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# AMERICAN WATER WORKS AND ELECTRIC COMPANY INCORPORATED

## *Annual Report* 1938

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FOR THE FISCAL YEAR  
ENDED DECEMBER 31, 1938

AMERICAN WATER WORKS  
AND ELECTRIC COMPANY  
INCORPORATED

*Annual Report*  
1938

FOR THE FISCAL YEAR  
ENDED DECEMBER 31, 1938

## DIRECTORS

*Terms Expire 1939*

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

*Terms Expire 1940*

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

*Terms Expire 1941*

WILBUR L. CUMMINGS  
JAMES A. HILL  
THOMAS H. MCINNERNEY  
EARLE S. THOMPSON

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WILBUR L. CUMMINGS      SETON PORTER  
EARLE S. THOMPSON

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EARLE S. THOMPSON, *President*

WARREN R. VOORHIS, *Vice-President*      HUGH D. MCDOWELL, *Asst. Sec. and Asst. Treas.*  
PHILIP L. ROSS, *Vice-President*      MILTON B. ROGERS, *Assistant Treasurer*  
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WILLIAM K. DUNBAR, *Secretary*      LEWIS E. SHARPE, *Assistant Comptroller*  
GILBERT W. CHAPMAN, *Treasurer*      JOHN P. EATON, *Assistant Comptroller*

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

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## 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, 1939.

### *To the Stockholders:*

The Board of Directors presents herewith the report of the Company for the year ended December 31, 1938, 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. 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, such reference is to this Company and its subsidiaries other than the subsidiaries comprising the Community Water Service system.

The Statistical and Corporate Manual published annually by the Company which gives additional detailed information is in course of preparation for the year 1938. It will be available later for distribution upon request.

### EARNINGS

During most of the year, earnings of the system continued the downward trend which started in the latter part of the preceding year. Toward the end of 1938, however, the trend was reversed and the improvement has carried forward into the current year.

The consolidated net income of American Water Works and Electric Company, Incorporated, and subsidiary companies for the year 1938, after preferred dividends, was \$895,085.13, equivalent to 38 cents per share of Common Stock as against \$2,678,267.16, or \$1.14 per share of Common Stock for the year 1937. Gross earnings, reflecting the downward trend in practically all lines of business, decreased \$3,328,166.89, while operating expenses, maintenance and taxes decreased \$2,082,808.30. Provisions for reserve for renewals, retirements and depletion were increased \$266,146.07. Total taxes for the year decreased \$569,531.02, due principally to decreased earnings and non-recurring deductions resulting from refunding certain subsidiary company obligations.

The net income of the Company alone, after preferred dividends, was \$209,539.67, equivalent to 9 cents per share of Common Stock as compared with 83 cents per share in 1937. As has been pointed out in recent years, the fact that certain of the subsidiary companies find it advisable to retain a portion of their earnings for property betterments and expansion and other corporate purposes results in net income of the Company alone being less than the consolidated net income of the Company and its subsidiaries.

#### DIVIDENDS

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

Early in 1938, the Board of Directors determined that, in view of the decreased earnings, the necessity of maintaining an adequate cash position, the need for funds for the program of betterments and extensions then under way by the various operating companies which could not be deferred, and the uncertainties as to the immediate future, it would be to the best interests of the Company and its security holders to defer payments of dividends on the Common Stock. Accordingly, no dividends were paid on the stock during the year.

#### TAXES

Total taxes of the Company and its subsidiaries as shown in the consolidated income account were approximately \$6,600,000, in addition to which there was approximately \$400,000 in taxes paid by the various companies in the system which do not appear in the "Taxes" account, *i. e.* were charged to property account or to expense accounts other than "Taxes." The total of these two figures, \$7,000,000, represents approximately 14 cents of every dollar of revenue taken in by the system, and is equal to 39% of the total operating expenses of the Company, exclusive of maintenance. It is equivalent to \$2.99

per share of Common Stock outstanding as compared with consolidated net income per share, after taxes, of 38 cents.

There are some indications that the public is beginning to realize that the heavy taxes being imposed on business must ultimately be borne for the most part by the individual, both in the prices he pays for goods and services and in the curtailment of business activities and expenditures which results from high taxes. The only way in which taxes can be reduced permanently is, of course, by reduced expenditures by governmental bodies of all kinds, and the only way this can be brought about is at the insistence of the general public when it has come to understand that it ultimately pays the bill.

### MAINTENANCE AND RESERVES

As shown in the appended financial statements, the Company's subsidiaries expended during the year the sum of \$3,758,881.36 for maintenance of their properties and reserved for renewals, retirements and depletion the sum of \$4,758,850.54, making a total of \$8,517,731.90 so expended and reserved. Of this amount \$1,433,864.21 was expended and reserved by the water companies and \$7,083,867.69 by the companies in The West Penn Electric Company group.

### ELECTRIC SUBSIDIARIES

Nearly all of the decrease in the consolidated gross earnings of the system occurred in the subsidiaries of The West Penn Electric Company, the total decrease in consolidated gross earnings of this company being \$3,184,118.21. Of this total decrease, \$2,149,615.23 resulted from a falling off in electric revenues. This amount is more than accounted for by a reduction of \$3,359,846.65 in revenues from industrial sources, a direct result of the business depression, which reduction was offset to a considerable extent by increases of \$908,863.82 in residential revenues and \$301,367.60 in commercial and other revenues. The increase in residential revenues is largely due to the intensive efforts of the several companies in the sale of load-building appliances.

The number of electric customers served at the end of the year was 387,524, an increase of 22,340; and the average annual use of each residential customer for the year was 839 kwh. as against 811 kwh. in 1937. The marked decrease in industrial activity during the year, particularly in the heavy-goods industries which furnish so large a part of the industrial load in territories served by the Company's electric subsidiaries, resulted in a substantial decrease in sales of power to industrial customers, which for the system as a

whole decreased from 1,703,000,000 kwh. in 1937 to 1,280,000,000 kwh. in 1938. The total net output of the electric system was approximately 2,137,000,000 kwh. as compared with 2,543,000,000 kwh. in 1937, which was the highest year in the Company's history.

A greater number of farm and other rural customers was connected to the lines of the operating companies during 1938 than in any prior year. Continuation of the Company's program of making electric service available in rural districts has resulted in the construction of 2,200 miles of line and the connection of over 12,000 rural customers during the year. In addition, a large number of potential customers are within easy reach of these lines.

### TRANSPORTATION SUBSIDIARIES

The Company continued its policy of eliminating unprofitable street railway lines as rapidly as circumstances permit. During the year West Penn Railways Company and The Potomac Edison Company abandoned the operation of approximately 37 miles of track. In addition, through the reorganization of a former subsidiary company, Steubenville, Wellsburg and Weirton Railway Company, under Section 77B of the National Bankruptcy Act, the 14 miles of track operated by it are no longer included in the system track mileage.

Largely due to the abandonment of these lines, and to a lesser extent to the falling off in business on the remaining lines, gross earnings from railway operations showed a substantial decrease during the year, with however a much smaller decrease in net income. Bus operations also showed a decrease as compared with the preceding year in both gross earnings and net income, but it is expected that these operations will make a considerably better showing in the year 1939.

### WATER WORKS SUBSIDIARIES

Gross earnings of the water company subsidiaries of this Company (other than those comprising the Community Water Service Company system) showed a decrease of \$130,785.77 for the year as compared with the previous year. Affecting such earnings was a reduction of more than \$300,000 in earnings from industrial customers, caused by curtailed operations of industries and railroads during the year. Sales to customers other than industrial increased approximately \$190,000, offsetting to a considerable extent the reduction in sales to industrial customers. The increase in revenue from domestic and commercial customers would have been substantially larger had it not been for excessive and uniformly distributed rainfall during the sprinkling season.

Operating expenses other than maintenance increased \$126,860.16. Part of this increase resulted from a decrease in the hours worked by certain employees without any reduction in their weekly compensation. Maintenance decreased \$60,159.79 and taxes increased \$42,237.47, despite the fact that the net income of the water companies as a whole was lower than it was in the preceding year.

Evidence of the good relations existing between the water company subsidiaries and their customers was given during the year by the refusal of the voters in several of the municipalities served to approve the acquisition of the Company's plants by the municipalities. One small plant was acquired by the municipality during the year, but the vote approving such acquisition was taken in 1935.

Separate financial statements for the Community Water Service Company and its consolidated subsidiaries are furnished herewith. Earnings of this group, as in the case of the water group directly subsidiary to the American Water Works and Electric Company, Incorporated, reflected the decrease in general industrial activity. Reductions were effected in operating expenses other than taxes and reserves for retirements, and in interest charges and other deductions. Taxes increased during the year in the amount of \$48,272.73. Net income for the year was \$28,981.73, which is \$32,596.56 less than the preceding year.

### CALIFORNIA PROPERTIES

The decline in prices for agricultural products in general during the year, which was especially marked in prices of citrus and other fruits, had an adverse effect on the gross earnings of the orchard and farming subsidiaries of the Company, but due to further economies in operation and the elimination of unproductive lines a substantially improved showing was made, the loss for the year amounting to \$61,515.51 as compared with a loss of \$110,063.52 for the year 1937. Of the former amount, \$39,310.27 represents annual accruals for depreciation reserve.

As was the case in 1937, crops were abundant in most of the major items which the companies produce, but prices were abnormally low, in some items reaching the lowest point in many years. Further economies are being instituted and certain operations curtailed, the net effects of which should result in a substantial improvement in the showing of these companies.

### FINANCING

During the year the Company continued its program of refunding subsidiary company bonded indebtedness at substantial savings in interest.



Seven issues were sold privately to insurance companies and other institutions (in all but one instance at the principal amount or at a premium), of which four issues were in connection with refunding operations. The following is a list of such transactions:

<i>Alton Water Company:</i>	
First Mortgage Bonds, Series A, 4¼%, due April 1, 1963.....	\$ 975,000
(Principally to refund an issue of 5% bonds)	
<i>*Cohasset Water Company:</i>	
First Mortgage 4% Bonds, Series A, due July 1, 1963.....	100,000
(Principally to refund an issue of 6% bonds)	
<i>East St. Louis and Interurban Water Company:</i>	
First Mortgage Bonds, Series A, 4¼%, due June 1, 1953.....	7,500,000
(Refunding issues of 5% and 6% bonds)	
<i>North Little Rock Water Company:</i>	
First Mortgage Bonds, Series A, 4¼%, due June 1, 1953.....	300,000
<i>Old Dominion Water Corporation:</i>	
First Mortgage 4% Bonds, due May 1, 1948.....	300,000
<i>*Pennsylvania State Water Corporation:</i>	
First Collateral Trust Bonds, 4¼% Series, due November 1, 1966...	200,000
<i>West Penn Power Company:</i>	
First Mortgage Bonds, Series J, 3¼%, due August 1, 1968.....	17,000,000
(Partly to refund an issue of 4% bonds)	
Total.....	<u>\$26,375,000</u>

\* A subsidiary in the Community Water Service Company group.

The \$17,000,000 of Series J bonds of West Penn Power Company referred to above was sold to a group of insurance companies at a price to yield the purchasers 3% to maturity. The proceeds from the sale of these bonds were used to redeem \$10,000,000 principal amount of First Mortgage Bonds, Series H, 4%, and to repay \$5,300,000 of bank loans which the Company had obtained during the years 1937 and 1938 in connection with the financing of its construction program; the balance of the proceeds being used to finance construction requirements during the remainder of the year.

The amount of funded debt redeemed by the subsidiary companies as a result of the above refinancing was \$18,353,500.

During the year the Company caused to be registered under the Securities Act of 1933 and sold to underwriters \$700,000 par value of 6% Cumulative

Preferred Stock of a subsidiary, The St. Joseph Water Company, which it had owned for some time.

During the year the Company advanced \$425,000 to The Potomac Edison Company for construction purposes, making total advances of \$2,000,000 to that company for such purposes. In addition, The Potomac Edison Company negotiated a bank loan of \$1,000,000 to complete its construction program.

Monongahela West Penn Public Service Company during the year borrowed \$1,000,000 from banks to complete its construction program. In December, 1938, the Securities and Exchange Commission authorized American Water Works and Electric Company, Incorporated, to purchase \$3,000,000 of Common Stock of Monongahela West Penn Public Service Company. On March 1, 1939, this transaction was completed and Monongahela repaid to this Company \$3,000,000 of advances made in the two preceding years for construction purposes.

#### COMPLIANCE WITH THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

Mention was made in last year's annual report of a plan submitted to the Securities and Exchange Commission to effect a reorganization of this Company's system under the provisions of the Public Utility Holding Company Act of 1935. In approving the plan the Commission declared this Company's system to be an integrated, public utility system as defined in the Act. A number of steps provided in the plan or ordered by the Commission in this connection have been consummated during the year, principally changes in ownership of certain of the smaller electric properties.

Due to market and other conditions, no further action was possible towards completing the major step under the plan of eliminating The West Penn Electric Company as an intermediate holding company. This matter, however, has had the active attention of the officers and staff of the Company and a new plan is being developed which it is hoped can be submitted to the Commission for its approval at an early date.

#### INTERNAL AUDITS

In the hearings which have been conducted for some weeks past by the Securities and Exchange Commission relative to auditing and accounting practices, particular stress has been placed by a number of the witnesses on the importance of internal audits and checks by the companies themselves as distinct from the work of independent public accountants. In all of its account-

ing practices the Company and its subsidiaries maintain what are believed to be adequate systems of internal checks supplemented by close supervision on the part of the headquarters offices, constant review of standardized accounting reports prepared by the field forces, and periodic checks by traveling auditors. The inventories of the operating companies, consisting largely of materials required in the daily construction and operation of the plants, although distributed throughout a wide area, are closely controlled. Aside from some small working advances carried in the field to cover the routine expenses of the field forces, cash funds for the most part are concentrated in a relatively few strong banks located in the same cities as the headquarters offices of the principal companies.

All of the audit work of the companies is of course supplemented by annual examinations by independent public accountants, which examinations comprise audits not only of the accounts in the field, but also of the accounts of the general offices of the operating companies and of the headquarters office of the Company in New York.

## CONCLUSION

The maintenance of cordial relations with customers is an important factor in successful operations. The improvement of such relationships has the continued interest of those who are charged with the duties of operation and management of the Company's properties and the success which has been achieved is very largely due to the efforts of all who are engaged in furnishing service. This report would be incomplete if it did not express appreciation of the fine spirit of loyalty shown by the employees which contributes so largely to the continued welfare of the Company.

By Order of the Board of Directors,

H. HOBART PORTER,  
*Chairman of the Board.*

EARLE S. THOMPSON,  
*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.

THE UNIVERSITY OF CHICAGO

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PHYSICS 101  
LECTURE 1  
MECHANICS  
MOTION IN ONE DIMENSION  
KINEMATICS

DISCUSSION  
PROBLEM SETS  
LABORATORIES  
TUTORING

**PRICE, WATERHOUSE & CO.**

56 PINE STREET  
NEW YORK. March 28, 1939

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, 1938, and of the related statements of income and surplus for the year ended on that date. We have also made an examination of the consolidated balance sheet of American Water Works and Electric Company, Incorporated, and its consolidated subsidiary companies, as of December 31, 1938, and of the related 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 of its consolidated subsidiary companies, including confirmation of cash and securities by inspection or certificates from depositaries. In the case of certain of the subsidiary water companies, our examination was made as of September 30, 1938, but we were furnished with financial statements of such subsidiaries as of December 31, 1938, and found that the changes during the intervening period were normal. We also obtained information and explanations from the officers and employees of the companies and made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make detailed audits of the transactions.

Losses in asset value on account of certain abandonments of street railway properties have been charged on the books of a subsidiary company against surplus or a special reserve arising from reappraisal of assets. In the case of another subsidiary, as explained in Note B to the consolidated income account, such losses have been charged to surplus, part of which in effect was created by reduction of the par value of common stock. Neither the practice of the companies nor general accounting practice calls for provisions for such losses out of income or out of reserves created out of income, and in our opinion they might properly have been charged against any capital surplus, including capital surplus created by reduction of capital or arising from reappraisal of assets, assuming the correctness of such reappraisal (which, being a question of valuation, we, as accountants, cannot pass upon); alternatively, they might have been charged against surplus earned prior to abandonment or over a period of years following abandonment. The earnings would not have been affected.

The electric subsidiaries of the Company have in general adopted the new Uniform System of Accounts prescribed for Public Utilities by the Federal Power Commission effective January 1, 1937. These and certain other subsidiaries of the Company have also adopted new uniform systems of accounts prescribed by the regulatory authorities of the states in which they operate. Such new uniform systems in common with the Public Utility Law of the Commonwealth of Pennsylvania, effective June 1, 1937, (which applies to a substantial portion of the consolidated properties) provide for depreciation accounting. However, as set forth more fully in Note A to the consolidated income account, the companies followed in 1938 as in 1937, the policy of charging to operating expenses provisions for a reserve for renewals and retirements, designed to equalize from year to year, losses incident to the retirement of fixed assets. The 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. As also explained in Note D to the consolidated balance sheet, the new uniform systems of accounts referred to above require the determination of "original cost" of utility plant (generally defined as "the cost of such property to the person first devoting it to public service") and the segregation of the difference between book cost and "original cost" in separate accounts to be depreciated, amortized or otherwise disposed of as may be agreed with or required by the various regulatory authorities having jurisdiction in the matter. As stated in the notes to the accounts, studies are being made with respect to depreciation provisions and "original cost" of utility plant, but the extent to which the companies' accounts will be affected as a result of these studies and by other provisions of the new systems and new regulations cannot be determined at present.

In our opinion, based upon such examinations and the foregoing explanations, and except that the effects of matters mentioned in the immediately preceding paragraph have not been reflected in the accounts since they are indeterminable at present, 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 indicated in Note B to the consolidated income account) 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, 1938, 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, 1938**

*Assets and Deferred Charges*

<b>Investments:</b>		
Securities and notes of subsidiary companies.....	\$50,724,322.74†	
Open account indebtedness of subsidiary companies (see Note A).....	11,617,279.00	
Other security investments.....	88,642.46	
Total investments.....		\$62,430,244.20*
<b>Current assets:</b>		
Cash in banks and on hand.....	\$4,292,534.24	
Cash in banks for payment of matured interest payable (see Note C).....	706,796.64	
Accounts receivable from subsidiary companies (see Note A)	776,969.78	
Accrued interest and dividends receivable from subsidiary companies.....	275,902.78	
Miscellaneous notes and accounts receivable.....	5,293.77	
Other current assets.....	3,232.41	
Total current assets.....		6,060,729.62
<b>Deferred charges:</b>		
Unamortized debt discount and expense (see Note B)....	\$1,811,746.50	
Other deferred charges.....	55,070.73	
Total deferred charges.....		1,866,817.23
Total assets and deferred charges.....		\$70,357,791.05

† Includes total investment of \$661,444.25 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, 1938**

*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§.....	1,950,000.00
Other notes payable to banks§.....	6,000,000.00
	\$18,950,000.00

Current liabilities:

Note installments payable to bank in 1939.....	\$ 300,000.00
Accounts payable.....	102,209.64
Matured interest payable (see Note C).....	706,796.64
Taxes accrued.....	410,365.40
Interest accrued.....	94,843.75
Dividend declared on preferred stock payable January 3, 1939.....	300,000.00
Other current liabilities.....	100,835.39
	2,015,050.82

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.....	\$ 560,894.48
Earned surplus of American Water Works and Electric Company, Incorporated (of Virginia), predecessor company.....	1,969,101.20
Earned surplus of American Water Works and Electric Company, Incorporated (of Delaware).....	3,333,244.55
	5,863,240.23

Total capital stock and surplus..... 49,392,740.23

Total liabilities, capital and surplus..... \$70,357,791.05

§ Agreements have been reached with banks, subject to the approval of the Securities and Exchange Commission, to refund these notes, \$6,000,000 of which mature December 31, 1939, with new notes maturing for the most part in 1944.



## NOTES TO BALANCE SHEET

*Note A:* No attempt has been made to classify open account indebtedness of subsidiary companies as between "current" and "not current" other than that which the Company is required to make in accordance with the Uniform System of Accounts prescribed by the Securities and Exchange Commission for Public Utility Holding Companies. In adhering to such system of accounts the Company has transferred to the investments account all open account indebtedness due from subsidiary companies which was not paid within ninety days. It is possible that some of the subsidiary companies will make payments within one year of a part or all of their open account indebtedness. On March 1, 1939, the Company purchased 200,000 shares of Common Stock of Monongahela West Penn Public Service Company at the par value of \$15 per share. The proceeds thereof, \$3,000,000, were used by Monongahela West Penn Public Service Company to discharge a like amount of open account indebtedness to the Company.

*Note B:* 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 \$750,000.

*Note C:* This item consisted principally of interest payable on January 1, 1939, on bonds of subsidiary electric and water companies, funds for the payment of which had been accumulated with the Company.

*Note D:* The Company has as a contingent liability the guaranty of payment of principal and interest on certain bonds of subsidiary water companies in the principal amount of \$13,767,500. 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.

**AMERICAN WATER WORKS AND ELECTRIC COMPANY  
INCORPORATED**

**COMPARATIVE INCOME ACCOUNT**

	For Year Ended		Increase or Decrease*
	Dec. 31, 1938	Dec. 31, 1937	
<b>Earnings:</b>			
Dividends from subsidiary companies . . .	\$2,408,584.57	\$4,241,765.18	\$1,833,180.61*
Other dividend income . . . . .	5,647.50	4,392.51	1,254.99
Interest on bonds of subsidiary companies.	57,420.00	69,167.37	11,747.37*
Interest on notes and accounts of sub- sidiary companies . . . . .	623,820.51	474,618.20	149,202.31
Management and service charges to sub- sidiary companies . . . . .	708,654.75	655,613.93	53,040.82
Other income . . . . .	10,599.45	11,257.71	658.26*
Total earnings . . . . .	\$3,814,726.78	\$5,456,814.90	\$1,642,088.12*
<b>Expenses:</b>			
Salaries, rents, taxes and other expenses .	\$1,399,986.70	\$1,383,631.26	\$ 16,355.44
Less: Proportion of head office salaries and expenses chargeable to American Water Works Construction Company (a sub- sidiary) . . . . .	59,450.95	51,411.62	8,039.33
Net expenses . . . . .	\$1,340,535.75	\$1,332,219.64	\$ 8,316.11
Provision for net losses of orchard and farming subsidiaries not consolidated . .	61,515.51	110,063.52	48,548.01*
Total expenses . . . . .	\$1,402,051.26	\$1,442,283.16	\$ 40,231.90*
Net earnings . . . . .	\$2,412,675.52	\$4,014,531.74	\$1,601,856.22*
<b>Deductions:</b>			
Interest on debentures . . . . .	\$ 630,000.00	\$ 630,000.00	\$ —
Interest on other long-term debt . . . . .	262,718.75	138,385.40	124,333.35
Interest on accounts payable to subsidiary companies . . . . .	—	441.30	441.30*
Amortization of debt discount and expense	92,920.72	92,920.72	—
Payments under tax covenants on bonds, etc. . . . .	17,496.38	15,303.42	2,192.96
Total deductions . . . . .	\$1,003,135.85	\$ 877,050.84	\$ 126,085.01
Net income . . . . .	\$1,409,539.67	\$3,137,480.90	\$1,727,941.23*

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 24 to 28, inclusive) to which reference is made.

**AMERICAN WATER WORKS AND ELECTRIC COMPANY  
INCORPORATED**

**SURPLUS ACCOUNT**

**Year Ended December 31, 1938**

Balance at January 1, 1938.....		\$5,833,439.61
<b>Add:</b>		
Net income for year ended December 31, 1938.....		1,409,539.67
		<u>\$7,242,979.28</u>
<b>Deduct:</b>		
Dividends on capital stock:		
\$6. Series, First Preferred.....	\$1,200,000.00	
Loss on advances to Keokuk Water Works Company due to the sale of its property during the year.....	140,763.59	
Provision for interest liability on Federal income taxes for prior years.....	38,975.46	
		<u>1,379,739.05</u>
Total deductions.....		1,379,739.05
Balance at December 31, 1938.....		<u><u>\$5,863,240.23</u></u>

NOTE: No changes were effected in the capital surplus account of the Company during 1938.

THE UNIVERSITY OF CHICAGO

PH.D. THESIS

BY

THE AUTHOR

IN CANDIDACY FOR THE DEGREE OF

DOCTOR OF PHILOSOPHY

IN THE

FIELD OF

SCIENCE

AND

ARTS

AND

LITERATURE

AND

HUMANITIES

AND

SOCIAL SCIENCES

AND

COMMERCE

AND

ENGINEERING

AND

APPLIED SCIENCES

AND

TECHNOLOGY

**AMERICAN WATER WORKS AND ELECTRIC COMPANY**  
**INCORPORATED**  
**AND SUBSIDIARY COMPANIES (See Note A)**  
**CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1938**

*Assets and Deferred Charges*

Property, plant and equipment (see Note E).....		\$354,875,338.40*
(Comprising electric generating stations, high voltage electric transmission lines, electric distribution systems, water pumping stations, reservoirs, water distribution systems, real estate, etc., and intangibles, including the excess of book values of the investments of the Company and of its subsidiaries in securities of their respective subsidiaries over the par or stated book values of such securities amounting to approximately \$8,900,000.)		
Investment in securities of Community Water Service Company, a non-consolidated subsidiary company.....		1,753,309.03*
Investments in and advances to associated and other non-consolidated subsidiary companies, and miscellaneous investments, less reserves.....		3,622,772.00*
 Current assets:		
Cash in banks and on hand.....	\$11,177,607.59	
Cash in banks for payment of matured interest payable (see Note B).....	706,796.64	
Customers accounts receivable (includes \$1,832,942.62 for appliances—principally installment).....	\$6,000,964.69	
Miscellaneous notes and accounts receivable	354,943.13	
Due from affiliated companies.....	133,557.58	
	\$6,489,465.40	
Less reserves for doubtful notes and accounts receivable.....	649,495.12	5,839,970.28
Operating materials, appliance merchandise, coal and other supplies carried at cost or less.....	1,442,424.88	19,166,799.39
 Other assets:		
Loans to superannuated employees secured by life insurance policies.....	\$ 245,312.33	
Special deposits and cash on deposit with trustees.....	215,775.14	
Cash in closed banks, less reserves of \$59,628.01.....	18,014.49	
Construction materials.....	1,189,944.95	1,669,046.91
 Deferred charges:		
Prepaid royalties, insurance, taxes, etc.....	\$ 769,506.35	
Unamortized debt discount, premium (net) and expense..	16,089,513.79	
Unamortized commission and expense on sale of capital stocks.....	830,177.37	
Other deferred charges.....	725,156.65	18,414,354.16
Total assets and deferred charges.....		\$399,501,619.89

\* 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 (See Note A)**  
**CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1938**

*Liabilities, Capital and Surplus*

Long-term debt of subsidiaries (see list on pages 31 and 32).....		\$172,103,000.00
Preferred capital stocks of subsidiaries (see list on page 30).....		88,283,500.00
Long-term debt of American Water Works and Electric Company, Inc.:		
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§.....	1,950,000.00	
Other notes payable to banks§.....	6,000,000.00	18,950,000.00
Current liabilities:		
Notes payable to banks.....	\$ 2,730,000.00	
Accounts payable.....	1,910,782.92	
Payrolls accrued.....	408,071.84	
Taxes accrued.....	5,135,452.96	
Interest accrued.....	1,814,319.28	
Preferred dividends accrued.....	92,325.07	
Matured interest payable (see Note B).....	706,796.64	
Dividends declared on preferred stocks, payable after		
December 31, 1938.....	1,448,847.61	
Customers' security deposits.....	57,942.55	
Long-term debt of subsidiaries due in 1939.....	615,000.00	
Miscellaneous.....	74,950.00	14,994,488.87
Customers' security and construction deposits.....		2,362,890.66
Deferred liabilities and deferred credits.....		236,731.26
Reserves:		
For renewals, retirements and depletion.....	\$38,974,776.85	
For claims, contingencies and other purposes.....	1,712,057.58	40,686,834.43
Contributions in aid of construction.....		1,729,941.24
Minority interest in common stock and surplus of subsidiaries.....		168,141.86
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 9,845 shares held in system.....	98,450.00	23,431,050.00
Capital surplus.....	\$ 560,894.48	
Surplus of A. W. W. & E. Co., Inc., of Va.		
(predecessor company) and subsidiaries... ..	5,671,063.81	
Earned surplus of A. W. W. & E. Co., Inc.		
(of Delaware) and subsidiaries.....	10,323,083.28	16,555,041.57
Total liabilities, capital and surplus.....		<u>\$399,501,619.89</u>

§ Agreements have been reached with banks, subject to the approval of the Securities and Exchange Commission, to refund these notes, \$6,000,000 of which mature December 31, 1939, with new notes maturing for the most part in 1944.

#### NOTES TO CONSOLIDATED BALANCE SHEET

*Note A:* The consolidated accounts include all subsidiary companies over 50% 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. No subsidiary company is included in the consolidated accounts less than 99% of whose common stock is owned in the system or less than 95% of whose entire voting stock is so held, with the exception of East St. Louis and Interurban Water Company, 77.547% of whose voting stock is held in the system, including 100% of the common stock.

*Note B:* This item consisted principally of interest payable on January 1, 1939, on bonds of subsidiary electric and water companies, funds for the payment of which had been accumulated with the Company.

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

*Note D:* The electric utility subsidiaries of the Company in general are adhering to the Uniform System of Accounts prescribed for public utilities by the Federal Power Commission, effective January 1, 1937 (and adopted substantially by the Public Service Commissions in the various states in which these subsidiaries operate). The Public Service Commissions of states in which certain of the water company subsidiaries operate have also adopted new systems of accounts. Such new systems of accounts, among other items, provide for fundamental changes in the accounting for utility plant and for depreciation reserves and accruals thereunder. A more complete discussion of the matter of depreciation reserve accruals is given in Note A to the Consolidated Income Account following. The new systems of accounts also provide for a reclassification of the companies' utility plant account to set forth, among other things, the "original cost" of such plant (defined as "the cost of such property to the person first devoting it to public service"), this reclassification, as it affects the electric subsidiaries, to be effective by December 31, 1938. With one exception, involving the electric properties of The Potomac Edison Company in Maryland, the companies have not yet completed the studies necessary to a determination of the adjustments involved in the reclassification and have obtained extensions of time in the matter from the Federal Power Commission.

The extent to which compliance with the various requirements of the new systems of accounts (including the above) and with the requirements of the Public Utility Law of Pennsylvania (see Note A to the Consolidated Income Account) will affect the companies involved, cannot at present be determined.

*Note E:* Reference is made in Note B to the Consolidated Income Account to certain adjustments made during 1938 in the fixed capital, reserve, common stock and surplus accounts of the Monongahela West Penn Public Service Company. These adjustments have resulted in the following changes in the consolidated accounts of the Company and its subsidiaries at December 31, 1938:

Consolidated property, plant and equipment account has been reduced by \$6,492,703.76, due principally to the elimination from that account of the "Reserve for extraordinary retirements of railway properties" of \$5,000,000 referred to in Note B to the Consolidated Income Account following.

The amount of "excess of book values of the investments of the Company and of its subsidiaries in securities of their respective subsidiaries over the par or stated

**NOTES TO CONSOLIDATED BALANCE SHEET—(Continued)**

book values of such securities” has been increased by the amount of \$4,812,014.16, being the difference between the amount of \$5,840,980 by which the par value of common stock of Monongahela West Penn Public Service Company has been reduced and the amount of capital surplus remaining on the books of the Monongahela Company at the end of the year, namely \$1,028,965.84.

The sum of \$744,862 has been restored to reserve for renewals, retirements and depletion.

Surplus has been reduced by the sum of \$2,382,001.96, of which amount \$578,873.90 is applicable to “Surplus of American Water Works and Electric Company, Incorporated, of Virginia (predecessor company) and subsidiaries”, and \$1,803,128.06 is applicable to “Earned surplus of American Water Works and Electric Company, Incorporated (of Delaware) and subsidiaries.”



**AMERICAN WATER WORKS AND ELECTRIC COMPANY  
INCORPORATED**

**AND SUBSIDIARY COMPANIES**

**COMPARATIVE CONSOLIDATED INCOME ACCOUNT**

	For Year Ended		Increase
	Dec. 31, 1938	Dec. 31, 1937	or Decrease*
<b>Operating revenues:</b>			
Electric.....	\$33,490,314.32	\$35,641,257.25	\$2,150,942.93*
Water.....	12,898,795.31	13,018,782.38	119,987.07*
Gas.....	813,597.70	934,571.85	120,974.15*
Railway.....	1,493,667.70	2,153,805.18	660,137.48*
Bus.....	1,273,795.75	1,411,744.43	137,948.68*
Other.....	34,129.04	61,849.77	27,720.73*
Total operating revenues.....	\$50,004,299.82	\$53,222,010.86	\$3,217,711.04*
Non-operating income.....	586,492.10	696,947.95	110,455.85*
Total earnings.....	\$50,590,791.92	\$53,918,958.81	\$3,328,166.89*
<b>Expenses:</b>			
Operating expenses.....	\$17,879,878.93	\$18,779,891.66	\$ 900,012.73*
Maintenance.....	3,758,881.36	4,372,145.91	613,264.55*
Taxes—Federal income.....	1,372,603.53	1,691,398.48	318,794.95*
Other.....	5,227,462.27	5,478,198.34	250,736.07*
Reserved for renewals, retirements and depletion (see Note A).....	4,758,850.54	4,492,704.47	266,146.07
Total expenses.....	\$32,997,676.63	\$34,814,338.86	\$1,816,662.23*
Gross income.....	\$17,593,115.29	\$19,104,619.95	\$1,511,504.66*
<b>Deductions—Subsidiaries:</b>			
Interest†.....	\$ 7,735,981.48	\$ 7,604,058.55	\$ 131,922.93
Amortization of debt discount, premium (net) and expense.....	841,212.14	824,417.23	16,794.91
Preferred dividends.....	5,737,100.89	5,710,073.44	27,027.45
Minority interest.....	346.96	350.05	3.09*
Miscellaneous.....	180,252.84	210,843.98	30,591.14*
	\$14,494,894.31	\$14,349,743.25	\$ 145,151.06
Balance.....	\$ 3,098,220.98	\$ 4,754,876.70	\$1,656,655.72*
<b>Deductions—American Water Works and   Electric Company, Incorporated:</b>			
Interest.....	\$ 892,718.75	\$ 768,385.40	\$ 124,333.35
Amortization of debt discount and ex- pense.....	92,920.72	92,920.72	—
Miscellaneous.....	17,496.38	15,303.42	2,192.96
	\$ 1,003,135.85	\$ 876,609.54	\$ 126,526.31
Net income (see Notes B, C and D).....	\$ 2,095,085.13	\$ 3,878,267.16	\$1,783,182.03*

† After deduction of interest charged to construction amounting to \$147,298.38 in 1938 and \$260,012.95 in 1937.

## 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 generally known as the "Retirement Reserve Method," 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 units of property are replaced or retired in the ordinary course of business (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. Certain companies have bond indentures which require that the amounts reserved for retirements shall

## NOTES TO CONSOLIDATED INCOME ACCOUNT—(Continued)

be not less than the difference between 9% of operating revenue, and the amounts charged to expense for maintenance and repairs. Accruals are set up in the retirement reserves under these provisions wherever amounts computed on this basis are in excess of the amounts computed as outlined above.

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 the case of West Penn Railways Company, amounts of loss in asset value on account of certain abandonments of railway properties by that company have not been charged to such reserves or deducted as operating expenses, but instead have been charged to capital surplus and/or a special reserve account which were created by that company out of unrealized appreciation, amounting to \$24,813,949, in the value of investments of that company in securities of an electric company subsidiary. In the case of Monongahela West Penn Public Service Company such losses in asset value on account of certain abandonments of railway properties made or to be made have been or will be charged to earned surplus and/or reserve for losses on extraordinary retirements of railway properties, as set forth in Note B below.

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.

The Uniform System of Accounts of the Federal Power Commission, referred to in Note D to the Consolidated Balance Sheet, requires electric utilities subject to its jurisdiction, effective January 1, 1937, to provide a reserve for depreciation of the electric plant owned by the utilities, depreciation being defined as "the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of electric plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and requirements of public authorities." "Service value" is defined as "the difference between original cost and net salvage value of the electric plant." In addition, the Public Utility Law of the State of Pennsylvania, passed in 1937, provides,

## NOTES TO CONSOLIDATED INCOME ACCOUNT—(Continued)

effective June 1, 1937, that each public utility operating in that State shall provide annual accruals for depreciation based on the average estimated life of depreciable property.

The subsidiaries of the Company affected by the foregoing requirements are making studies with reference thereto. Such studies involve detailed examinations of the companies' records for many years in the past and careful consideration of the effects of the new system of accounts on the companies' past policies relating to maintenance and retirement accounting, and will of necessity extend over a considerable period. The subsidiaries of the Company affected continued to provide reserves for renewals and retirements in 1937 and 1938 as in previous years.

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 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 1937 and 1938, respectively, were \$7,015,508.54 and approximately \$7,200,000. As shown in the above Consolidated Income Account, the amounts reserved for renewals, retirements, and depletion for the same periods were, for 1937, \$4,492,704.47, and for 1938, \$4,758,850.54.

*Note B:* In December, 1938, as of January 1, 1938, Monongahela West Penn Public Service Company, pursuant to a declaration which it filed with the Securities and Exchange Commission and which became effective by the formal order of such Commission, made certain adjustments in its fixed capital, reserve, common stock, and surplus accounts, the net effect of which in the consolidated accounts of that company was as follows:

The subdivision of fixed capital account called "Appraised value in excess of book value," amounting to \$7,435,583, being the balance of a total revaluation of \$8,180,445 placed upon the books of the Monongahela Company and its subsidiaries in 1930, was eliminated, with concurrent charge to "Capital surplus arising from revaluation of electric and gas properties."

Reserve for renewals, retirements and depletion was credited and "Capital surplus arising from revaluation of electric and gas properties" was debited in an amount of \$744,862, to restore to the reserve account the proportionate share of "appraised value in excess of book value" applicable to electric and gas properties retired subsequent to 1929 which had been charged to the reserve.

Par value of the issued and outstanding common stock of the Monongahela Company was reduced from \$25 per share to \$15 per share, the total amount of such reduction, namely \$5,840,980, being credited to capital surplus.

A reserve for extraordinary losses on retirements of railway property was set up by a charge to earned surplus in the amount of \$7,237,565.76, of which \$5,000,000

## NOTES TO CONSOLIDATED INCOME ACCOUNT—(Continued)

represented the Monongahela Company's estimate of the amount of loss sustained in the book value of its present electric railway properties still in operation; and \$2,237,565.76 represented losses on electric railway properties abandoned since 1929 previously charged to "Capital surplus arising from revaluation of electric and gas properties," which amount was concurrently restored to said capital surplus and charged to the new reserve. The above charge of \$7,237,565.76 to earned surplus exhausted the balance of \$2,382,001.96 in that account at January 1, 1938, and resulted in a deficit of \$4,855,563.80, which deficit was eliminated by a charge to the capital surplus created by the reduction in the par value of common stock mentioned above.

As a result of the foregoing, there remains on the books of the Monongahela Company as of December 31, 1938, capital surplus in the amount of \$1,028,965.84. In the order of the Securities and Exchange Commission approving the various proposals of the Monongahela Company in this connection the Commission imposed the condition that no charges (other than those required by other regulatory bodies having exclusive jurisdiction in the premises) shall be made to such capital surplus without the prior approval of the Commission.

*Note C:* 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 heat properties and investments in securities of electric properties. During the period from the date of the reallocation to December 31, 1938, the amount of such increase appearing in the accounts of the electric and steam heat properties has been reduced by approximately \$1,475,000 by charges to the reserve for renewals and retirements. During the same period but covering all transactions since December 31, 1923, electric railway properties retired and investments in electric railway properties disposed of have been written off at the reallocated values, which values were less than the original book values by approximately \$1,567,000.

*Note D:* The above Income Account does not give effect to losses arising from the abandonment by West Penn Railways Company and Monongahela West Penn Public Service Company of railway properties during the periods covered. These companies, as set forth in Notes A and B above, have charged losses in asset value resulting from the abandonment of railway properties by themselves or their subsidiaries to their respective earned surplus (in the case of Monongahela), capital surplus and/or special reserve accounts. The book value of such railway properties, or the investments in subsidiaries owning railway properties which were abandoned, so charged to such earned surplus, capital surplus and/or special reserve accounts, aggregated for 1937, \$1,530,161.46, and for 1938, \$3,034,959.97. Deductions in respect of such capital losses have been or will be claimed on the Federal income tax returns of the companies affected.

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, 1938, was \$25,350,000.

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

**CONSOLIDATED SURPLUS ACCOUNT**

**Year Ended December 31, 1938**

Balance at January 1, 1938 .....	\$19,008,524.97
Add:	
Net income for year ended December 31, 1938 .....	2,095,085.13
	\$21,103,610.10
Deduct:	
Dividends on capital stock of American Water Works and Electric Company, Incorporated:	
\$6. Series, First Preferred .....	\$ 1,200,000.00
Losses on extraordinary abandonments of railway properties—(net). (See Note B to Consolidated Income Account) .....	2,382,001.96
Write-off of organization expenses and expenses in connection with acquisition of securities at or about the date of organization of The West Penn Electric Company, a subsidiary .....	272,574.48
Loss on sale of water works property to City of Keokuk, Iowa .....	158,489.24
Write-down of water works property of a foreign subsidiary company .....	103,865.58
Write-down of sundry investments, etc. (net) .....	171,606.77
Additional provision for Federal income taxes for prior years and interest thereon .....	88,460.64
Amortization and write-off of commission and expense on sale of capital stocks .....	171,569.86
Total deductions .....	\$ 4,548,568.53
Balance at December 31, 1938 .....	\$16,555,041.57

**PREFERRED CAPITAL STOCKS OF SUBSIDIARIES**  
**AS OF DECEMBER 31, 1938**

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
The St. Joseph Water Company:		
6% Cumulative Preferred Stock.....	100	700,000
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	11,955,300
Class A Stock (\$7 cumulative).....	No par	5,465,600*
West Penn Power Company:		
7% Cumulative Preferred Stock.....	100	12,707,700
6% Cumulative Preferred Stock.....	100	16,997,400
Monongahela West Penn Public Service Company:		
7% Cumulative Preferred Stock.....	25	6,698,800
The Potomac Edison Company:		
7% Preferred Stock (cumulative).....	100	2,918,250
6% Preferred Stock (cumulative).....	100	3,460,200
Potomac Light and Power Company:		
6% Cumulative Preferred Stock.....	100	217,800
Total per Consolidated Balance Sheet as of December 31, 1938.....		<u>\$88,283,500</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, plus unpaid, accumulated dividends amounting to \$36,000 as of December 31, 1938.

**LONG-TERM DEBT OF SUBSIDIARIES  
AS OF DECEMBER 31, 1938**

Subsidiary Company and Title of Issue	Maturity date	Amount outstanding with public
<b>The Alexandria Water Company:</b>		
First Mortgage Bonds, Series A, 4%.....	July 1, 1962	\$ 850,000
<b>Alton Water Company:</b>		
First Mortgage Bonds, Series A, 4¼%.....	Apr. 1, 1963	975,000
<b>The Ashtabula Water Works Company:</b>		
First Mortgage 5% Gold Bonds, Series A.....	Apr. 1, 1958	750,000
<b>Atlantic County Water Company of New Jersey:</b>		
First Mortgage 5% Gold Bonds, Series A.....	Mar. 1, 1958	600,000
<b>The Bernards Water Company:</b>		
First Mortgage Bonds, 6%.....	Nov. 1, 1942	32,000
<b>The Birmingham Water Works Company:</b>		
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
<b>The Butler Water Company:</b>		
First Mortgage 5% Gold Bonds, Series A.....	Oct. 1, 1957	1,000,000
<b>City Water Company of Chattanooga:</b>		
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
<b>Clinton Water Works Company:</b>		
First Mortgage Bonds, Series A, 4%.....	Dec. 1, 1962	650,000
<b>Commonwealth Water Company:</b>		
First Mortgage Bonds, Series A, 4¼%.....	Apr. 1, 1962	5,010,000
<b>Davenport Water Company:</b>		
First Mortgage Bonds, Series A, 4%.....	Oct. 1, 1962	1,600,000
<b>East St. Louis and Interurban Water Company:</b>		
First Mortgage Bonds, Series A, 4¼%.....	June 1, 1953	*7,400,000
<b>Huntington Water Corporation:</b>		
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
<b>Joplin Water Works Company:</b>		
First Mortgage 5% Gold Bonds, Series A.....	Mar. 1, 1957	1,100,000
<b>Kokomo Water Works Company:</b>		
First Mortgage 5% Gold Bonds, Series A.....	June 1, 1958	700,000
<b>Monmouth Consolidated Water Company:</b>		
First Mortgage 5% Gold Bonds, Series A.....	June 1, 1956	3,564,000
<b>Monongahela Valley Water Company:</b>		
First Mortgage 5½% Gold Bonds, Series A.....	Jan. 1, 1950	726,000
<b>The Morgantown Water Company:</b>		
First Mortgage Bonds, Series A, 5%.....	Jan. 1, 1965	500,000



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

AS OF DECEMBER 31, 1938

Subsidiary Company and Title of Issue	Maturity date	Amount outstanding with public
Muncie Water Works Company: First Mortgage Bonds, Series A, 5%.....	May 1, 1965	\$ 870,000
The City of New Castle Water Company: Forty Year Gold Bonds (5%).....	Dec. 2, 1941	1,000,000
The Noroton Water Company: First Mortgage Bonds, Series A, 4%.....	Dec. 1, 1962	200,000
North Little Rock Water Company: First Mortgage Bonds, Series A, 4¼%.....	June 1, 1953	300,000
Old Dominion Water Corporation: First Mortgage 4% Bonds.....	May 1, 1948	*285,000
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 Bonds, Series I, 3½%.....	Jan. 1, 1966	27,000,000
First Mortgage Bonds, Series J, 3¼%.....	Aug. 1, 1968	17,000,000
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
The West Maryland Power Company: 5% Purchase Money Obligation.....	July 1, 1961	22,000
West Penn Railways Company: West Penn Traction Co., First Mortgage Five Per Cent. Gold Bonds.....	June 1, 1960	4,634,000
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
Total per Consolidated Balance Sheet as of December 31, 1938.....		\$172,103,000

\* Excluding amount to be retired in 1939 pursuant to indenture provisions.

## 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, 1938 and 1937 are as follows:

	For Year Ended		Increase or Decrease*
	Dec. 31, 1938	Dec. 31, 1937	
Operating revenues:			
Electric:			
Residential .....	\$11,640,311.28	\$10,731,447.46	\$ 908,863.82
Commercial .....	6,601,210.25	6,407,501.86	193,708.39
Industrial .....	13,722,299.48	17,082,146.13	3,359,846.65*
Other .....	1,543,773.32	1,436,114.11	107,659.21
Total electric .....	\$33,507,594.33	\$35,657,209.56	\$2,149,615.23*
Gas .....	813,597.70	934,571.85	120,974.15*
Railway .....	1,493,667.70	2,153,805.18	660,137.48*
Bus .....	1,273,795.75	1,411,744.43	137,948.68*
Other .....	76,022.20	103,489.82	27,467.62*
Total operating revenues .....	\$37,164,677.68	\$40,260,820.84	\$3,096,143.16*
Non-operating income .....	219,297.52	307,272.57	87,975.05*
Total earnings .....	\$37,383,975.20	\$40,568,093.41	\$3,184,118.21*
Expenses:			
Operating expenses .....	\$13,365,608.56	\$14,290,924.66	\$ 925,316.10*
Maintenance .....	3,190,394.27	3,743,499.03	553,104.76*
Taxes—Federal income .....	1,052,780.43	1,436,719.48	383,939.05*
Other .....	3,458,191.67	3,718,608.24	260,416.57*
Reserved for renewals, retirements and depletion .....	3,893,473.42	3,647,354.84	246,118.58
Total expenses .....	\$24,960,448.35	\$26,837,106.25	\$1,876,657.90*
Gross income .....	\$12,423,526.85	\$13,730,987.16	\$1,307,460.31*
Deductions:			
Interest .....	\$ 4,974,055.73	\$ 4,666,133.86	\$ 307,921.87
Amortization of debt discount, premium (net) and expense .....	640,253.98	641,746.82	1,492.84*
Preferred dividends of subsidiaries .....	2,804,235.38	2,803,956.43	278.95
Miscellaneous .....	144,193.27	170,711.57	26,518.30*
Total deductions .....	\$ 8,562,738.36	\$ 8,282,548.68	\$ 280,189.68
Net income .....	\$ 3,860,788.49	\$ 5,448,438.48	\$1,587,649.99*

## 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, 1938 and 1937, 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		
	Dec. 31, 1938	Dec. 31, 1937	Increase or Decrease*
<b>Operating revenues:</b>			
Domestic.....	\$ 6,167,180.63	\$ 5,997,672.99	\$169,507.64
Commercial.....	3,096,506.07	3,087,175.73	9,330.34
Industrial.....	2,013,520.10	2,321,521.16	308,001.06*
Municipal.....	1,562,814.91	1,549,286.12	13,528.79
Other.....	19,631.95	21,886.72	2,254.77*
	<b>\$12,859,653.66</b>	<b>\$12,977,542.72</b>	<b>\$117,889.06*</b>
Non-operating income.....	40,480.54	53,377.25	12,896.71*
	<b>\$12,900,134.20</b>	<b>\$13,030,919.97</b>	<b>\$130,785.77*</b>
<b>Expenses:</b>			
Operating expenses.....	\$ 3,608,651.08	\$ 3,481,790.92	\$126,860.16
Maintenance.....	568,487.09	628,646.88	60,159.79*
Taxes—Federal income.....	280,123.10	250,479.00	29,644.10
Other.....	1,698,752.92	1,686,159.55	12,593.37
Reserved for retirements.....	865,377.12	845,349.63	20,027.49
	<b>\$ 7,021,391.31</b>	<b>\$ 6,892,425.98</b>	<b>\$128,965.33</b>
	<b>\$ 5,878,742.89</b>	<b>\$ 6,138,493.99</b>	<b>\$259,751.10*</b>
<b>Deductions:</b>			
Interest.....	\$ 3,433,695.97	\$ 3,472,122.57	\$ 38,426.60*
Amortization of debt discount, premium (net) and expense.....	200,958.16	182,670.41	18,287.75
Miscellaneous.....	36,059.57	40,132.41	4,072.84*
	<b>\$ 3,670,713.70</b>	<b>\$ 3,694,925.39</b>	<b>\$ 24,211.69*</b>
	<b>\$ 2,208,029.19</b>	<b>\$ 2,443,568.60</b>	<b>\$235,539.41*</b>

## 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, 1938 and 1937, are shown below:

### JAMES MILLS ORCHARDS CORPORATION AND ESPERANZA LAND CORPORATION

#### COMBINED INCOME ACCOUNT

	For Year Ended	
	Dec. 31, 1938	Dec. 31, 1937
Sales of fruit, livestock and field crops.....	\$407,598.99	\$454,368.26
Cost of goods sold.....	384,100.37	464,250.17
	\$ 23,498.62	\$ 9,881.91
Gross profit or <i>loss</i> .....		
Other income.....	26,981.03	17,725.37
	\$ 50,479.65	\$ 7,843.46
Gross earnings.....		
Expenses:		
Taxes.....	\$ 8,361.10	\$ 8,479.21
Maintenance.....	11,616.97	14,413.48
Reserved for depreciation.....	39,310.27	40,006.23
General and administrative.....	52,706.82	55,008.06
	\$111,995.16	\$117,906.98
Total expenses.....		
Net <i>loss</i> from operations before interest to American Water Works and Electric Company, Incorporated	\$ 61,515.51	\$110,063.52

PRICE, WATERHOUSE & CO.

56 PINE STREET

NEW YORK. March 28, 1939.

TO THE BOARD OF DIRECTORS OF  
COMMUNITY WATER SERVICE COMPANY:

We have made an examination of the balance sheet of Community Water Service Company, the parent company, as of December 31, 1938, and of the related statements of income and surplus (deficit) for the year ended on that date. We have also made an examination of the consolidated balance sheet of Community Water Service Company and consolidated subsidiary companies as of December 31, 1938, and of the related statements of consolidated income and surplus (deficit) 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 certain of the subsidiary companies our examination was made as of October 31, 1938, but we were furnished with the financial statements of such subsidiaries as of December 31, 1938, and found that the changes during the intervening period were normal. We also obtained information and explanations from officers and employees of the companies and made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

Certain of the operating subsidiary water companies have adopted in general new uniform systems of accounts prescribed by regulatory bodies under whose jurisdiction they operate. Such new systems of accounts and the Public Utility Law of the Commonwealth of Pennsylvania (which affects 23 of the companies) provide, among other things, for depreciation accounting. However, as set forth more fully in Note C to the consolidated income account, the operating subsidiary water companies have followed, in 1938 as in 1937, the policy of charging to operating expenses provisions for a reserve for retirements designed to equalize from year to year losses incident to the retirement of fixed assets. The 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. As also explained in Note B to the consolidated balance sheet, the new uniform systems of accounts referred to above require

the determination of "original cost" of property (generally defined as "the cost of such property to the person first devoting it to public service") and the segregation of the difference between book cost and "original cost" in separate accounts, to be disposed of as may be provided in agreements with, or as directed by, the various regulatory bodies. As stated in the notes to the accounts, studies are being made with respect to depreciation provisions and "original cost" of property, but the extent to which the companies' accounts will be affected as a result of these studies and by other provisions of the new systems and new regulations, cannot be determined at present.

In our opinion, based upon our examination and except that the effects of matters mentioned in the immediately preceding paragraph have not been reflected in the accounts since they are indeterminable at present, the accompanying balance sheets and related statements of income and surplus (deficit) together with the notes appended thereto, fairly present, in accordance with accepted principles of accounting consistently maintained 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, 1938 and the results of their operations for the year ended on that date.

PRICE, WATERHOUSE & Co.

## COMMUNITY WATER SERVICE COMPANY

### BALANCE SHEET AS OF DECEMBER 31, 1938

#### *Assets and Deferred Charges*

Investments:		
Securities of subsidiary companies.....	\$8,076,860.28	
Other security investments.....	17,221.00	\$8,094,081.28*
Accounts receivable from subsidiary companies.....		341,294.25*
Current assets:		
Cash in banks.....	\$ 67,328.96	
Accrued interest and dividends receivable from subsidiary companies.....	15,261.47	
Miscellaneous accounts receivable.....	120.10	82,710.53
Deferred charges:		
Unamortized debt discount and expense (see Note A)...	\$ 409,747.69	
Unamortized commission and expense on sale of preferred stocks of subsidiary companies.....	112,136.29	
Other deferred charges.....	250.00	522,133.98
Total assets and deferred charges.....		<u>\$9,040,220.04</u>

#### *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	\$5,413,000.00
Current liabilities:		
Accounts payable to subsidiary and affiliated companies.	\$ 93,142.37	
Accounts payable to others.....	3,404.14	
Interest accrued.....	61,611.67	
Taxes accrued.....	17,410.14	175,568.32
Capital stock and deficit:		
\$7 Cumulative First Preferred Stock:		
Authorized 100,000 shares—no par value		
Issued 39,078 shares.....	\$3,620,972.00	
Less 15 shares held in treasury.....	1,389.90	
	<u>\$3,619,582.10†</u>	
Common Stock:		
Authorized 1,500,000 shares—par value \$1 per share		
Issued 1,124,555 shares.....	1,124,555.00	
Deficit.....	<u>1,292,485.38</u>	3,451,651.72
Total liabilities, capital and deficit.....		<u>\$9,040,220.04</u>

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

† The \$7 Cumulative First Preferred Stock is entitled in liquidation to \$100 per share and unpaid, accumulated dividends. The aggregate liquidating value of such stock (including cumulative preferred dividends not declared or accrued of \$1,868,513.50) amounted to \$5,774,813.50 as of December 31, 1938, which was \$2,155,231.40 in excess of the amount at which such stock is stated in the balance sheet.

## NOTES TO BALANCE SHEET

*Note A:* This amount consists of unamortized debt discount and expense on the Company's debenture issues and approximately \$211,000 representing the unamortized balance 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.

*Note B:* 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 42 to 44, inclusive) to which reference is made.



**COMMUNITY WATER SERVICE COMPANY**  
**COMPARATIVE INCOME ACCOUNT**

	For Year Ended		Increase or
	Dec. 31, 1938	Dec. 31, 1937	Decrease*
<b>Earnings:</b>			
Dividends from subsidiary companies (see Note A)	\$258,058.13	\$407,168.11	\$149,109.98*
Interest from subsidiary companies.....	22,853.19	13,299.37	9,553.82
Other income.....	334.34	699.22	364.88*
	\$281,245.66	\$421,166.70	\$139,921.04*
<b>Expenses:</b>			
Salaries, taxes and other expenses.....	32,283.87	44,726.76	12,442.89*
	\$248,961.79	\$376,439.94	\$127,478.15*
<b>Deductions:</b>			
Interest on funded debt.....	\$311,825.00	\$311,825.00	\$ —
Interest on accounts payable to subsidiary companies.....	7,287.50	10,893.11	3,605.61*
Other interest.....	5.00	7,584.25	7,579.25*
Amortization of debt discount and expense.....	48,878.42	48,878.42	—
Payments under tax covenants on bonds.....	6,043.66	5,869.28	174.38
	\$374,039.58	\$385,050.06	\$ 11,010.48*
<b>Net loss.....</b>	<b>\$125,077.79</b>	<b>\$ 8,610.12</b>	<b>\$116,467.67</b>

*Note A:* The Company's equity in the earnings of consolidated subsidiary companies exceeded the dividend income from such subsidiaries by \$150,350.96 for 1938 and by \$70,188.41 for 1937. The operations of The New Rochelle Water Company, a subsidiary not consolidated, before provision for cumulative preferred dividends of \$136,500, resulted in a net income of \$24,817.47 for 1938 and a net loss of \$59,259.39 for 1937. No effect has been given to these amounts in the above income account, as the Company's investment in this subsidiary has been written down to a nominal amount. Also see Note A to Consolidated Balance Sheet.

*Note B:* 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 45 to 47, inclusive) to which reference is made.

**EARNED SURPLUS (DEFICIT) ACCOUNT**  
**Year Ended December 31, 1938**

Deficit at January 1, 1938.....		\$1,237,818.64
<b>Add:</b>		
Net loss for year ended December 31, 1938.....	\$125,077.79	
Amortization of commission and expense on preferred stocks of subsidiary companies sold by the Company.....	4,153.20	129,230.99
		\$1,367,049.63
<b>Deduct:</b>		
Profit on sale of affiliated company preferred stock to outsiders	\$ 11,203.67	
Reversal of excess provision made in prior years for loss on investments in Woodbridge Building Corporation.....	44,714.00	
Adjustment of prior years' Federal income taxes and interest thereon, etc.....	18,646.58	74,564.25
		\$1,292,485.38
<b>Deficit at December 31, 1938.....</b>		<b>\$1,292,485.38</b>



**COMMUNITY WATER SERVICE COMPANY  
AND CONSOLIDATED SUBSIDIARY COMPANIES (See Note A)  
CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1938**

*Assets and Deferred Charges*

Property, plant and equipment.....		\$54,117,829.26*
(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 \$7,150,000.)		
Miscellaneous investments (including investment in subsidiary not consolidated).....		930,050.10
 Current assets:		
Cash in banks and on hand, including time deposit of \$100,000.....	\$1,386,860.02	
Cash deposited with trustees and others.....	109,663.20	
Customers accounts receivable.....	\$877,013.10	
Miscellaneous notes and accounts receivable.....	19,952.38	
	\$896,965.48	
Less reserves for doubtful notes and accounts receivable.....	60,662.76	836,302.72
Operating materials, coal and other supplies, carried at cost or less.....		41,080.55
Total current assets.....		2,373,906.49
 Other assets:		
Cash, notes and securities deposited in sinking fund, with trustees, etc.....	\$ 86,097.93	
Cash in closed banks, less reserves of \$9,343.35.....	1,218.43	
Construction materials (quantity and condition determined by management).....	234,700.10	322,016.46
 Deferred charges:		
Prepaid insurance, taxes, etc.....	\$ 32,417.59	
Unamortized debt discount, premium (net) and expense	1,979,327.17	
Unamortized commission and expense on sale of preferred stocks.....	183,622.37	
Unamortized rate case expense.....	22,431.40	
Other deferred charges.....	36,468.89	2,254,267.42
Total assets and deferred charges.....		\$59,998,069.73

\* This amount is derived from book figures and does not purport to be the realizable value or the sum which could be realized upon the sale thereof.

**COMMUNITY WATER SERVICE COMPANY  
AND CONSOLIDATED SUBSIDIARY COMPANIES (See Note A)  
CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1938**

*Liabilities, Capital and Deficit*

Funded debt of subsidiaries (see list on page 49).....		\$32,885,900.00	
Preferred capital stocks of subsidiaries (liquidating value \$8,071,550.00) (see list on page 50).....			7,999,100.00
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).....	2,591,000.00		5,413,000.00
			<hr/>
Current liabilities:			
Notes payable to banks.....	\$ 359,705.50		
Accounts payable.....	129,810.41		
Payrolls accrued.....	14,761.92		
Taxes accrued.....	586,240.01		
Interest accrued.....	491,569.26		
Preferred dividends accrued.....	17,239.66		
Dividends declared on preferred stocks, payable after December 31, 1938.....	75,646.37		
Due to subsidiary and affiliated companies, not consolidated	177,200.19		
			<hr/>
Total current liabilities.....			1,852,173.32
Customers' security and construction deposits.....			559,074.63
Other deferred liabilities and deferred credits.....			13,926.33
Reserves:			
For retirements.....	\$5,874,542.80		
For sinking fund and other purposes.....	87,221.70		5,961,764.50
			<hr/>
Contributions in aid of construction.....			521,795.44
Minority interest in common stock and surplus of subsidiaries, including accrued dividends in arrears on the preferred stock of a subsidiary in hands of the public amounting to \$92,097.....			309,090.17
Capital stock of Community Water Service Company:			
\$7 Cumulative First Preferred Stock:			
Authorized 100,000 shares—no par value			
Issued 39,078 shares.....	\$3,620,972.00		
Less 15 shares held in treasury.....	1,389.90		
			<hr/>
			\$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		
Capital surplus.....	\$ 16,411.81		
Deficit.....	278,303.57	261,891.76	4,482,245.34
			<hr/>
Total liabilities, capital and deficit.....			\$59,998,069.73

† The \$7 Cumulative First Preferred Stock is entitled in liquidation to \$100 per share and unpaid, accumulated dividends. The aggregate liquidating value of such stock (including cumulative preferred dividends not declared or accrued of \$1,868,513.50) amounted to \$5,774,813.50 as of December 31, 1938, which was \$2,155,231.40 in excess of the amount at which such stock is stated in the balance sheet.

## 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 A and C 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. For the year 1938 the Water Company had a net income of \$24,817.47 as compared to a loss of \$59,259.39 in the year 1937, which resulted, after cumulative preferred dividend requirements of \$136,500 in each year, in deficits for the respective years of \$111,682.53 and \$195,759.39.

It is believed that to reflect any such substantial deficits in the consolidated income accounts of Community Water Service Company, when these deficits are 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 these years.

*Note B:* New Uniform Systems of Accounts prescribed by the regulatory commissions of states in which certain of the subsidiary water companies operate provide for fundamental changes in the accounting for water plant and for depreciation reserves and accruals thereunder. Such new Uniform Systems of Accounts require the determination of original cost of water plant (generally defined as "the cost of such property to the person first devoting it to public service") and the segregation of the difference between book cost and original cost in separate accounts to be disposed of as may be provided in agreements with or as directed by the various regulatory bodies. Studies are being made with respect to the foregoing requirements but the effects thereof on the companies' accounting cannot be determined at the present time.

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

	For Year Ended		Increase or
Operating revenues:	Dec. 31, 1938	Dec. 31, 1937†	Decrease*
Water:			
Domestic.....	\$3,137,107.94	\$3,387,120.85	
Commercial.....	1,133,305.60	874,826.32	See
Industrial.....	448,130.05	588,146.26	Note
Municipal.....	711,200.20	694,788.89	B
Other.....	148,698.74	102,075.07	
	\$5,578,442.53	\$5,646,957.39	\$ 68,514.86*
Miscellaneous.....	1,333.00	3,213.27	1,880.27*
Total operating revenues.....	\$5,579,775.53	\$5,650,170.66	\$ 70,395.13*
Non-operating income.....	78,284.70	87,064.78	8,780.08*
Total earnings.....	\$5,658,060.23	\$5,737,235.44	\$ 79,175.21*
Expenses:			
Operating expenses.....	\$1,705,209.05	\$1,722,374.75	\$ 17,165.70*
Maintenance.....	216,287.24	265,210.30	48,923.06*
Taxes—Federal income.....	195,695.12	134,602.43	61,092.69
Other.....	599,904.04	612,724.00	12,819.96*
Provision for retirements (see Note C).....	323,311.30	317,854.83	5,456.47
Total expenses.....	\$3,040,406.75	\$3,052,766.31	\$ 12,359.56*
Gross income.....	\$2,617,653.48	\$2,684,469.13	\$ 66,815.65*
Deductions—Subsidiaries:			
Interest.....	\$1,542,594.08	\$1,564,322.67	\$ 21,728.59*
Amortization of debt discount, premium (net) and expense.....	117,542.33	119,579.56	2,037.23*
Preferred dividends§.....	523,131.00	519,870.33	3,260.67
Minority interest.....	10,720.45	12,690.07	1,969.62*
Miscellaneous.....	23,894.31	26,481.38	2,587.07*
	\$2,217,882.17	\$2,242,944.01	\$ 25,061.84*
Balance.....	\$ 399,771.31	\$ 441,525.12	\$ 41,753.81*
Deductions—Community Water Service Com- pany:			
Interest.....	\$ 315,867.50	\$ 325,199.13	\$ 9,331.63*
Amortization of debt discount and expense.....	48,878.42	48,878.42	—
Miscellaneous.....	6,043.66	5,869.28	174.38
	\$ 370,789.58	\$ 379,946.83	\$ 9,157.25*
Net income.....	\$ 28,981.73	\$ 61,578.29	\$ 32,596.56*

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

† Adjusted to exclude the accounts of the Woodbridge Building Corporation which was sold to non-affiliated interests on April 1, 1938.

## NOTES TO CONSOLIDATED INCOME ACCOUNT

*Note A:* The Consolidated Income Accounts for both 1938 and 1937 do not include the accounts of The New Rochelle Water Company, the operations of which resulted in a net income of \$24,817.47 and a net loss of \$59,259.39 for the respective years before provision for cumulative preferred dividends of \$136,500 annually. In this connection see Note A to the Consolidated Balance Sheet.

*Note B:* Due to a reclassification of customers, the details shown for operating water revenues for the year 1938 are not comparable with those shown for the year 1937.

*Note C:* In respect of physical properties of the operating subsidiary water 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 generally known as the "Retirement Reserve Method," the operating subsidiary water companies do not set up reserves 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. Such amounts are computed by the application of a fixed rate to the value of the physical properties considered as subject to depreciation. Such rates are not uniform for the properties of the various companies. In some cases they are fixed in a decision by or an agreement with a State Public Service Commission, in others by engineers after consultation with the officers of the Company. In such latter cases, the decision as to the rates is based on long practical experience in the water works business. The values of the properties considered as subject to depreciation, and to which such rates are applied, were determined in most instances by engineers after studies of the records.

Certain companies are required under bond indentures to reserve for retirements amounts which shall be not less than the difference between 9% of operating revenue, and the amounts charged to expense for maintenance and repairs. Accruals are set up in the retirement reserves under these provisions wherever amounts computed on this basis are in excess of the amounts computed as outlined in the preceding paragraph.

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. It is estimated that with minor exceptions 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, 1938.

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

## NOTES TO CONSOLIDATED INCOME ACCOUNT—(Continued)

The Public Utility Law of the State of Pennsylvania passed in 1937 provides, effective June 1, 1937, that each public utility operating in that state shall provide annual accruals for depreciation based on the average estimated life of depreciable property. The subsidiaries affected by the foregoing requirements are making studies with reference thereto but continued to provide reserves for retirements in 1937 and 1938 as in previous years.

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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 1937 and 1938, respectively, were \$669,165.92, and approximately \$658,500. As shown in the Consolidated Income Accounts, the amounts provided for retirements for the same periods were for 1937—\$317,854.83, and for 1938—\$323,311.30.



**COMMUNITY WATER SERVICE COMPANY  
AND CONSOLIDATED SUBSIDIARY COMPANIES  
CONSOLIDATED SURPLUS (DEFICIT) ACCOUNTS**

**Year Ended December 31, 1938**

**EARNED SURPLUS (DEFICIT)**

Deficit at January 1, 1938.....		\$354,588.12
Deduct:		
Net income for year ended December 31, 1938.....	\$28,981.73	
Reversal of excess reserve for doubtful accounts.....	9,200.00	
Profit on sale of land and securities of subsidiary companies—net	17,980.72	
Reversal of excess provision made in prior years for loss on invest- ments in Woodbridge Building Corporation.....	44,714.00	100,876.45
		\$253,711.67
Add:		
Unamortized debt discount and expense applicable to reacquired bonds of a subsidiary company.....	\$ 2,683.10	
Adjustment of Federal income tax for prior years and interest thereon—net.....	10,279.42	
Amortization of commission and expense on sale of preferred stocks.....	4,489.58	
Sundry adjustments—net.....	7,139.80	24,591.90
Deficit at December 31, 1938.....		\$278,303.57

**CAPITAL SURPLUS**

Balance at January 1, 1938.....		\$ 14,951.11
Add:		
Excess of par or stated value over cost of reacquired preferred stock of sub- sidiary companies—net.....		1,460.70
Balance at December 31, 1938.....		\$ 16,411.81

**Funded Debt of Subsidiaries of  
COMMUNITY WATER SERVICE COMPANY**

(Excluding The New Rochelle Water Company)

AS OF DECEMBER 31, 1938

Subsidiary Company and Title of Issue	Maturity date	Amount outstanding with public
<b>Bristol County Water Company:</b>		
First Mortgage 3¾% Bonds, Series A.....	July 1, 1956	\$ 850,000
<b>The Cairo Water Company:</b>		
First Mortgage 4½% Bonds, Series A.....	Oct. 1, 1955	375,000
<b>The Citizens Water Company of Washington, Pa.:</b>		
First Mortgage 5½% Gold Bonds, Series A.....	July 1, 1951	1,449,600
First Mortgage 5% Gold Bonds, Series B.....	July 1, 1951	560,000
<b>Cohasset Water Company:</b>		
First Mortgage 4% Bonds, Series A.....	July 1, 1963	100,000
<b>Dedham Water Company:</b>		
First Mortgage Twenty-Year 4¼% Bonds, Series A.....	May 1, 1955	400,000
<b>Greenwich Water and Gas System, Inc.:</b>		
Collateral Trust 5% Twenty-Five Year Gold Bonds, Series A.....	Apr. 1, 1952	3,740,500
Collateral Trust 5% Gold Bonds, Series B.....	Apr. 1, 1952	1,181,000
<b>Greenwich Water Company:</b>		
First Mortgage Twenty-Five Year 3¾% Bonds, Series B.....	Jan. 1, 1961	1,330,000
<b>Hingham Water Company:</b>		
First Mortgage 5% Gold Bonds.....	June 1, 1943	400,000*
<b>Lexington Water Company:</b>		
First Mortgage Bonds, Series A, 4%.....	Dec. 1, 1962	2,400,000
<b>New Jersey Water Company:</b>		
First Mortgage 5% Gold Bonds, Series A.....	Aug. 1, 1950	1,593,000
<b>Ohio Cities Water Corporation:</b>		
First Mortgage Collateral Trust 5.50% Gold Bonds, Series A.....	July 1, 1953	1,425,000
<b>Pennsylvania State Water Corporation:</b>		
First Collateral Trust Bonds, 4¼% Series Due 1966.....	Nov. 1, 1966	7,450,000
<b>Peoria Water Works Company:</b>		
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
<b>Wannacomet Water Company:</b>		
Mortgage and Refunding Bonds (6%).....	Aug. 1, 1940	36,500
<b>Westmoreland Water Company:</b>		
First Mortgage 5% Gold Bonds, Series A.....	Dec. 1, 1952	2,775,000
<b>Williamsport Water Company:</b>		
First Mortgage 5% Gold Bonds, Series A.....	Aug. 1, 1952	2,673,000
<b>Williamstown Water Company:</b>		
First Mortgage Bonds (6%).....	May 1, 1940	146,000
Total per Consolidated Balance Sheet as of December 31, 1938.....		\$32,885,900

\* \$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, 1938

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	400,000
The Marion Water Company: Preferred Stock (7% Cumulative).....	100	450,800
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	649,800§
Williamsport Water Company: \$6 Cumulative Preferred Stock.....	No par	707,538‡
Total per Consolidated Balance Sheet as of December 31, 1938.....		\$7,999,100

§ 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 plus unpaid, accumulated dividends amounting to \$92,097 as of December 31, 1938.

‡ Represents the amount at which carried on books—entitled in liquidation to \$752,700.

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

AS OF DECEMBER 31, 1938

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., and Windsor Power House Coal Company (and its subsidiary, Windsor Coal 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 65.801
The Cairo Water Company* .....	100
The Citizens Water Company of Washington, Pa.* .....	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
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* .....	C 100
Ohio Cities Water Corporation* .....	D 100
The Marion Water Company* .....	100
The Ohio Cities Water Company* .....	100
Pennsylvania State Water Corporation* .....	100
The Bangor Water Company* .....	100
Roseto Water Company* .....	100
The Berwick Water Company* .....	100

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

AS OF DECEMBER 31, 1938

*Percentage of  
Common Stock  
Owned*

*American Communities Company—Continued*

*Community Water Service Company—Continued*

*Pennsylvania State Water Corporation—Continued*

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
Spring Water Company of Kane* .....	100
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
American Water Works Construction 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
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

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

**AS OF DECEMBER 31, 1938**

	<i>Percentage of Common Stock Owned</i>
Davenport Water Company.....	100
East St. Louis and Interurban Water Company.....	E 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
Kokomo Water Works Company.....	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
North Little Rock Water Company.....	100
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.....	99.835
St. Clair Water Company.....	100
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
The West Penn Electric Company.....	100
Penn Bus Company*.....	F 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
West Penn Power Company.....	G 100
Allegheny Pittsburgh Coal Company.....	100
Beech Bottom Power Company, Inc.*.....	H 50

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

**AS OF DECEMBER 31, 1938**

		<i>Percentage of Common Stock Owned</i>
<i>The West Penn Electric Company—Continued</i>		
<i>West Penn Power Company—Continued</i>		
Monongahela West Penn Public Service Company.....	I	100
The Marietta Electric 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 Virginia Power and Transmission Company.....		100
West Penn West Virginia Water Power Company.....		100
Windsor Power House Coal Company*.....	H	50
Windsor Coal Company*.....		100
West Penn Railways Company.....		100
West Penn Securities Department, Inc.....		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, 1938, 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, 8.911% 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—Because of arrears in dividends, the 7% Cumulative Preferred Stock of The New Rochelle Water Company has the right to vote. Community Water Service Company owns none of such preferred stock. The 100% of the common stock owned by Community Water Service Company represents 71.942% of the voting stock.

D—Because of arrears in dividends, the \$6 Cumulative First Preferred Stock of Ohio Cities Water Corporation has the right to vote. Community Water Service Company owns 54.520% of such preferred stock and 100% of the common stock, aggregating 86.624% of the voting stock.

E—The preferred stock of East St. Louis and Interurban Water Company has the right to vote. American Water Works and Electric Company, Incorporated, owns none of the preferred stock and 100% of the common stock, aggregating 77.547% of the voting stock.

F—Pennsylvania Greyhound Lines, Inc., not an affiliated company, owns the balance of 50%.

G—The West Penn Electric Company owns 68.793% and West Penn Railways Company owns 31.207%.

H—The Ohio Power Company, not an affiliated company, owns the balance of 50%.

I—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

	1938	1937
<b>GENERATING STATIONS—KILOWATTS:*</b>		
Steam Stations.....	558,870	530,870
Hydro Stations.....	57,390	57,390
Oil and Gas Stations.....	2,319	2,419†
Total.....	618,579	590,679
<b>NET KILOWATT-HOUR OUTPUT.....</b>	2,136,863,877	2,543,472,490
<b>NUMBER OF ELECTRIC CUSTOMERS*.....</b>	387,524	365,184
<b>TRANSMISSION LINES—POLE MILES:*</b>		
132,000 Volts.....	400	400
66,000 Volts.....	332	332
Less Than 66,000 Volts.....	2,481	2,395
Total.....	3,213	3,127

### Transportation Properties

<b>ELECTRIC RAILWAYS:</b>		
Miles of Track*.....	333	385
Number of Cars*.....	229	277
<b>BUS LINES OPERATED:</b>		
Miles of Route*.....	1,600	1,571
Number of Buses*.....	141	132

### Water Works Properties

(Excluding subsidiaries of Community Water Service Company; 1937 figures adjusted by elimination of property sold during 1938)

<b>PUMPING STATIONS—GALLONS PER DAY:*</b>		
Distributive Service.....	762,708,800	784,014,700
Low Service.....	642,912,600	662,466,000
Relay Service.....	222,283,500	224,202,300
<b>TRANSMISSION AND DISTRIBUTION MAINS—MILES*.....</b>	6,005	5,952
<b>GALLONS OF WATER SOLD.....</b>	51,558,333,000	54,496,668,000
<b>NUMBER OF WATER CUSTOMERS*.....</b>	444,712	436,779

\*At end of period.

†Revised.