond interest of each of the companies whose bonds are so guaranteed are in excess of such interest requirements. The Company has as possible contingent liabilities agreements indemnifying, Price, Waterhouse & Co., as independent public accountants, and W. C. Langley & Co., as underwriters, under certain conditions, against certain liability arising out of the registration of the Ten Year 5% Convertible Collateral Trust Bonds, due March 1, 1944, under the Federal Securities Act.

**AMERICAN WATER WORKS AND ELECTRIC COMPANY**  
**INCORPORATED**

**COMPARATIVE INCOME ACCOUNT**

	For Year Ended		Increase or Decrease*
	Dec. 31, 1936	Dec. 31, 1935	
<b>Earnings:</b>			
Dividends from subsidiary companies.....	\$3,132,943.47	\$3,604,914.30	\$471,970.83*
Other dividend income.....	3,294.37	—	3,294.37
Interest on bonds of subsidiary companies.	87,900.28	84,391.00	3,509.28
Interest on notes and accounts of subsidiary companies.....	449,506.92	408,337.08	41,169.84
Management and service charges to subsidiary companies.....	620,649.67	660,254.52	39,604.85*
Other income.....	21,441.96	11,037.41	10,404.55
<b>Total earnings.....</b>	<u>\$4,315,736.67</u>	<u>\$4,768,934.31</u>	<u>\$453,197.64*</u>
<b>Expenses:</b>			
Salaries, rents, taxes and other expenses...	\$1,253,435.02	\$1,065,364.75	\$188,070.27
Less: Proportion of head office salaries and expenses chargeable to American Water Works Construction Company (a subsidiary).....	34,485.67	30,745.70	3,739.97
<b>Net expenses.....</b>	<u>\$1,218,949.35</u>	<u>\$1,034,619.05</u>	<u>\$184,330.30</u>
Provision for losses of certain subsidiary companies not consolidated.....	—	7,836.72	7,836.72*
<b>Total expenses.....</b>	<u>\$1,218,949.35</u>	<u>\$1,042,455.77</u>	<u>\$176,493.58</u>
<b>Net earnings.....</b>	<u>\$3,096,787.32</u>	<u>\$3,726,478.54</u>	<u>\$629,691.22*</u>
<b>Deductions:</b>			
Interest on long-term debt.....	\$ 820,324.50	\$1,379,200.00	\$558,875.50*
Interest on accounts payable to subsidiary companies .....	5,046.34	9,880.48	4,834.14*
Amortization of debt discount and expense	116,190.95	124,652.70	8,461.75*
Payments under tax covenants on bonds, etc.....	13,688.65	11,763.94	1,924.71
<b>Total deductions.....</b>	<u>\$ 955,250.44</u>	<u>\$1,525,497.12</u>	<u>\$570,246.68*</u>
<b>Net income.....</b>	<u>\$2,141,536.88</u>	<u>\$2,200,981.42</u>	<u>\$ 59,444.54*</u>

NOTE: The above Income Account should be read in conjunction with the Consolidated Income Account of American Water Works and Electric Company, Incorporated, and subsidiary companies and notes appended thereto (pages 27 to 31, inclusive) to which reference is made.

**AMERICAN WATER WORKS AND ELECTRIC COMPANY  
INCORPORATED**

**SURPLUS ACCOUNT**

**Year Ended December 31, 1936**

Balance at January 1, 1936.....		\$50,727,695.28
<b>Add:</b>		
Net income for year ended December 31, 1936.....		2,141,536.88
Excess of conversion price over stated book value of 602,150 shares of Common Stock issued upon conversion of \$12,043,000 principal amount of Ten Year 5% Convertible Collateral Trust Bonds.....		6,021,500.00*
		\$58,890,732.16
<b>Deduct:</b>		
Dividends on capital stock:		
\$6. Series, First Preferred.....	\$ 1,200,000.00	
Common.....	941,180.00	
Adjustment to eliminate from investment account the amount of write-up resulting from revaluation in 1927 still remaining on the books (see Note A to Balance Sheet of the Company).....	49,989,566.62*	
Proportion of unamortized debt discount and expense and miscellaneous conversion expenses applicable to Ten Year 5% Convertible Collateral Trust Bonds converted into common stock.....	690,322.39*	
Premium on redemption of \$2,941,000 principal amount of Ten Year 5% Conv. Collateral Trust Bonds.....	58,820.00	
Balance of unamortized debt discount and expense applicable to \$2,941,000 principal amount of Ten Year 5% Conv. Collateral Trust Bonds redeemed..	155,708.22	
Write-off of difference between the amount paid by the Company to certain subsidiary companies for pre- ferred stock issued by them and the amount realized on the sale of such securities in prior years.....	44,618.24	
Sundry adjustments (net).....	22,197.98	
		53,102,413.45
Total deductions.....		53,102,413.45
Balance at December 31, 1936.....		\$ 5,788,318.71

\* These items represent charges and credits to capital surplus account. All other items were effected in earned surplus accounts.



**AMERICAN WATER WORKS AND ELECTRIC COMPANY**  
**INCORPORATED**  
**AND SUBSIDIARY COMPANIES†**  
**CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1936**  
*Assets and Deferred Charges*

Property, plant and equipment.....		\$336,362,846.74*
(Comprising electric generating stations, high voltage electric transmission lines, electric distribution systems, water pumping stations, reservoirs, water distribution systems, real estate, etc., and intangibles, deducting therefrom the excess of the par or stated book values of securities of subsidiary companies over the book values of the investments of the Company and its subsidiaries in securities of their respective subsidiaries amounting to approximately \$4,100,000.)		
Investment in securities of Community Water Service Company, a non-consolidated subsidiary company.....		1,641,277.28 *
Investments in and advances to associated and other non-consolidated subsidiary companies, and miscellaneous investments, less reserves (see Note A)		3,677,794.04*
Current assets:		
Cash in banks and on hand, including time deposits of \$1,428,193.08.....	\$12,285,818.85	
Cash in banks for payment of matured interest payable (see Note B).....	1,065,730.50	
Special deposits and cash on deposit with trustees.....	21,125.38	
Customers accounts receivable (including municipal accounts).....	\$6,303,862.68	
Miscellaneous notes and accounts receivable.....	414,427.37	
Due from affiliated companies.....	93,637.03	
	<u>\$6,811,927.08</u>	
Less reserves for doubtful notes and accounts receivable.....	628,801.10	6,183,125.98
Operating materials, appliance merchandise, coal and other supplies carried at cost or less.....	1,876,875.53	21,432,676.24
Other assets:		
Notes and accounts receivable, etc., not current, less reserves of \$16,992.62.....	\$ 108,052.06	
Loans to superannuated employees secured by life insurance policies.....	195,900.05	
Special deposits and cash on deposit with trustees, not current.....	181,322.89	
Cash in closed banks, less reserves of \$85,529.79.....	35,493.52	
Construction materials.....	1,143,548.76	1,664,317.28
Deferred charges:		
Prepaid royalties, insurance, taxes, etc.....	\$ 692,376.20	
Unamortized debt discount and expense.....	17,674,843.44	
Unamortized commission and expense on sale of capital stocks.....	1,067,037.78	
Other deferred charges.....	431,049.33	19,865,306.75
Total assets and deferred charges.....		<u>\$384,644,218.33</u>

† The consolidated accounts include all subsidiary companies over 53% of whose voting stock is owned, directly or indirectly, by the Company, with the exception of Community Water Service Company and its subsidiaries and the orchard and farming subsidiaries, James Mills Orchards Corporation and Esperanza Land Corporation. Certain financial statements of these companies are included in this report and reference is made thereto.

\*These figures are derived from book figures and do not purport to be realizable values or sums which could be realized upon the sale thereof.

**AMERICAN WATER WORKS AND ELECTRIC COMPANY**  
**INCORPORATED**  
**AND SUBSIDIARY COMPANIES†**  
**CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1936**  
*Liabilities, Capital and Surplus*

Long-term debt of subsidiaries (see list on pages 34 and 35).....	\$164,662,100.00	
Preferred capital stocks of subsidiaries (see list on page 33).....	87,535,700.00	
Long-term debt of American Water Works and Electric Company, Incorporated:		
Six Per Cent. Gold Debentures, Series A, due		
November 1, 1975.....	\$ 8,000,000.00	
Five Per Cent. Gold Debentures, Series B, due		
December 1, 1975.....	3,000,000.00	
Installment note payable to bank.....	2,550,000.00	13,550,000.00
Current liabilities:		
Notes payable to banks.....	\$ 868,000.00	
Accounts payable.....	1,873,848.75	
Payrolls accrued.....	398,355.70	
Taxes accrued.....	4,237,002.86	
Interest accrued.....	1,831,014.25	
Dividends accrued.....	326,134.34	
Matured interest payable (see Note B).....	1,065,730.50	
Dividends declared on preferred stocks, payable after		
December 31, 1936.....	973,880.00	
Long-term debt due in 1937.....	421,000.00	
Miscellaneous.....	66,500.00	12,061,466.40
Customers' security and construction deposits.....		3,770,082.69
Deferred liabilities and deferred credits.....		263,601.57
Reserves:		
For renewals, retirements and depletion.....	\$36,802,630.17	
For claims, contingencies and other purposes.....	2,319,824.94	39,122,455.11
Contributions in aid of construction.....		1,278,305.03
Minority interest in common stock and surplus of subsidiaries		172,205.01
Capital stock of American Water Works and Electric Company, Incorporated:		
First Preferred Stock:		
Authorized 500,000 shares—no par value		
Issued 200,000 shares—\$6. Series (cumulative).....	\$20,000,000.00	
Common Stock:		
Authorized 2,500,000 shares—no par value		
Issued 2,352,950 shares.....	\$23,529,500.00	
Less 9,951 shares held in system.....	99,510.00	23,429,990.00
Capital surplus.....	\$ 560,894.48	
Surplus of A. W. W. & E. Co., Inc., of Va.		
(predecessor company) and subsidiaries...	6,870,889.18	
Earned surplus of A. W. W. & E. Co., Inc.		
(of Delaware) and subsidiaries.....	11,366,528.86	18,798,312.52
		62,228,302.52
		<u>\$384,644,218.33</u>
		<u>\$384,644,218.33</u>

## NOTES TO CONSOLIDATED BALANCE SHEET

*Note A:* The securities included in "miscellaneous investments" for which an active market exists are carried on the books at less than the indicated market value at December 31, 1936.

*Note B:* This item consisted principally of interest payable on January 1, 1937, on bonds of subsidiary electric and water companies, funds for the payment of which had been accumulated with the Company.

*Note C:* The various subsidiaries of the Company, in common with most companies operating public utility properties, have pending against them a number of cases involving claims arising out of alleged damages to persons or property. In the opinion of the management, the subsidiaries are protected in respect of such claims, with minor exceptions, either by insurance or by reserves set up by the various subsidiaries; and while the amounts claimed are considerably in excess of such insurance or reserves, such insurance or reserves have been in the past, in practically all cases, sufficient to take care of any settlements or judgments. The said minor exceptions consist principally of claims for damages or alleged loss from discontinuance of service, leakage, etc., for which no insurance or reserves are carried.

*Note D:* An explanation of certain matters bearing upon the amount of assets and net earnings of the Company and its subsidiary companies is given in Notes A, B and C to the Consolidated Income Account immediately following. Reference is made thereto for their bearing on the foregoing Consolidated Balance Sheet. Reference should be made to Note A of the Balance Sheet of the Company, page 20.

*Note E:* The Federal Power Commission, acting under authority of the Public Utilities Act of 1935, has prescribed for electric utilities operating under its jurisdiction, a new Uniform System of Accounts which becomes effective as of January 1, 1937, and which may result in material changes in accounting requirements, including those governing the accounting for properties. The electric utility subsidiaries of the Company intend to adhere to this new System of Accounts beginning January 1, 1937. The extent to which the new system may affect the accounts of the companies cannot at present be determined.

**AMERICAN WATER WORKS AND ELECTRIC COMPANY**  
**INCORPORATED**  
**AND SUBSIDIARY COMPANIES**  
**COMPARATIVE CONSOLIDATED INCOME ACCOUNT**

	For Year Ended		Increase or Decrease*
	Dec. 31, 1936	Dec. 31, 1935	
Operating revenues:			
Electric.....	\$33,355,563.30	\$30,285,006.26	\$3,070,557.04
Water.....	13,271,116.64	12,913,621.66	357,494.98
Gas.....	903,302.12	794,259.10	109,043.02
Railways.....	2,382,765.15	2,104,262.83	278,502.32
Bus.....	1,332,168.49	1,231,161.70	101,006.79
Other.....	77,975.64	89,742.14	11,766.50*
Total operating revenues.....	<u>\$51,322,891.34</u>	<u>\$47,418,053.69</u>	<u>\$3,904,837.65</u>
Non-operating income.....	730,160.28	400,673.02	329,487.26
Total earnings.....	<u>\$52,053,051.62</u>	<u>\$47,818,726.71</u>	<u>\$4,234,324.91</u>
Expenses:			
Operating expenses #.....	\$17,248,627.03	\$15,577,992.17	\$1,670,634.86
Maintenance #.....	4,384,206.82	3,345,185.50	1,039,021.32
Taxes—Federal income §.....	1,090,916.20	1,211,498.55	120,582.35*
Other.....	5,091,090.18	4,454,740.97	636,349.21
Reserved for renewals, retirements and depletion (see Note A).....	3,804,728.27	3,640,789.45	163,938.82
Total expenses.....	<u>\$31,619,568.50</u>	<u>\$28,230,206.64</u>	<u>\$ 3,389,361.86</u>
Gross income.....	<u>\$20,433,483.12</u>	<u>\$19,588,520.07</u>	<u>\$ 844,963.05</u>
Deductions—Subsidiaries:			
Interest.....	\$ 7,980,988.47	\$ 8,355,969.06	\$ 374,980.59*
Amortization of debt discount and expense (see Note B).....	832,125.51	356,342.61	475,782.90
Preferred dividends.....	5,712,777.58	5,713,727.78	950.20*
Minority interest.....	352.65	437.30	84.65*
Miscellaneous.....	207,188.73	151,996.35	55,192.38
	<u>\$14,733,432.94</u>	<u>\$14,578,473.10</u>	<u>\$ 154,959.84</u>
Balance.....	<u>\$ 5,700,050.18</u>	<u>\$ 5,010,046.97</u>	<u>\$ 690,003.21</u>
Deductions—American Water Works and Electric Company, Incorporated:			
Interest.....	\$ 820,454.50	\$ 1,379,200.00	\$ 558,745.50*
Amortization of debt discount and ex- pense (see Note B).....	116,190.95	124,652.70	8,461.75*
Miscellaneous.....	13,558.65	11,763.94	1,794.71
	<u>\$ 950,204.10</u>	<u>\$ 1,515,616.64</u>	<u>\$ 565,412.54*</u>
Net income (see Note C).....	<u>\$ 4,749,846.08</u>	<u>\$ 3,494,430.33</u>	<u>\$1,255,415.75</u>

# These expenses include increased maintenance and operating expenses of nearly \$500,000 caused by the flood in March, 1936, occurring in the territories served by the electric subsidiaries and certain of the water subsidiaries, and of approximately \$200,000 caused by extreme freezing conditions existing in the territories served by a number of the water subsidiaries in the early part of 1936.

§ Includes provision of approximately \$8,500 to cover estimated Federal surtax on undistributed profits for the year 1936. The decrease in the provision for Federal income tax for the year 1936, as compared with that for 1935, is due to the fact that under regulations of the Bureau of Internal Revenue approximately \$2,500,000 representing unamortized discount and expense, call premium and other expenses applicable to West Penn Power Company Series A and G Bonds refunded in 1936, was deducted in its entirety in computing the tax for the year, although it is being amortized over future years on the books of that company as explained in Note B on pages 30 and 31. This decrease more than offset the increase in Federal income taxes due to increased earnings of the system.

## NOTES TO CONSOLIDATED INCOME ACCOUNT

*Note A:* In respect of physical properties of the operating subsidiary companies, the accounts of which are included in the foregoing Consolidated Balance Sheet and Consolidated Income Account, the practice of such companies in regard to depreciation subsequent to the organization of the Company in 1927 is as hereinafter stated. Following what is believed to be a fairly general custom among companies operating public utility properties, such subsidiary companies do not set up a reserve for depreciation, obsolescence, or the like, based on an estimated or theoretical period during which various classes of physical property might become worn out or might deteriorate or might become obsolescent to such an extent as to necessitate the abandonment or retirement thereof. Such subsidiary companies have adopted the policy of maintaining their plant and property in a state of operating efficiency at all times and of charging to operating expenses the cost of ordinary current repairs, renewals and alterations, which, in the opinion of the management, make good to an appreciable extent actual depreciation. In addition it is the practice of such companies (subject as to electric railway properties to the qualification hereinafter stated in paragraph 3 below) to provide, by monthly charges to income, reserves solely for renewals and retirements. The amounts so charged to income and credited to such reserves for renewals and retirements vary with the different companies and different classes of companies.

As properties are abandoned, replaced or otherwise retired (unless the cost of replacement is charged to operating expenses as above stated) the loss in asset value represented by the property retired is deducted from or charged against such reserves. Such loss in asset value is treated as the difference between (1) the actual or estimated cost or estimated value of the property retired, plus dismantling and removal costs, and (2) the salvage value, if any, of such property. It has not been possible to determine the original cost of the physical assets in all cases.

It is the policy that the loss in asset value on account of property retirements, which is not compensated for or offset by direct charges to operating expenses, shall be deducted from or charged to such reserves. It is believed that, with possible minor exceptions, all property retirements since the organization of the Company have been accounted for as above indicated either by direct charges to operating expenses or to the reserves above mentioned. This is subject, however, to the modification in respect of railway properties stated in paragraph 3 below.

The foregoing applies generally to all properties included in the consolidated accounts subject, as to four classes of property, to the following:

1. In the case of water works properties owned and operated by such subsidiary companies, the reserve is termed "Reserve for Retirements." The amounts set aside in the reserves are computed by determining, in the case of each such company, a fixed rate applied to the value of the physical properties considered as subject to depreciation. Such rates are not uniform for the water works properties of the various water companies. In some cases the rate is fixed in a decision by or an agreement with a State Public Service Commission or an agreement with local authorities or in a local ordinance; in other cases the rates are fixed by engineers in consultation with or after consultation with the officers of the Company. In such cases, the decision as to the rate is based on long practical experience in the water works business. The values of the water works properties considered as subject to depreciation, in respect of which such rates are fixed, are likewise in some instances determined by the decision of or by an agreement with State Public Service Commissions or local authorities, and in other instances by engineers after study of the records.

**NOTES TO CONSOLIDATED INCOME ACCOUNT—(Continued)**

2. In the case of electric power properties used in the production or distribution of electricity for light, heat or power owned by such subsidiary companies, the amounts set aside in the reserves for renewals and retirements by the respective companies are determined from time to time by the officers or engineers of the respective companies, usually in consultation with or after consultation with the officers of the Company. In determining such amounts, consideration is given to mortgage requirements, the amount of earnings available for such purpose in each year, and the amount to be set aside in order that the reserves shall be maintained at an amount deemed adequate to offset loss in asset value due to retirements.

3. In the case of electric railway properties owned and operated by such subsidiary companies, the amounts set aside in the reserves for renewals and retirements by the respective companies were determined from time to time in accordance with the general principles above set forth. Since the latter part of the year 1931, such reserves as to the electric railway properties owned by one company, West Penn Railways Company, and its subsidiaries, which include the major portion of the electric railway properties, have been based only on the requirements estimated to be necessary to take care of retirements of equipment and rolling stock as determined by engineers with the approval of the executive officers of such companies and of the Company. In respect of all such subsidiary companies, amounts of loss in asset value on account of certain abandonments of railway properties have not been charged to such reserves or deducted as operating expenses. Instead, these have been charged to capital surplus and/or special reserve accounts by the respective companies (with the exception of The Potomac Edison Company, as set forth in Note C below), the railway properties of which were so retired and so charged, such capital surplus and special reserve accounts having been created or set up by such companies, respectively, out of unrealized appreciation in the value of electric power properties or other properties or investments in securities of subsidiaries owning and operating electric power properties, amounting to \$8,180,445 in the case of Monongahela West Penn Public Service Company and to \$24,813,949 in the case of West Penn Railways Company.

4. One subsidiary company, Monongahela West Penn Public Service Company, owns certain gas wells and provides a reserve for depletion which is based on the requirements of the mortgage covering the property of the said company.

---

In the Federal income tax returns of the Company and its subsidiary companies filed for the purpose of determining net income as a basis for fixing the amounts of Federal income taxes, it has been the custom to claim as a deduction from gross income amounts estimated to be allowable under the Federal statutes and the Regulations of the Bureau of Internal Revenue on account of depreciation, obsolescence and/or depletion of physical property set up on the basis of estimated life. Such amounts were based on understandings reached with the Bureau of Internal Revenue (and in effect at the present time) in accordance with what the taxing officials of said Bureau permitted as allowable depreciation or in accordance with the Regulations of the Bureau of Internal Revenue which require that depreciation be

#### NOTES TO CONSOLIDATED INCOME ACCOUNT—(Continued)

determined on the basis of estimated life tables. Inasmuch as the subsidiary companies do not in their operating accounts set up depreciation accounts as such, based on life tables, but set up reserves for renewals and retirements or for depletion of physical property by monthly charges, as hereinbefore in this note stated, the amounts so deducted in such income tax returns for depreciation were larger than the amounts actually charged by the subsidiary companies for reserves for renewals and retirements or for depletion. The amounts of such deductions used in the computation of Federal income taxes for the years 1935 and 1936, respectively, were \$6,981,730.62 and approximately \$6,923,000. As shown in the above Consolidated Income Accounts, the amounts reserved for renewals, retirements and depletion for the same periods were, for 1935, \$3,640,789.45, and for 1936, \$3,804,728.27.

*Note B:* In the year 1935, and for the years prior thereto, to and including the year 1928, the method used by the Company and its consolidated subsidiaries in computing the amount of the annual amortization charged against income on account of bond discount and expense (including call premiums) was what is known as the "effective rate method." As set forth in previous reports, under this method charges are made against income on the basis of the computed sum which, set aside annually and accumulated at compound interest at the effective rate of the bond issue, will, at the maturity date of the bond issue, amount to the total bond discount and expense involved.

This method is different from the so-called "straight line method," under which the annual amounts charged against income on account of bond discount and expense are computed by prorating the full amount of such discount and expense in equal annual installments over the life of the respective bond issues. This was the method in use by the Company and its subsidiaries prior to 1928, subject to the modification that the unamortized balance of discount and expense on bond issues retired before maturity in connection with refunding operations was written off over the life of the new refunding issues, as were also premiums paid on retirement of such bonds. For the year 1935 the amount actually charged against the income of the Company and its subsidiaries under the "effective rate method" was approximately \$266,000 less than the amount that would have been charged under the "straight line method" as formerly applied.

Effective January 1, 1936, but without revision of the balances of unamortized discount and expense then existing on the books, the Company and its subsidiaries returned to the practice of amortizing bond discount and expense under the "straight line method" as formerly used, with the exception that the unamortized balance of discount and expense on bond issues retired before maturity is to be amortized over the original life of such issues instead of over the life of the refunding issues. This change in policy has resulted in increasing the charges to income in the year 1936 on account of amortization of bond discount and expense by approximately \$445,000 over what they would have been on the basis used in 1935; this difference being somewhat increased by reason of extensive refinancing carried on in the latter part of 1935 and the beginning of 1936 by the Monongahela West Penn Public Service Company and West Penn Power Company. This change in policy also resulted in a charge to surplus account in 1936 of \$258,430.50, representing the balance of unamortized discount and expense at December 31, 1935, on refunded issues with original maturity dates prior thereto.

Under both the "effective rate method" and "straight line method" differences exist between the amounts charged to income each year by the companies and those deducted on their Federal income tax returns, due to the fact that under rules and regulations of the

NOTES TO CONSOLIDATED INCOME ACCOUNT—(Continued)

Bureau of Internal Revenue the balance of unamortized discount and expense on bonds retired before maturity and premiums paid upon retirements are deductible for tax purposes in the year in which the bonds are retired, which is different from the treatment accorded these items on the books of the companies. Further differences existed in the year 1935 and years prior thereto during which the "effective rate method" was used by the companies, due to the fact that in general the Bureau of Internal Revenue requires the use of the "straight line method" for the purpose of computing taxable net income on Federal income tax returns.

*Note C:* The above Income Account does not give effect to losses arising from the abandonment by subsidiaries of the Company of electric railway properties during the periods covered. The individual subsidiary companies (with the exception of The Potomac Edison Company, as set forth below) owning such electric railway properties or investments in companies owning such electric railway properties at the time such electric railway properties were abandoned, retired or disposed of, have charged the book value of their investments of this character to their respective capital surplus and/or special reserve accounts arising upon their books as the result of unrealized appreciation of their investments in electric and other properties, or otherwise. The book value of such railway properties, or the investments in companies owning railway properties which were abandoned, retired or disposed of by the subsidiaries, so charged to such capital surplus and/or special reserve accounts, aggregated for 1935, \$15,617.75, and for 1936, \$839,856.31. Deductions in respect of such capital losses have been or will be claimed on the Federal income tax returns of the companies affected.

Included in the consolidated accounts are those of The Potomac Edison Company and its subsidiary companies, the properties of which include electric power properties and electric railway properties. Effective December 31, 1932, The Potomac Edison Company reallocated the book values as of December 31, 1923, of various classes of property and investments acquired on the consolidation of two constituent companies, The Potomac Public Service Company and the former The Potomac Edison Company. By such reallocation the book value of the electric railway properties and electric railway investments as of that date was decreased from approximately \$5,000,000 to approximately \$830,000, with a corresponding increase in the book value of the electric and steam-heating properties and investments in securities of electric properties.

The approximate book value of the investments of the subsidiaries in electric railway properties or in securities of companies owning electric railway properties still owned by subsidiaries of the Company, including such properties of The Potomac Edison Company at their reallocated values as set forth above, as of December 31, 1936, was \$30,400,000.



**AMERICAN WATER WORKS AND ELECTRIC COMPANY**  
**INCORPORATED**  
**AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED SURPLUS ACCOUNT**  
**Year Ended December 31, 1936**

Balance at January 1, 1936.....	\$62,770,855.43
<b>Add:</b>	
Net income for year ended December 31, 1936.....	4,749,846.08
Excess of conversion price over stated book value of 602,150 shares of Common Stock of the Company issued upon conversion of \$12,043,000 principal amount of Ten Year 5% Convertible Collateral Trust Bonds.	6,021,500.00*
	\$73,542,201.51
<b>Deduct:</b>	
Dividends on capital stock of American Water Works and Electric Com- pany, Incorporated:	
\$6. Series, First Preferred.....	\$ 1,200,000.00
Common.....	937,199.60
Adjustment to eliminate from investment account the amount of write-up resulting from revaluation in 1927 still remaining on the books. (See Note A to Balance Sheet of the Company).....	49,989,566.62*
Proportion of unamortized debt discount and expense and miscellaneous conversion expenses applicable to Ten Year 5% Convertible Collateral Trust Bonds of the Company converted into common stock.....	690,322.39*
Premium on redemption of \$2,941,000 principal amount of Ten Year 5% Convertible Collateral Trust Bonds of the Company.....	58,820.00
Balance of unamortized debt discount and expense applicable to \$2,941,000 principal amount of Ten Year 5% Convertible Collateral Trust Bonds redeemed by the Company.....	155,708.22
Write-off of commission and expense on sale of capital stocks.....	109,908.80
Line construction deposits forfeited and contributions for extensions transferred to "Contributions in aid of construction"—Balance at December 31, 1935.....	1,079,898.81*
Adjustment of unamortized debt discount and expense on refunded issues with original maturity dates prior to December 31, 1935 (see Note B to Consolidated Income Account).....	258,430.50
Sundry adjustments (net).....	264,034.05
	\$54,743,888.99
Balance at December 31, 1936.....	\$18,798,312.52

\* These items represent charges and credits to capital surplus account. All other items were effected in earned surplus accounts.

*Note:* The subsidiaries of the Company have followed the practice of writing off against their respective earned surplus accounts over a period of years commission and expense incurred in the sale of their preferred stocks. However, prior to 1936 in arriving at the amounts of consolidated capital surplus and consolidated earned surplus on the Consolidated Balance Sheet such commission and expense written off had been treated as a deduction from consolidated capital surplus instead of a deduction from consolidated earned surplus.

At December 31, 1936 commission and expense so written off was deducted from surplus of American Water Works and Electric Company, Incorporated (of Virginia), predecessor company, due to the adjustment of capital surplus referred to in Note A to the Balance Sheet of the Company.

## PREFERRED CAPITAL STOCKS OF SUBSIDIARIES

AS OF DECEMBER 31, 1936

Subsidiary Company and Title of Issue	Par value	Amount outstanding with public
American Communities Company: Preferred Stock.....	No par	†\$540,000
The Birmingham Water Works Company: 6% Cumulative Preferred Stock.....	\$100	2,499,500
The Butler Water Company: 7% Cumulative First Preferred Stock.....	100	250,000
City Water Company of Chattanooga: 6% Cumulative Preferred Stock.....	100	1,000,000
Clinton Water Works Company: 7% Cumulative Preferred Stock.....	100	200,000
Commonwealth Water and Light Company: First Preferred Stock, \$7 Series (cumulative).....	No par	*630,000
First Preferred Stock, \$6 Series (cumulative).....	No par	*141,300
Davenport Water Company: 6% Cumulative Preferred Stock, Series A.....	100	157,500
East St. Louis and Interurban Water Company: Cumulative First Preferred Stock, 7% Series.....	100	825,300
Cumulative First Preferred Stock, 6% Series.....	100	550,000
Huntington Water Corporation: Cumulative Preferred Stock, 7% Series.....	100	375,000
Cumulative Preferred Stock, 6% Series.....	100	33,300
Joplin Water Works Company: 6% Cumulative Preferred Stock.....	100	189,000
Kokomo Water Works Company: 6% Cumulative Preferred Stock.....	100	250,000
Monmouth Consolidated Water Company: Cumulative Preferred Stock, \$7 Series.....	No par	*3,700
Monongahela Valley Water Company: 7% Cumulative Preferred Stock.....	100	200,000
Muncie Water Works Company: 8% Cumulative First Preferred Stock.....	100	250,000
The City of New Castle Water Company: 6% Cumulative Preferred Stock.....	100	110,300
Richmond Water Works Corporation: 6% Cumulative Preferred Stock.....	100	200,000
South Pittsburgh Water Company: 7% Cumulative Preferred Stock.....	100	698,400
6% Cumulative Preferred Stock.....	100	500,000
5% Cumulative Preferred Stock.....	50	550
The Terre Haute Water Works Corporation: 7% Cumulative Preferred Stock.....	100	325,000
The Wichita Water Company: 7% Cumulative Preferred Stock.....	100	350,000
The West Penn Electric Company: 7% Cumulative Preferred Stock.....	100	16,883,600
6% Cumulative Preferred Stock.....	100	11,944,700
Class A Stock (\$7 cumulative).....	No par	*5,439,100
West Penn Power Company: 7% Cumulative Preferred Stock.....	100	12,707,700
6% Cumulative Preferred Stock.....	100	16,992,100
Monongahela West Penn Public Service Company: 7% Cumulative Preferred Stock.....	25	6,698,800
The Potomac Edison Company: 6% Preferred Stock (cumulative).....	100	3,460,200
7% Preferred Stock (cumulative).....	100	2,918,250
Potomac Light and Power Company: 6% Cumulative Preferred Stock.....	100	212,400
Total per Consolidated Balance Sheet as of December 31, 1936.....		<u>\$87,535,700</u>

\*Represents the amount which the holders are entitled to receive in the event of dissolution or liquidation.

†Represents amount at which carried on books—entitled in liquidation to \$900,000.

## LONG-TERM DEBT OF SUBSIDIARIES

AS OF DECEMBER 31, 1936

Subsidiary Company and Title of Issue	Maturity date	Amount outstanding with public
Alton Water Company: First Mortgage 5% Gold Bonds, Series A.....	Apr. 1, 1956	\$800,000
The Ashtabula Water Works Company: First Mortgage 5% Gold Bonds, Series A.....	Apr. 1, 1958	750,000
Atlantic County Water Company of New Jersey: First Mortgage 5% Gold Bonds, Series A.....	Mar. 1, 1958	600,000
The Bernards Water Company: First Mortgage Bonds, 6%.....	Nov. 1, 1942	32,000
The Birmingham Water Works Company: First Mortgage 5½% Gold Bonds, Series A.....	Oct. 1, 1954	5,500,000
First Mortgage 5% Gold Bonds, Series B.....	Dec. 1, 1954	460,000
First Mortgage 5% Gold Bonds, Series C.....	Feb. 1, 1957	3,893,000
The Butler Water Company: First Mortgage 5% Gold Bonds, Series A.....	Oct. 1, 1957	1,000,000
City Water Company of Chattanooga: First Mortgage 5% Gold Bonds, Series B.....	Dec. 1, 1954	316,000
First Mortgage 5% Gold Bonds, Series C.....	May 1, 1957	3,500,000
Clinton Water Works Company: First Mortgage Gold Bonds (5%).....	Aug. 1, 1939	454,000
Commonwealth Water Company: First Mortgage Gold Bonds, Series A (5½%).....	Dec. 1, 1947	3,300,000
First Mortgage Gold Bonds, Series B (5%).....	Feb. 1, 1956	210,000
First Mortgage Gold Bonds, Series C (5%).....	June 1, 1957	1,500,000
The Connellsville Water Company: Forty Year Gold Bonds (5%).....	Oct. 2, 1939	499,000
Davenport Water Company: First Mortgage 5% Gold Bonds, Series A.....	Jan. 1, 1961	1,600,000
East St. Louis and Interurban Water Company: First Mortgage Gold Bonds, Series A (5%).....	July 1, 1942	3,437,100
First Mortgage Gold Bonds, Series B (6%).....	July 1, 1942	1,555,000
First Mortgage Gold Bonds, Series D (5%).....	Feb. 1, 1960	2,481,000
Huntington Water Corporation: First Mortgage Six Per Cent. Gold Bonds, Series A.....	Mar. 1, 1954	1,300,000
First Mortgage 5% Gold Bonds, Series B.....	Dec. 1, 1954	575,000
First Mortgage 5% Gold Bonds, Series C.....	Apr. 1, 1962	350,000
Joplin Water Works Company: First Mortgage 5% Gold Bonds, Series A.....	Mar. 1, 1957	1,100,000
Kokomo Water Works Company: First Mortgage 5% Gold Bonds, Series A.....	June 1, 1958	700,000
Monmouth Consolidated Water Company: First Mortgage 5% Gold Bonds, Series A.....	June 1, 1956	3,564,000
Monongahela Valley Water Company: First Mortgage 5½% Gold Bonds, Series A.....	Jan. 1, 1950	726,000
The Morgantown Water Company: First Mortgage Bonds, Series A, 5%.....	Jan. 1, 1965	500,000
Muncie Water Works Company: First Mortgage Bonds, Series A, 5%.....	May 1, 1965	870,000

## LONG-TERM DEBT OF SUBSIDIARIES—(Continued)

AS OF DECEMBER 31, 1936

Subsidiary Company and Title of Issue	Maturity date	Amount outstanding with public
The City of New Castle Water Company: Forty Year Gold Bonds (5%).....	Dec. 2, 1941	\$1,000,000
Richmond Water Works Corporation: First Mortgage 5% Gold Bonds, Series A.....	May 1, 1957	1,120,000
The St. Joseph Water Company: First Mortgage Bonds, Series A, 4%.....	Apr. 1, 1966	2,600,000
South Pittsburgh Water Company: First Mortgage Fifty Year Gold Bonds (5%).....	Aug. 1, 1955	3,348,000
First Lien and Refunding Mortgage 5% Gold Bonds, Series A.....	Jan. 1, 1960	1,190,000
First Lien and Refunding Mortgage 5% Gold Bonds, Series B.....	Jan. 1, 1960	1,850,000
The Terre Haute Water Works Corporation: First Mortgage Six Per Cent. Gold Bonds, Series A.....	June 1, 1949	1,595,500
First Mortgage 5% Gold Bonds, Series B.....	Feb. 1, 1956	355,000
Texarkana Water Corporation: First Mortgage 5% Gold Bonds, Series A.....	Feb. 1, 1958	600,000
The Warren Water Company: Gold Mortgage Bonds (5%).....	July 1, 1948	51,500
The Wichita Water Company: First Mortgage Six Per Cent. Gold Bonds, Series A.....	Mar. 1, 1949	1,400,000
First Mortgage 5% Gold Bonds, Series B.....	Feb. 1, 1956	350,000
First Mortgage 5% Gold Bonds, Series C.....	Nov. 1, 1960	1,000,000
The West Penn Electric Company: Gold Debentures, 5% Series due 2030.....	Apr. 1, 2030	5,000,000
West Penn Power Company: First Mortgage Gold Bonds, Series E, 5%.....	Mar. 1, 1963	12,500,000
First Mortgage Gold Bonds, Series H, 4%.....	July 1, 1961	10,000,000
First Mortgage Bonds, Series I, 3½%.....	Jan. 1, 1966	27,000,000
Monongahela West Penn Public Service Company: First Mortgage Bonds, 4½% Series due 1960.....	Oct. 1, 1960	22,000,000
Six Per Cent. Debentures, Due 1965.....	Oct. 1, 1965	7,500,000
Marietta and Parkersburg Bridge Company: The Ohio River Bridge & Ferry Co., First Mortgage Five Per Cent. Gold Bonds.....	Jan. 1, 1942	238,000
The West Maryland Power Company: 5% Purchase Money Obligation.....	July 1, 1961	24,000
West Penn Railways Company: West Penn Traction Co., First Mortgage Five Per Cent. Gold Bonds.....	June 1, 1960	4,634,000
Steubenville, Wellsburg and Weirton Railway Company: Five Per Cent. First Mortgage Bonds.....	Apr. 1, 1951	684,000
The Potomac Edison Company: First Mortgage Gold Bonds, Series E, 5%.....	Nov. 1, 1956	11,981,000
First Mortgage Gold Bonds, Series F, 4½%.....	Apr. 1, 1961	5,000,000
4% Promissory Note.....	June 28, 1938	69,000
Total per Consolidated Balance Sheet as of December 31, 1936.....		<u>\$164,662,100</u>

## EARNINGS OF THE WEST PENN ELECTRIC COMPANY

The consolidated earnings of The West Penn Electric Company and subsidiary companies for the years ended December 31, 1936 and 1935 are as follows:

	For Year Ended		Increase or Decrease*
	Dec. 31, 1936	Dec. 31, 1935	
Operating revenues:			
Electric:			
Residential.....	\$ 9,879,624.64	\$ 9,000,390.65	\$ 879,233.99
Commercial.....	5,824,533.54	5,521,425.76	303,107.78
Industrial.....	16,419,681.24	14,616,591.40	1,803,089.84
Other.....	1,243,233.67	1,155,470.25	87,763.42
Total electric.....	\$33,367,073.09	\$30,293,878.06	\$3,073,195.03
Gas.....	903,302.12	794,259.10	109,043.02
Railways.....	2,382,765.15	2,104,262.83	278,502.32
Bus.....	1,332,168.49	1,231,161.70	101,006.79
Other.....	116,786.17	127,367.94	10,581.77*
Total operating revenues.....	\$38,102,095.02	\$34,550,929.63	\$3,551,165.39
Non-operating income.....	465,583.39	348,371.27	117,212.12
Total earnings.....	\$38,567,678.41	\$34,899,300.90	\$3,668,377.51
Expenses:			
Operating expenses.....	\$13,199,634.75	\$11,851,386.43	\$1,348,248.32
Maintenance.....	3,599,829.94	2,813,444.71	786,385.23
Taxes—Federal income.....	811,254.46	952,632.57	141,378.11*
Other.....	3,418,308.95	2,858,648.99	559,659.96
Reserved for renewals, retirements and depletion.....	2,961,815.14	2,778,907.37	182,907.77
Total expenses.....	\$23,990,843.24	\$21,255,020.07	\$2,735,823.17
Gross income.....	\$14,576,835.17	\$13,644,280.83	\$ 932,554.34
Deductions:			
Interest.....	\$ 4,908,693.01	\$ 5,160,992.09	\$ 252,299.08*
Amortization of debt discount and ex- pense.....	641,749.14	234,994.82	406,754.32
Preferred dividends of subsidiaries.....	2,804,870.78	2,803,942.32	928.46
Miscellaneous.....	179,869.14	118,870.85	60,998.29
Total deductions.....	\$ 8,535,182.07	\$ 8,318,800.08	\$ 216,381.99
Net income.....	\$ 6,041,653.10	\$ 5,325,480.75	\$ 716,172.35

## EARNINGS OF SUBSIDIARY WATER COMPANIES

The combined earnings of the subsidiary water companies (excluding subsidiaries of Community Water Service Company) for the years ended December 31, 1936 and 1935, are shown below. The earnings for these years do not include income unrealized by certain companies under contracts with the cities served.

	For Year Ended		Increase or Decrease*
	Dec. 31, 1936	Dec. 31, 1935	
<b>Operating revenues:</b>			
Domestic.....	\$ 6,217,977.95	\$ 6,125,298.15	\$ 92,679.80
Commercial.....	3,123,539.32	3,080,536.32	43,003.00
Industrial.....	2,263,943.09	2,000,146.92	263,796.17
Municipal.....	1,605,190.16	1,654,141.19	48,951.03*
Other.....	22,044.33	15,873.28	6,171.05
<b>Total operating revenues.....</b>	<b>\$13,232,694.85</b>	<b>\$12,875,995.86</b>	<b>\$356,698.99</b>
Non-operating income.....	47,540.42	47,792.86	252.44*
<b>Total earnings.....</b>	<b>\$13,280,235.27</b>	<b>\$12,923,788.72</b>	<b>\$356,446.55</b>
<b>Expenses:</b>			
Operating expenses.....	\$ 3,593,096.04	\$ 3,358,712.66	\$234,383.38
Maintenance.....	784,376.88	531,740.79	252,636.09
Taxes—Federal income.....	273,341.31	258,865.98	14,475.33
Other.....	1,619,146.00	1,576,963.40	42,182.60
Reserved for retirements.....	842,913.13	861,882.08	18,968.95*
<b>Total expenses.....</b>	<b>\$ 7,112,873.36</b>	<b>\$ 6,588,164.91</b>	<b>\$524,708.45</b>
<b>Gross income.....</b>	<b>\$ 6,167,361.91</b>	<b>\$ 6,335,623.81</b>	<b>\$168,261.90*</b>
<b>Deductions:</b>			
Interest.....	\$ 3,570,440.87	\$ 3,695,048.07	\$124,607.20*
Amortization of debt discount and ex- pense.....	190,376.37	121,347.79	69,028.58
Miscellaneous.....	38,674.69	39,757.93	1,083.24*
<b>Total deductions.....</b>	<b>\$ 3,799,491.93</b>	<b>\$ 3,856,153.79</b>	<b>\$ 56,661.86*</b>
<b>Net income.....</b>	<b>\$ 2,367,869.98</b>	<b>\$ 2,479,470.02</b>	<b>\$111,600.04*</b>

*Note:* The amounts of "Increase" or "Decrease" shown above have been affected by the following decreases for the year in the income account of one subsidiary, Arkansas Water Company, caused largely by the sale of the Little Rock properties of that company as of April 1, 1936: Total earnings, \$378,274.80; Total expenses, \$201,990.84; Total deductions (for interest, etc.), \$124,341.62; and Net income, \$51,942.34.

## EARNINGS OF CALIFORNIA PROPERTIES

The combined earnings of James Mills Orchards Corporation and Esperanza Land Corporation, which are land, orchards and farming subsidiaries of American Water Works and Electric Company, Incorporated, for the years ended December 31, 1936 and 1935, are shown below:

### JAMES MILLS ORCHARDS CORPORATION AND ESPERANZA LAND CORPORATION

#### COMBINED INCOME ACCOUNT

	For Year Ended	
	Dec. 31, 1936	Dec. 31, 1935
Sales of fruit, livestock and field crops.....	\$568,781.00	\$291,046.77
Cost of goods sold.....	423,144.15	217,996.62
	<hr/>	<hr/>
Gross profits.....	\$145,636.85	\$ 73,050.15
Other income.....	15,205.70	32,409.11
	<hr/>	<hr/>
Gross earnings.....	\$160,842.55	\$105,459.26
Expenses:		
Taxes.....	\$ 7,164.41	\$ 6,951.01
Maintenance.....	20,987.61	15,306.27
Reserved for retirements.....	37,435.54	32,250.73
General and administrative.....	64,740.70	58,787.97
	<hr/>	<hr/>
Total expenses.....	\$130,328.26	\$113,295.98
	<hr/>	<hr/>
Net income or (loss) from operations before interest to American Water Works and Electric Company, In- corporated.....	<hr/> \$ 30,514.29	<hr/> \$ (7,836.72)





# COMMUNITY WATER SERVICE COMPANY

## BALANCE SHEET AS OF DECEMBER 31, 1936

### *Assets and Deferred Charges*

#### Investments:

Securities and notes of subsidiary companies (see Notes B and D).....	\$9,366,614.50
Other security investments.....	17,261.00

Total investments.....	\$ 9,383,875.50*
Accounts receivable from subsidiary companies.....	269,009.79*

#### Current assets:

Cash in bank.....	\$ 263,840.20
Accrued interest and dividends receivable from subsidiary companies.....	3,597.70
Miscellaneous accounts receivable, less reserve.....	721.38

Total current assets.....	268,159.28
---------------------------	------------

#### Deferred charges:

Unamortized debt discount and expense (see Note B).....	\$ 507,504.53
Unamortized commission and expense on sale of preferred stocks of subsidiary companies (see Note B).....	122,863.33
Other deferred charges.....	500.00

Total deferred charges.....	630,867.86
-----------------------------	------------

---

Total assets and deferred charges.....	<u>\$10,551,912.43</u>
--	------------------------

\* These are book figures and do not purport to represent realizable values or sums which could be realized on the sale thereof.

# COMMUNITY WATER SERVICE COMPANY

## BALANCE SHEET AS OF DECEMBER 31, 1936

### *Liabilities, Capital and Deficit*

**Funded debt:**

6% Gold Debentures, Series A, due December 1, 1946 (less in treasury).....	\$2,822,000.00	
5.50% Gold Debentures, Series B, due March 1, 1946 (less in treasury).....	2,591,000.00	
Total funded debt.....		\$ 5,413,000.00

**Current liabilities:**

Accounts payable to subsidiary and affiliated companies..	\$ 215,806.29	
Accounts payable to others.....	7,472.48	
Interest accrued.....	61,611.67	
Taxes accrued (see Note C).....	125,435.75	
Total current liabilities.....		410,326.19

**Capital stock and deficit:**

<b>\$7 Cumulative First Preferred Stock*:</b>		
Authorized 100,000 shares—no par value (liquidating value \$100 per share)		
Issued 39,078 shares.....	\$3,620,972.00	
Less 15 shares held in treasury.....	1,389.90	3,619,582.10
<b>Common Stock:</b>		
Authorized 1,500,000 shares—par value \$1 per share		
Issued 1,124,555 shares.....	\$1,124,555.00	
Deficit.....	15,550.86	1,109,004.14
Total liabilities, capital stock and deficit.....		\$10,551,912.43

\* Cumulative preferred dividends not declared or accrued totaled \$1,321,631.50 at December 31, 1936.

## NOTES TO BALANCE SHEET

*Note A:* The balance sheet of Community Water Service Company should be read in conjunction with the consolidated balance sheet of the Company and its consolidated subsidiary companies and the notes appended thereto (pages 46 to 48, inclusive) to which reference is made.

*Note B:* In 1934, the Company charged to surplus, debt discount and expense (less profit) on the sale of bonds of certain subsidiary companies, and also charged debt discount and expense on the sale of bonds of a subsidiary company to the cost of investment in other securities of such subsidiary company. It also charged commission and expense on the sale of preferred stocks of certain subsidiary companies to its investment in other securities of such subsidiary companies. Effective December 31, 1936, such entries were reversed and the amounts thereof transferred to unamortized debt discount and expense and unamortized commission and expense on sale of capital stocks, respectively, concurrent adjustments being made to amortize debt discount and expense to December 31, 1936. The effect of these adjustments at December 31, 1936 was to charge to unamortized bond discount and expense and to unamortized commission and expense on sale of preferred stocks the sums of \$255,799.16 and \$122,863.33, respectively, and to credit to investments in securities of subsidiary companies and earned surplus the sums of \$328,300.00 and \$50,362.49, respectively. Such adjustments resulted in an increase of \$22,426.98 in the charge to income on account of bond discount and expense in 1936. The commission and expense on sale of preferred stocks is being amortized over a period of thirty years from January 1, 1936.

*Note C:* The Federal income tax liability of the Company and its subsidiary companies has not been determined finally by the Bureau of Internal Revenue for the year 1929 and the years 1931 to 1935, inclusive. Such final determination may involve in some cases the payment of additional taxes to the government; but the Company believes that ample provision, in the aggregate, has been made in the accounts of the Company and its subsidiary companies to cover any additional taxes that may be finally assessed.

*Note D:* Included in securities and notes of subsidiary companies is a note receivable from Woodbridge Building Corporation amounting to \$1,200,000. Based on an oral offer received by the Woodbridge Building Corporation for its properties, which was refused by that corporation, the Company's equity in the assets of that subsidiary would not exceed \$250,000. Also included in securities and notes are investments in certain subsidiary companies which are negotiating with municipalities served for the sale of their properties. It is estimated that if such sales are consummated, there will be resulting profits to the Company in excess of the possible loss on the note of Woodbridge Building Corporation.

# COMMUNITY WATER SERVICE COMPANY

## COMPARATIVE INCOME ACCOUNT

	For Year Ended		Increase or
	Dec. 31, 1936	Dec. 31, 1935	Decrease*
<b>Earnings:</b>			
Dividends from subsidiary companies (see Note A)	\$388,782.44	\$422,490.95	\$33,708.51*
Interest from subsidiary companies.....	23,023.82	36,315.05	13,291.23*
Other income.....	654.48	191.37	463.11
	<u>\$412,460.74</u>	<u>\$458,997.37</u>	<u>\$46,536.63*</u>
<b>Expenses:</b>			
Salaries, rents, taxes and other expenses after deducting proportion charged to subsidiary companies (see Note B).....	48,318.71	27,808.40	20,510.31
	<u>\$364,142.03</u>	<u>\$431,188.97</u>	<u>\$67,046.94*</u>
<b>Deductions:</b>			
Interest on funded debt.....	\$311,825.00	\$320,125.52	\$ 8,300.52*
Interest on accounts payable to subsidiary companies.....	14,364.45	18,157.53	3,793.08*
Other interest.....	5,292.35	5,282.27	10.08
Amortization of debt discount and expense (see Note B to Balance Sheet).....	48,878.42	27,241.41	21,637.01
Payments under tax covenants on bonds.....	5,192.53	4,768.76	423.77
	<u>\$385,552.75</u>	<u>\$375,575.49</u>	<u>\$ 9,977.26</u>
	<u><u>\$(21,410.72)</u></u>	<u><u>\$ 55,613.48</u></u>	<u><u>\$77,024.20*</u></u>

*Note A:* The Company's equity in the earnings of consolidated subsidiary companies exceeded the dividend income from such subsidiaries by \$68,141.69. The loss of The New Rochelle Water Company, a subsidiary not consolidated during 1936, before provision for cumulative preferred dividends of \$136,500, amounted to \$77,872.87. No provision for this loss has been made in the above statement, as the Company's investment in this subsidiary has been written down to a nominal amount.

*Note B:* Substantially all administrative expenses were paid by American Water Works and Electric Company, Incorporated, subsequent to May 1, 1936. Salaries and other expenses paid by the Company after that date were not charged to subsidiaries.

*Note C:* The above income account should be read in conjunction with the consolidated income account of Community Water Service Company and its consolidated subsidiary companies and notes appended thereto (pages 51 to 53, inclusive) to which reference is made.

# COMMUNITY WATER SERVICE COMPANY

## EARNED SURPLUS (DEFICIT) ACCOUNT

Year Ended December 31, 1936

Earned surplus at January 1, 1936.....		\$ 80,009.27
Deduct:		
Net loss for year ended December 31, 1936.....		21,410.72
		\$ 58,598.55
Add:		
Reinstatement of unamortized debt discount and expense and profit on bonds of certain subsidiaries sold by the Company previously charged to surplus—less amortization to December 31, 1935.....		88,746.54
		\$147,345.09
Deduct:		
Additional provision for prior years' Federal income taxes...	\$ 55,329.01	
Write-down of investment in The New Rochelle Water Company to a nominal amount.....	36,716.00	
Adjustment of investment in Woodbridge Building Corporation representing income of prior years not considered as having been earned by the subsidiary.....	55,983.77	
Amortization for 1935 of discount and expense on bonds of a subsidiary company sold by the Company and previously included in investments in subsidiary companies.....	11,720.40	
Amortization of commission and expense on preferred stocks of subsidiary companies sold by the Company.....	4,236.67	
	\$163,985.85	
Less: Capital surplus at January 1, 1936.....		1,089.90
		162,895.95
Deficit at December 31, 1936.....		\$ 15,550.86



**COMMUNITY WATER SERVICE COMPANY  
AND CONSOLIDATED SUBSIDIARY COMPANIES (See Note A)  
CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1936**

*Assets and Deferred Charges*

Property, plant and equipment (see Note B).....		\$58,687,351.25*
(Comprising water pumping stations, reservoirs, water distribution systems, real estate, etc., and intangibles, including appreciation from appraisals by independent engineers, and also including the excess of the book values of investments in securities of consolidated subsidiaries over the par or stated values (together with purchased surplus) of such securities amounting to approximately \$7,500,000.)		
Miscellaneous investments (including investment in subsidiary not consolidated).....		22,688.00*
Current assets:		
Cash in banks and on hand.....	\$1,324,147.09	
Cash deposited with trustees and others.....	223,093.21	
Customers accounts receivable, including municipal.....	\$1,048,805.45	
Miscellaneous notes and accounts receivable.....	22,104.42	
	\$1,070,909.87	
Less reserves for doubtful notes and accounts receivable.....	70,894.88	1,000,014.99
Operating materials, coal and other supplies, carried at approximate cost.....	47,940.36	
Total current assets.....		2,595,195.65
Other assets:		
Notes and accounts receivable, etc., not current, less reserves of \$30,578.72.....	\$ 17,473.83	
Cash, notes and securities deposited in sinking fund, with trustees, etc.....	73,493.87	
Cash in closed banks, less reserves of \$13,867.30.....	1,609.41	
Construction materials (quantity and condition determined by management).....	270,688.19	363,265.30
Deferred charges:		
Prepaid insurance, taxes, etc.....	\$ 39,844.53	
Unamortized debt discount and expense.....	2,329,256.45	
Unamortized commission and expense on sale of preferred stocks.....	195,022.17	
Unamortized rate case expense.....	50,736.07	
Other deferred charges.....	48,568.61	2,663,427.83
Total assets and deferred charges.....		\$64,331,928.03

\* These figures are derived from book figures and do not purport to be realizable values or sums which could be realized upon the sale thereof.

**COMMUNITY WATER SERVICE COMPANY  
AND CONSOLIDATED SUBSIDIARY COMPANIES  
CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1936**

***Liabilities, Capital and Surplus***

Funded debt of subsidiaries (see list on page 49).....		\$35,258,900.00
Preferred capital stocks of subsidiaries (liquidating value \$8,026,250.00) (see list on page 50).....		7,951,460.00
Funded debt of Community Water Service Company:		
6% Gold Debentures, Series A, due December 1, 1946 (less in treasury).....	\$2,822,000.00	
5.50% Gold Debentures, Series B, due March 1, 1946 (less in treasury).....	<u>2,591,000.00</u>	5,413,000.00
Current liabilities:		
Notes payable to banks.....	\$239,375.76	
Accounts payable.....	291,542.38	
Payrolls accrued.....	26,152.17	
Taxes accrued.....	635,405.04	
Interest accrued.....	561,453.29	
Dividends accrued.....	16,991.33	
Dividends declared on preferred stocks, payable after December 31, 1936.....	75,538.86	
Mortgage payable in 1937.....	8,000.00	
Due to subsidiary and affiliated companies, not con- solidated.....	<u>200,356.49</u>	
Total current liabilities.....		2,054,815.32
Customers' security and construction deposits.....		683,186.09
Deferred liabilities.....		51,657.75
Reserves:		
For retirements.....	\$6,352,440.20	
For sinking fund and other purposes.....	<u>75,932.11</u>	6,428,372.31
Contributions in aid of construction.....		583,364.51
Minority interest in common stock and surplus of subsidia- ries, including accrued dividends in arrears on the pre- ferred stock of a subsidiary in hands of the public, amount- ing to \$64,809.....		278,731.42
Capital stock of Community Water Service Company:		
\$7 Cumulative First Preferred Stock:* Authorized 100,000 shares—no par value (liquidating value \$100 per share) Issued 39,078 shares.....	\$3,620,972.00	
Less 15 shares held in treasury.....	<u>1,389.90</u>	
		\$3,619,582.10
Common stock: Authorized 1,500,000 shares—par value \$1 per share Issued 1,124,555 shares.....		1,124,555.00
Surplus:		
Capital surplus (see Note B).....	\$ 16,139.61	
Earned surplus.....	<u>868,163.92</u>	884,303.53
Total liabilities, capital and surplus.....		<u>5,628,440.63</u>
		<u>\$64,331,928.03</u>

\* Cumulative preferred dividends not declared or accrued totaled \$1,321,631.50 at December 31, 1936.



## NOTES TO CONSOLIDATED BALANCE SHEET

*Note A:* An explanation of certain matters bearing on the assets and net earnings of the Company and its consolidated subsidiary companies is given in Notes B, C and D to the balance sheet of the Company and Notes A and B to the consolidated income account. Reference is made thereto for their bearing on the foregoing consolidated balance sheet.

The accounts of The New Rochelle Water Company, the investment in the securities (common stock) of which has been written down on the books of Community Water Service Company to a nominal amount, are not included in the consolidated financial statements of Community Water Service Company and its consolidated subsidiaries as shown. The Public Service Commission of the State of New York in October, 1935, ordered revisions in the rates of The New Rochelle Water Company effective November 1, 1935, estimated by the Commission to reduce gross revenues of that company by approximately \$245,000 per annum. As a result of the pending reduction in rates, The New Rochelle Water Company suffered a loss in the year 1936 of \$77,872.87 before cumulative preferred dividend requirements for the year of \$136,500, or a total deficit in earnings applicable to its common stock of \$214,372.87.

It is believed that to reflect any such substantial deficit in the consolidated income accounts of Community Water Service Company, when this deficit is in no sense a drain on the earnings of the consolidated system or a loss to the stockholders of Community Water Service Company, would present a misleading picture of the results of the consolidated operations for the year. Accordingly, the accounts of The New Rochelle Water Company have been eliminated from the consolidated accounts for the year 1936, and the consolidated income account for the year 1935 as shown has also been adjusted to effect the same elimination and place it on a comparable basis with the consolidated income account for the year 1936.

*Note B:* The subsidiary holding companies and certain of the subsidiary operating companies have carried on their books for a number of years write-ups from appraisals and related capital surplus and retirement reserve accounts. During 1936, approximately \$17,500,000 of such write-ups, carried in the accounts as at December 31, 1935, were written off or eliminated with corresponding reductions in capital surplus and related retirement reserve accounts. As shown in the consolidated balance sheet, there is included in property, plant and equipment at December 31, 1936, approximately \$7,500,000 representing the excess of the book values of investments in securities of consolidated subsidiaries over the par or stated values (including purchased surplus) of such securities. Prior to 1936, it was the Company's practice to deduct this excess from capital surplus in consolidation. The net effect of all of the above has been to decrease consolidated property, plant and equipment by approximately \$10,000,000 with a corresponding decrease in capital surplus and related retirement reserve accounts.

**Funded Debt of Subsidiaries of  
COMMUNITY WATER SERVICE COMPANY  
(Excluding The New Rochelle Water Company)  
AS OF DECEMBER 31, 1936**

Subsidiary Company and Title of Issue	Maturity date	Amount outstanding with public
Bristol County Water Company:		
First Mortgage 3¾% Bonds, Series A.....	July 1, 1956	\$850,000
The Cairo Water Company:		
First Mortgage 4½% Bonds, Series A.....	Oct. 1, 1955	375,000
The Citizens Water Company of Washington, Pa.:		
First Mortgage 5¾% Gold Bonds, Series A.....	July 1, 1951	1,449,600
First Mortgage 5% Gold Bonds, Series B.....	July 1, 1951	560,000
Cohasset Water Company:		
First Mortgage 6% Bonds.....	May 1, 1938	80,000
Dedham Water Company:		
First Mortgage Twenty-Year 4¼% Bonds, Series A.....	May 1, 1955	400,000
Greenwich Water and Gas System, Inc.:		
Collateral Trust 5% Twenty-Five Year Gold Bonds, Series A.....	Apr. 1, 1952	4,149,500
Collateral Trust 5% Gold Bonds, Series B.....	Apr. 1, 1952	1,520,000
Greenwich Water Company:		
First Mortgage Twenty-Five Year 3¾% Bonds, Series B.....	Jan. 1, 1961	1,330,000
Hingham Water Company:		
First Mortgage 5% Gold Bonds.....	June 1, 1943	*400,000
Lexington Water Company:		
Refunding Mortgage 5.50% Gold Bonds, Series A.....	Aug. 1, 1940	1,413,000
Mortgage Refunding 5% Bonds.....	Apr. 1, 1960	536,000
New Jersey Water Company:		
First Mortgage 5% Gold Bonds, Series A.....	Aug. 1, 1950	1,593,000
Ohio Cities Water Corporation:		
First Mortgage Collateral Trust 5.50% Gold Bonds, Series A.....	July 1, 1953	1,414,000
Pennsylvania State Water Corporation:		
First Collateral Trust Bonds, 4¾% Series due 1966.....	Nov. 1, 1966	7,250,000
Peoria Water Works Company:		
Prior Lien Gold Bonds (5%).....	May 1, 1948	800,000
First Consolidated Mortgage Gold Bonds (4%).....	May 1, 1948	1,152,000
First Consolidated Mortgage Gold Bonds (5%).....	May 1, 1948	158,000
First and Refunding Mortgage 5% Gold Bonds, Series A.....	Aug. 1, 1950	1,767,000
4% Debenture Bonds.....	Nov. 1, 1950	124,300
Wannacomet Water Company:		
Mortgage and Refunding Bonds (6%).....	Aug. 1, 1940	36,500
Westmoreland Water Company:		
First Mortgage 5% Gold Bonds, Series A.....	Dec. 1, 1952	2,775,000
Williamsport Water Company:		
First Mortgage 5% Gold Bonds, Series A.....	Aug. 1, 1952	2,673,000
Williamstown Water Company:		
First Mortgage Bonds (6%).....	May 1, 1940	146,000
Woodbridge Building Corporation:		
First Mortgage 5¾% Sinking Fund Gold Loan.....	Apr. 1, 1941	2,124,500
7% General Mortgage Sinking Fund Gold Bonds.....	Apr. 1, 1940	182,500
Total per Consolidated Balance Sheet as of December 31, 1936.....		\$35,258,900

\*\$25,000 principal amount thereof is in sinking fund held by Trustee.

**Preferred Capital Stocks of Subsidiaries of  
COMMUNITY WATER SERVICE COMPANY  
(Excluding The New Rochelle Water Company\*)  
AS OF DECEMBER 31, 1936**

Subsidiary Company and Title of Issue	Par value	Amount outstanding with public
The Citizens Water Company of Washington, Pa.: 7% Cumulative Preferred Stock.....	\$100	\$569,700
Greenwich Water and Gas System, Inc.: Preferred Stock (6% Cumulative).....	100	2,560,400
Lexington Water Company: 7% Cumulative Preferred Stock.....	100	324,000
The Marion Water Company: Preferred Stock (7% Cumulative).....	100	457,600
New Jersey Water Company: Preferred Stock (7% Cumulative).....	100	300,550
Ohio Cities Water Corporation: \$6 Cumulative Preferred Stock, Series A.....	No par	†200,112
Pennsylvania State Water Corporation: \$7 Cumulative Preferred Stock.....	No par	\$1,910,200
Peoria Water Works Company: Preferred Stock (7% Cumulative).....	100	250,000
Westmoreland Water Company: \$6 Cumulative Preferred Stock.....	No par	\$634,700
Williamsport Water Company: \$6 Cumulative Preferred Stock.....	No par	†744,198
Total per Consolidated Balance Sheet as of December 31, 1936.....		\$7,951,460

\* Cumulative preferred dividends not declared or accrued by The New Rochelle Water Company totaled \$182,000 at December 31, 1936.

§ Represents the amount which the holders are entitled to receive in the event of dissolution or liquidation.

† Represents the amount at which carried on books—entitled in liquidation to \$227,400.

‡ Represents the amount at which carried on books—entitled in liquidation to \$791,700.

**COMMUNITY WATER SERVICE COMPANY  
AND CONSOLIDATED SUBSIDIARY COMPANIES (See Note A)  
COMPARATIVE CONSOLIDATED INCOME ACCOUNT**

	For Year Ended		Increase or Decrease*
	Dec. 31, 1936	Dec. 31, 1935	
<b>Operating Revenues:</b>			
<b>Water:</b>			
Domestic.....	\$3,622,118.21	\$3,501,702.80	\$120,415.41
Commercial.....	649,850.62	590,396.78	59,453.84
Industrial.....	690,477.90	596,511.34	93,966.56
Municipal.....	678,281.31	652,753.97	25,527.34
Other.....	29,481.34	32,937.47	3,456.13*
	<u>\$5,670,209.38</u>	<u>\$5,374,302.36</u>	<u>\$295,907.02</u>
Gas.....	369,971.32	365,264.78	4,706.54
Miscellaneous.....	408,028.61	427,174.43	19,145.82*
Total operating revenues.....	<u>\$6,448,209.31</u>	<u>\$6,166,741.57</u>	<u>\$281,467.74</u>
Non-operating income.....	38,824.45	43,510.47	4,686.02*
Total earnings.....	<u>\$6,487,033.76</u>	<u>\$6,210,252.04</u>	<u>\$276,781.72</u>
<b>Expenses:</b>			
Operating expenses.....	\$2,076,067.82	\$2,000,315.27	75,752.55
Maintenance.....	316,381.93	244,748.72	71,633.21
Taxes—Federal income†.....	129,461.46	141,502.51	12,041.05*
—Other.....	673,537.04	579,263.45	94,273.59
Provision for contingencies.....	.....	25,000.00	25,000.00*
Provision for retirements (see Note B).....	413,189.80	383,146.58	30,043.22
Total expenses.....	<u>\$3,608,638.05</u>	<u>\$3,373,976.53</u>	<u>\$234,661.52</u>
Gross Income.....	<u>\$2,878,395.71</u>	<u>\$2,836,275.51</u>	<u>\$ 42,120.20</u>
<b>Deductions—Subsidiaries:</b>			
Interest.....	\$1,788,412.48	\$1,802,148.31	\$ 13,735.83*
Amortization of debt discount and expense..	113,134.97	107,856.01	5,278.96
Preferred dividends§.....	519,864.50	536,649.86	16,785.36*
Minority interest.....	9,488.71	10,464.93	976.22*
Miscellaneous.....	30,528.26	30,709.09	180.83*
	<u>\$2,461,428.92</u>	<u>\$2,487,828.20</u>	<u>\$ 26,399.28*</u>
Balance.....	<u>\$ 416,966.79</u>	<u>\$ 348,447.31</u>	<u>\$ 68,519.48</u>
<b>Deductions—Community Water Service Com- pany:</b>			
Interest.....	\$ 324,226.53	\$ 334,326.12	\$ 10,099.59*
Amortization of debt discount and expense..	48,878.42	27,241.41	21,637.01
Miscellaneous.....	5,192.53	4,768.76	423.77
	<u>\$ 378,297.48</u>	<u>\$ 366,336.29</u>	<u>\$ 11,961.19</u>
Net income or (loss).....	<u>\$ 38,669.31</u>	<u>\$ (17,888.98)</u>	<u>\$ 56,558.29</u>

† Includes provision of approximately \$1,800 to cover Federal surtax on undistributed profits of consolidated subsidiaries for the year 1936.

§ Includes provision of \$13,644 in each year for preferred dividends not declared or earned by a subsidiary company.

#### NOTES TO CONSOLIDATED INCOME ACCOUNT

*Note A:* The foregoing consolidated income account includes the profits of subsidiary companies which are negotiating with municipalities served for the sale of their properties or which were disposed of to non-affiliated interests in 1937. Such account does not include the loss of The New Rochelle Water Company of \$77,872.87, before provision for cumulative preferred dividends of \$136,500. See Note A to the consolidated balance sheet.

*Note B:* In respect of physical properties of the operating subsidiary companies, the accounts of which are included in the consolidated balance sheet and consolidated income account, the practice of such companies in regard to depreciation is as hereinafter stated.

Following what is believed to be a fairly general custom among public utility companies engaged in the same business, the operating subsidiary companies do not set up a reserve for depreciation, obsolescence or the like based on an estimated or theoretical period during which various classes of physical property might become worn out or might deteriorate or might become obsolescent to such an extent as to necessitate the abandonment or retirement thereof. It is the policy of the companies to maintain their plant and property in a state of operating efficiency at all times and to charge to operating expenses the cost of current maintenance and repairs, which, in the opinion of the management, make good, to an appreciable extent, actual physical depreciation. In addition, it is the practice of these companies to provide, by monthly charges to income, a reserve for retirements. These charges are equivalent at least to the difference between 9% of operating revenues and the amounts charged to expense for maintenance and repairs.

As units of property are abandoned, replaced or otherwise retired, the loss in asset value represented by the property retired is deducted from or charged against the Reserve for Retirements. Such loss in asset value is treated as the difference between (1) the actual or estimated value of the property retired plus dismantling and removal costs and (2) the salvage value, if any, of such property. It has not been possible to determine the original cost of the physical assets in all cases.

It is the policy of the subsidiary companies that the loss in asset value on account of property retirements which is not compensated for or offset by direct charges to operating expenses shall be deducted from or charged to such reserves. Investigations are now being made to determine whether all property no longer used or useful in the business had been deducted from the property accounts and charged to reserves for retirements at December 31, 1936.

One subsidiary, Woodbridge Building Corporation, which owns and operates an office building in New York City, does provide a reserve for depreciation. Its policy with regard to depreciation was revised during 1936 resulting in a provision for that year of \$49,820.57 in excess of the amount set aside in 1935. In addition, \$251,543.04 was charged to surplus and credited to the reserve for depreciation during 1936.

No specific provision is made for depreciation and/or amortization of intangibles.

In the Federal income tax returns of the subsidiary companies filed for the purpose of determining net income as a basis for fixing the amounts of Federal income taxes, it has been the custom to claim as a deduction from gross income amounts estimated to be allowable under the Federal statutes and regulations of the Bureau of Internal Revenue on account of depreciation and obsolescence of physical properties set up on the basis of estimated life. Such amounts were based on understandings reached with the Bureau of Internal Revenue in accordance with what the taxing officials of said Bureau permitted as allowable depreciation or in accordance with the regulations of the Bureau of Internal Revenue which require that depreciation be determined on the basis of estimated life tables.

Inasmuch as the subsidiary companies do not in their operating accounts set up depreciation accounts as such based on life tables but set up reserves for retirements of physical property by monthly charges as hereinbefore in this note stated, the amounts so deducted in such income tax returns for depreciation were larger than the amounts actually charged by the subsidiary companies for reserves for retirements. The amounts of such deductions used in the computation of Federal income taxes for the years 1935 and 1936, respectively, were \$818,847.08 and approximately \$823,000. As shown in the consolidated income accounts, the amounts provided for retirements for the same periods were, for 1935—\$383,146.58, and for 1936—\$413,189.80.

**COMMUNITY WATER SERVICE COMPANY  
AND CONSOLIDATED SUBSIDIARY COMPANIES**

**CONSOLIDATED SURPLUS ACCOUNTS**

**Year Ended December 31, 1936**

**EARNED SURPLUS**

Balance as of January 1, 1936.....		\$1,059,322.40
<b>Add:</b>		
Net profit for year ended December 31, 1936.....		38,669.31
Adjustment of prior years' provision for doubtful accounts.....		18,646.67
Excess of par over cost of bonds reacquired.....		19,110.00
Reinstatement of unamortized bond discount and expense previously charged to surplus, less adjustments of amortization applicable to prior years.....		87,941.45
Sundry adjustments—net.....		2,990.41
		\$1,226,680.24

**Deduct:**

Additional provision for prior years' depreciation by Wood-bridge Building Corporation.....	\$ 251,543.04	
Amortization and write-off of commission and expense on sale of preferred stocks.....	10,200.73	
Net adjustment to record no par preferred stock of Pennsylvania State Water Corporation at its liquidating value of \$100 per share.....	13,520.00	
Appropriation for sinking fund.....	5,984.45	
Net adjustment of prior years' tax provisions.....	18,228.49	
Elimination of earned surplus of The New Rochelle Water Company included in consolidated earned surplus as of December 31, 1935.....	22,323.61	
Write-down of investment in The New Rochelle Water Company to a nominal amount.....	36,716.00	
		358,516.32

Balance as of December 31, 1936.....		\$ 868,163.92
--------------------------------------	--	---------------

**CAPITAL SURPLUS**

Balance as of January 1, 1936.....		\$9,189,435.22
Capital surplus of Community Water Service Company as of January 1, 1936, transferred to that company's deficit account.....	\$ 1,089.90	
Appraisal surplus written off or eliminated against property plant and equipment, etc., including adjustment arising from elimination of accounts of The New Rochelle Water Company from the consolidation.....	9,172,205.71	
		9,173,295.61

Balance as of December 31, 1936.....		\$ 16,139.61
--------------------------------------	--	--------------

**SUBSIDIARY COMPANIES OF AMERICAN WATER WORKS AND  
ELECTRIC COMPANY, INCORPORATED**

**AS OF DECEMBER 31, 1936**

Except as otherwise noted, where a company's name is indented, the common stock represented by the percentage is owned by the company next above which is not indented to the same extent. The percentages include qualifying shares.

The list below includes certain companies which are not regarded as subsidiary companies; namely, Beech Bottom Power Company, Inc., Windsor Power House Coal Company (and its subsidiary, Windsor Coal Company), and The Steubenville Union Terminal Company.

The accounts of all of the companies listed below, with the exception of those marked with an asterisk (\*), have been included in the foregoing consolidated financial statements of American Water Works and Electric Company, Incorporated, and its subsidiary companies.

Companies which are now inactive or in process of dissolution are not shown in the list.

	<i>Percentage of Common Stock Owned</i>
Ajax Farm Corporation*	100
Esperanza Land Corporation*	100
The Alexandria Water Company	100
Alton Water Company	100
American Communities Company	A 100
Community Water Service Company*	B 59.752
The Cairo Water Company*	100
The Citizens Water Company of Washington, Pa.*	100
The South Strabane Water Company*	100
Greenwich Water and Gas System, Inc.*	100
Bristol County Water Company*	80
Cohasset Water Company*	100
Dedham Water Company*	100
The Glenville Power and Water Company*	100
Greenwich Water Company*	100
The Greenwich Gas Company*	C 100
Hingham Water Company*	100
Port Chester Water Works, Inc.*	100
The Southern Connecticut Real Estate Company*	100
Wannacomet Water Company*	99.399
Williamstown Water Company*	100
Lexington Water Company*	100
New Jersey Water Company*	100
The New Rochelle Water Company*	100
Ohio Cities Water Corporation*	D 86.624
The Marion Water Company*	100
The Ohio Cities Water Company*	100



**SUBSIDIARY COMPANIES OF AMERICAN WATER WORKS AND  
ELECTRIC COMPANY, INCORPORATED—(Continued)  
AS OF DECEMBER 31, 1936**

	<i>Percentage of Common Stock Owned</i>
<i>American Communities Company—Continued</i>	
Pennsylvania State Water Corporation*	100
The Bangor Water Company*	100
Roseto Water Company*	100
The Berwick Water Company*	100
Canawacta Water Supply Company*	100
The Clark's Summit Water Company*	100
The Dorchester Water Company*	100
Glendale Water Company*	100
The Hallstead Water Company*	100
Hyde Park Water Company*	100
The Monongahela City Water Company*	100
Moundsville Water Company*	100
The Mountain City Water Company*	100
Mount Jewett Water Company*	100
Myerstown Water Company*	100
Northumberland Water Company*	100
The Osceola Water Supply Co.*	100
Palmyra Water Company*	99.657
The Ramey Water Company*	100
St. Marys Water Company*	100
The South West Water Company*	100
Spring Water Company of Kane*	100
The Uniontown Water Company*	100
Vandergrift Water Company*	100
The Waynesburg Water Company*	100
White Deer Mountain Water Company*	100
Peoria Water Works Company*	100
Westmoreland Water Company*	100
The Dennison Water Supply Company*	100
Williamsport Water Company*	100
The Summit Water Company*	100
Woodbridge Building Corporation*	100
American Water Works Construction Company	100
Arkansaw Water Company	100
Armstrong Water Company	100
The Ashtabula Water Works Company	100
Atlantic County Water Company of New Jersey	100
The Birmingham Water Works Company	100
The Butler Water Company	100
The Butler Suburban Water Company	100

**SUBSIDIARY COMPANIES OF AMERICAN WATER WORKS AND  
ELECTRIC COMPANY, INCORPORATED—(Continued)**

AS OF DECEMBER 31, 1936

	<i>Percentage of Common Stock Owned</i>
City Water Company of Chattanooga.....	100
Clinton Water Works Company.....	100
Commonwealth Water and Light Company.....	100
The Bernards Water Company.....	100
Commonwealth Water Company.....	100
The Connellsville Water Company.....	100
Compania de Acueductos de Cuba, S. A.....	100
Davenport Water Company.....	100
East St. Louis and Interurban Water Company.....	100
Fort Madison Water Company.....	100
Huntington Water Corporation.....	100
Lawrence County Water Company.....	100
James Mills Holding Company, Incorporated*.....	100
James Mills Orchards Corporation*.....	100
Joplin Water Works Company.....	100
Keokuk Water Works Company.....	100
Kokomo Water Works Company.....	100
City Water Company of Marinette.....	100
City Water Works Company of Merrill, Wisconsin.....	100
Monmouth Consolidated Water Company.....	100
Monongahela Valley Water Company.....	100
The Morgantown Water Company.....	100
Muncie Water Works Company.....	100
The City of New Castle Water Company.....	100
The Noroton Water Company.....	100
The Tokeneke Water Company.....	99.032
Ocean County Water Company.....	100
Old Dominion Water Corporation.....	100
Richmond Water Works Corporation.....	100
The St. Joseph Water Company.....	100
South Pittsburgh Water Company.....	99.882
Chartiers Valley Water Company.....	99.785
Whitaker Water Company.....	100
The Terre Haute Water Works Corporation.....	100
Texarkana Water Corporation.....	100
The Warren Water Company.....	100
Water Works Department, Inc.....	100
The Wichita Water Company.....	100

**SUBSIDIARY COMPANIES OF AMERICAN WATER WORKS AND  
ELECTRIC COMPANY, INCORPORATED—(Continued)**

AS OF DECEMBER 31, 1936

	<i>Percentage of Common Stock Owned</i>
The West Penn Electric Company.....	100
Penn Bus Company*.....	E 50
The Potomac Edison Company.....	100
The Blue Ridge Transportation Company.....	100
The Braddock Heights Water Company of Frederick County, Maryland.....	100
Franklin Transmission Company.....	100
Northern Virginia Power Company.....	100
The Potomac Acceptance Corporation.....	100
Potomac Light and Power Company.....	100
South Penn Power Company.....	100
Ayr Township Electric Company.....	100
Licking Creek Township Electric Company.....	100
Todd Township Electric Company.....	100
West Penn Power Company.....	F 100
Allegheny Pittsburgh Coal Company.....	100
Beech Bottom Power Company, Inc.*.....	G 50
Monongahela West Penn Public Service Company.....	H 100
The Marietta Electric Company.....	100
Marietta and Parkersburg Bridge Company.....	100
Monongahela Securities Company.....	100
Monongahela Transport Company.....	100
Monterey Utilities Corporation.....	100
State Line Gas Company.....	100
The West Maryland Power Company.....	100
Ohio County Fuel Company.....	100
The Potomac Transmission Company.....	100
West Penn Appliance Company.....	100
West Virginia Power and Transmission Company.....	100
West Penn West Virginia Water Power Company.....	100
Windsor Power House Coal Company*.....	G 50
Windsor Coal Company*.....	100
West Penn Railways Company.....	100
Allegheny Valley Street Railway Company.....	100
Penn Transit Company.....	100
The Steubenville Bridge Company*.....	53
The Steubenville Railway Company.....	100
Steubenville, Wellsburg and Weirton Railway Company.....	100
The Steubenville Union Terminal Company*.....	49.167
West Penn Securities Department, Inc.....	100
West Virginia Public Service Company.....	100
White Star Lines, Inc.....	100

- A—American Water Works and Electric Company, Incorporated, owns all of American Communities Company's Class B Common Stock in which all voting rights are vested.
- B—Because of arrears of dividends on the \$7 Cumulative First Preferred Stock of Community Water Service Company, the holders thereof had at December 31, 1936, and have at the present time the right to vote at all stockholders' meetings and to elect a majority only of the Board of Directors of that company. Accordingly, the figure shown opposite Community Water Service Company in the foregoing tabulation refers only to the percentage of such preferred stock owned by controlling companies—American Water Works and Electric Company, Incorporated, 2.862% and American Communities Company, 56.890%—although the latter company also owned 79.720% of the outstanding Common Stock of Community Water Service Company.
- C—All of the capital stock of The Greenwich Gas Company was sold to non-affiliated interests in 1937.
- D—Because of arrears in dividends, the \$6 Cumulative First Preferred Stock of Ohio Cities Water Corporation has the right to vote. 54.520% of such preferred stock and 100% of the common stock of said corporation are owned by Community Water Service Company.
- E—Pennsylvania Greyhound Lines, Inc., not an affiliated company, owns the balance of 50%.
- F—The West Penn Electric Company owns 68.793% and West Penn Railways Company owns 31.207%.
- G—The Ohio Power Company, not an affiliated company, owns the balance of 50%.
- H—West Penn Power Company owns 99.983% and American Water Works and Electric Company, Incorporated, owns 0.017%.

## COMPARATIVE STATISTICAL SUMMARY

### Electric Power and Light Properties

	1936	1935
<b>GENERATING STATIONS—KILOWATTS:*</b>		
Steam Stations.....	447,220	447,220
Hydro Stations.....	56,375	56,375
Oil and Gas Stations.....	2,728	2,728
Total.....	506,323	506,323
<b>NET KILOWATT-HOUR OUTPUT.....</b>	<b>2,405,317,201</b>	<b>2,068,152,932</b>
<b>NUMBER OF ELECTRIC CUSTOMERS*.....</b>	<b>342,431</b>	<b>326,153</b>
<b>TRANSMISSION LINES—POLE MILES:*</b>		
132,000 Volts.....	370	370
66,000 Volts.....	332	332
Less Than 66,000 Volts.....	2,290	2,274
Total.....	2,992	2,976

### Transportation Properties

<b>ELECTRIC RAILWAYS:</b>		
Miles of Track*.....	407	449
Number of Cars*.....	300	344
<b>BUS LINES OPERATED:</b>		
Miles of Route*.....	1,581	1,497
Number of Buses*.....	142	121

### Water Works Properties

(Excluding subsidiaries of Community Water Service Company; 1935 figures adjusted by elimination of properties sold during 1936)

<b>PUMPING STATIONS—GALLONS PER DAY:*</b>		
Distributive Service.....	785,519,700	783,159,700
Low Service.....	640,649,600	637,481,600
Relay Service.....	218,734,300	225,474,300
<b>TRANSMISSION AND DISTRIBUTION MAINS—MILES*...</b>	<b>5,930</b>	<b>5,855</b>
<b>GALLONS OF WATER SOLD.....</b>	<b>53,653,680,000</b>	<b>48,063,892,000</b>
<b>NUMBER OF WATER CUSTOMERS*.....</b>	<b>435,492</b>	<b>427,331</b>

\*At end of period.