AMERICAN WATER WORKS AND ELECTRIC COMPANY

INCORPORATED

ANNUAL REPORT
1941

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1941

AMERICAN WATER WORKS AND ELECTRIC COMPANY
INCORPORATED

Annual Report

1941

FOR THE FISCAL YEAR
ENDED DECEMBER 31, 1941

BOARD OF DIRECTORS

George A. Benington
George W. Biggs, Jr.
Thomas H. Blodgett
Harold F. Butler
Randolph Catlin
James A. Hill
Thomas H. McInnerney
H. Hobart Porter
Philip L. Ross
Earle S. Thompson

EXECUTIVE COMMITTEE

Thomas H. Blodgett
James A. Hill
H. Hobart Porter
Earle S. Thompson

OFFICERS

H. Hobart Porter, *Chairman of the Board*
Earle S. Thompson, *President*

Philip L. Ross, *Vice-President*
Harold F. Butler, *Vice-President*
Gilbert W. Chapman, *Treasurer*
Hugh D. McDowell, *Secretary*
Raymond P. Kaesshaefer, *Comptroller*
Lorenzo Semple, Jr., *Assistant Vice-President*
Milton B. Rogers, *Assistant Treasurer*
Howard H. Briggs, *Assistant Secretary*
John Young, *Assistant Comptroller*
Lewis E. Sharpe, *Assistant Comptroller*
John P. Eaton, *Assistant Comptroller*

George W. Biggs, Jr., *Chief Engineer, Water Properties*

GENERAL COUNSEL

Sullivan & Cromwell, 48 Wall Street, New York City

TRANSFER AND DIVIDEND AGENTS

Agents of the Corporation, 50 Broad Street, New York City

REGISTRAR OF TRANSFERS

Guaranty Trust Company of New York, 140 Broadway, New York City

GENERAL OFFICES

50 Broad Street, New York City

AMERICAN WATER WORKS AND ELECTRIC COMPANY

INCORPORATED

March 20, 1942.

To the Stockholders:

The past year witnessed the intensification of the defense program and finally the sudden entry of the Nation into the war—circumstances necessarily accompanied by marked changes in the business and economy of the Country.

These changes have given rise to additional responsibilities and burdens to our system which is engaged principally in the business of furnishing water and electric services vital to health and industry. They include the necessity of providing increased production to meet the growing demands for service by war industries and military establishments; problems resulting from increasing taxes, rising wage levels and higher costs of materials and supplies; the protection of important plants against sabotage; the necessity of curtailing normal extensions and additions in order to conserve essential materials needed for war purposes; and the replacement of trained personnel from time to time inducted into the armed forces.

These problems are not confined to the public utility industry. They are faced in different degrees by practically all business enterprises. They will require sacrifices by all, and also substantial changes in established procedures. The primary duty now is to win the war and until victory is won all activities and interests inconsistent with that objective must be subordinated thereto. We will do everything possible to further the success of this great undertaking.

There has been little, if any, relaxation in the regulatory process and, accordingly, a vast amount of time and expense must still be expended in complying with the requirements of regulatory bodies, both State and Federal. This regulation includes the supervision of current transactions with a view to protecting the interests of the public, consumers and investors. It also involves many long-range policies of reform which are not essential to the prosecution of the war, which divert valuable time on the part of Gov-

ernment and management from matters of vital and immediate urgency and which could be accomplished as well after the war is over as at the present time. We have no desire to raise anew the controversial questions surrounding many of these requirements. It is believed, however, that their application during conditions of war was not contemplated at the time of their adoption. With a view to giving management an opportunity to devote its undivided attention to problems of efficient operation and production, and in the interest of fairness to security holders, the regulatory process should be relaxed and simplified as much as is reasonably possible during the period of the war.

Our companies had substantially greater revenues during the past year than in 1940. The increase resulted in part from the normal growth of the territory served and in large measure from the impetus of war. However, the additional revenues have been more than offset by rising costs of operation, including taxes, so that consolidated net income, after preferred dividends, was less in 1941 than it was in 1940.

Public utilities cannot voluntarily increase the price charged for their services in order to meet the rapidly rising costs of operation. The rates charged by them are subject to regulation by public authorities and cannot be increased without the approval of such authorities which usually act in such matters only after protracted hearings. The practical effect of this is that utilities are subject to rigid price control with respect to their rates and charges and at the same time are unable to obtain prompt relief against their own rising costs of operation. It may be necessary in the near future for certain system companies to seek temporary or other rate increases to offset the rising costs.

The following comments are made with respect to the financial statements submitted herewith and to certain other matters of interest regarding the system and its activities:

EARNINGS

The net income of the Company alone in 1941, after preferred dividends, was equivalent to 47 cents per share on the Common Stock of the Company, as against 41 cents per share for the year 1940.

The consolidated net income for the year 1941, after preferred dividends, was equivalent to $1.11 per share on the Common Stock of the Company as against $1.21 per share for the year 1940.

Conditions prevailing for the past several years continued to affect the flow of dividend payments to the Company from the subsidiary companies. The consolidated net income was favorably affected in 1941 by non-recurring deductions for income tax purposes allowable to various water company subsidiaries during the year.

ELECTRIC PROPERTIES

The total consolidated electric revenue was $43,657,000 in 1941. This represented an increase over 1940 of $3,447,000, or approximately 8.6%. Of this increase, $2,473,000 was derived from sales to industrial customers, $854,000 from sales to residential customers and $158,000 from sales to commercial customers. Other classes of customers showed a decrease of about $38,000 by comparison with 1940.

The electric system established a new power output record of over 3,343,000,000 kilowatt-hours in 1941.

The number of electric customers of all classes increased during 1941 to a total of 446,421 at the end of the year. The annual average use by residential customers increased during the year to 973 kilowatt-hours.

WATER WORKS PROPERTIES

The consolidated operating revenues from the water works properties of the Company (exclusive of those in the Community Water Service Company system) amounted to $14,602,000 for the year 1941, as against $13,763,000 for the year 1940; and the total number of their customers on December 31st was 485,003, an increase of 18,807 for the year.

The consolidated operating revenues of the water works subsidiaries in the Community Water Service Company system amounted to $6,256,000 for the year 1941, as against $5,954,000 for the year 1940; and the total number of their customers on December 31st was 212,338, an increase of 5,412 for the year. (For the sake of brevity and economy, the separate consolidated financial statements of Community Water Service Company and its subsidiaries have not been included in this report. A copy of that company's annual report to its stockholders will be furnished upon request.)

FEDERAL TAXES

Accruals for Federal income and excess profits taxes in the consolidated system amounted to $6,808,000 for the year 1941. The amount would have been larger except for non-recurring deductions for tax purposes which were

allowable as a result of bond issues refunded by various water company subsidiaries during the year and which had the effect of temporarily relieving the tax burden somewhat. Even so, Federal income and excess profits tax accruals in 1941 increased by $2,679,000, as against an increase of only $2,160,000 in the consolidated operating income before such taxes.

DEMANDS OF WAR

The properties of the system, which are largely electric utilities and water works, are operating at a higher rate of capacity than ever before.

War industries, including several new or enlarged plants built for the express purpose of producing essential war material, have developed in the system's electric territory; and greater demands for electric power have been made by our regular industrial customers, most of whom are now engaged in the production of materials and equipment directly or indirectly related to the war. As a result, an increasing proportion of the system's electric output is being supplied to industrial customers.

Additional generating capacity installed since 1936 has enabled the system to meet the increased demands made upon it; and in 1941, West Penn Power Company completed the installation of an additional 60,000 kw. turbo-generator and Monongahela West Penn Public Service Company commenced construction work on a new 35,000 kw. turbo-generator which should be completed in the latter part of 1942. Both of these companies have also constructed many miles of high voltage steel tower transmission lines to increase the amount and reliability of service furnished. These additions to the Company's interconnected and integrated electric system will further enable it to meet anticipated load requirements in the near future.

Many of the subsidiary water companies are meeting large demands for service from military establishments and vital war industries. In some instances, it has been necessary for these companies to enlarge their transmission, distribution and other facilities to meet these demands for service.

The growth of the operating electric and water properties through normal extensions and additions will be limited during the war as a result of the necessary measures taken by the Government to conserve materials which are deemed vital for war purposes. Restrictions applied during the latter months of 1941, limiting the use of such materials, resulted in curtailment of service extensions to a number of prospective farm, residential and commercial customers. The system is cooperating with the Government in this program.

Many companies in the system, acting either alone or in collaboration with public authorities, have taken steps designed to protect important properties in the system against sabotage.

CASH RESOURCES

The cash resources of the Company at the end of the year 1941 amounted to $6,660,000 despite the fact that during the year the Company substantially increased its investments in its subsidiaries and paid installments maturing on its bank loan. The bank loan is being reduced at the rate of $320,000 a year and the balance of $6,560,000 then remaining will become due on May 1, 1944.

PROPERTY, MAINTENANCE AND RESERVES

During the year, the consolidated subsidiaries of the Company expended approximately $4,364,000 for maintenance of their physical properties and reserved approximately $5,336,000 for depreciation, retirements and depletion making a total of about $9,700,000 so expended or reserved. In addition, a total of about $831,000 was set aside during the year by certain subsidiary companies for the amortization of property account adjustments.

Net additions made during the year to plant and property account amounted to approximately $10,721,000 in the case of electric company subsidiaries and to about $2,300,000 in the case of the consolidated water company subsidiaries. The foregoing figures relate to actual additions, less retirements, of physical property without giving effect to the material adjustments to property and related reserve accounts authorized or directed by regulatory commissions as more fully described in the notes to the consolidated financial statements with this report.

FINANCING

During the year, The West Penn Electric Company issued and sold 262,602 additional shares of its Common Stock to American Water Works and Electric Company, Incorporated, for slightly more than $2,000,000 in cash, and applied the entire proceeds to the purchase of 133,402 shares of Common Stock of its subsidiary, Monongahela West Penn Public Service Company. The latter company needed the additional funds to carry forward the installation of new generating capacity now under construction.

Substantial savings in annual interest charges were effected during the year by a large number of subsidiary water companies which refunded outstanding bond issues with bonds bearing a lower interest rate.

In the group of subsidiary water companies which are included in the consolidated accounts new issues of bonds and preferred stock aggregating $22,860,000 in principal amount and par value were sold. The outstanding bonds of nine such companies were refunded with lower interest rate bonds and in some cases relatively small amounts of additional bonds were sold to pay open account indebtedness or raise additional capital. One of such companies similarly refinanced its preferred stock.

Six companies in the Community Water Service Company group, sold new issues of bonds aggregating $14,025,000 in principal amount for the purpose of retiring or refunding their outstanding bonds; a moderate decrease in their total funded debt resulted.

DIVIDENDS

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

In view of increasing tax burdens, higher costs of operation, the demands being made for additional facilities requiring capital expenditures. the necessity of maintaining a good cash position, and the unusual conditions and problems prevailing and in prospect, the Directors deemed it unwise to make any dividend payments on the Common Stock.

CALIFORNIA PROPERTIES

The James Mills Orchards Corporation and Esperanza Land Corporation, which are land, orchards and farming subsidiary companies acquired in 1914 in connection with the reorganization of a predecessor of your Company, had a net profit from operations of $29,446.58 for the year 1941, against a loss from operations of $13,870.04 for the year 1940.

It has been the policy of these companies for the past several years, where certain types of orchards have proved unprofitable, to clear the land for general farming purposes. In this connection, the Orchards Corporation during the past year removed trees having a book value of $35,804.77, which amount has been charged to its deficit account.

PERSONNEL

The following changes in the executive personnel and directorate of the Company took place since the last annual report was issued:

Mr. Warren R. Voorhis, a Vice-President and Director, and Mr. William K. Dunbar, Secretary, retired after many years of faithful service with the Company and its predecessors extending from 1917 in the case of Mr. Voorhis and from 1895 in the case of Mr. Dunbar.

Mr. Hugh D. McDowell, who had been an Assistant Secretary, was elected as Secretary to succeed Mr. Dunbar, and Mr. Howard H. Briggs became Assistant Secretary.

Mr. Wilbur L. Cummings (now deceased, and formerly a partner of Sullivan & Cromwell, General Counsel) and Mr. Seton Porter resigned as Directors. They had been associated with the Company for many years and their advice and counsel will be greatly missed.

Mr. George A. Benington, Vice-President and Director of Mutual Chemical Company of America, was elected as a Director of the Company.

Mr. Harold F. Butler, a Vice-President of the Company, was elected as a Director.

CONCLUSION

These are trying days. The world is filled with strife and turmoil. Our way of life has been seriously challenged. In spite of the sacrifices involved, our Nation will meet the challenge successfully. Victory must be the first concern of all.

We are keenly aware of the responsibilities which we have to our securityholders and to the public served by our system. We realize the position of each. We are grateful to both for the splendid spirit of cooperation and understanding that they have already shown.

We appreciate the fine sense of loyalty and devotion shown by our employees in meeting new problems and adapting themselves to changing conditions. Our best wishes will constantly be with each one of our many employees who is temporarily leaving the organization to serve in the armed forces of the Nation.

By order of the Board of Directors,

H. HOBART PORTER,
Chairman of the Board,

EARLE S. THOMPSON,
President.

PRICE, WATERHOUSE & CO.

56 PINE STREET

NEW YORK, March 14, 1942

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

We have examined the balance sheet of American Water Works and Electric Company, Incorporated, the parent company, and of American Water Works and Electric Company, Incorporated, and consolidated subsidiary companies, as of December 31, 1941, and the related statements of income and surplus for the year then ended. In connection with our examination, we reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

As stated in the notes to the consolidated financial statements, the companies operate under the regulatory authority of various State and Federal Commissions. The extent to which the accounts of the companies may be affected by regulatory action on the matters referred to in Notes A and F to the consolidated financial statements is not determinable at present.

In our opinion, subject to the reservation in the preceding paragraph, the accompanying balance sheets and related statements of income and surplus present fairly the position of American Water Works and Electric Company, Incorporated, and of that company and its consolidated subsidiary companies at December 31, 1941, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

American Water Works and Electric Company, Incorporated
(A DELAWARE CORPORATION)

BALANCE SHEET AS OF DECEMBER 31, 1941

Assets and Deferred Charges

Investments:		
Securities and notes of subsidiary companies, including those pledged under a Collateral Security Agreement with banks securing the promissory notes held by such banks		$55,873,651.22
Open account advances to subsidiary companies		6,929,182.05
Other security investments		1.00
Total investments		$62,802,834.27*
Current assets:		
Cash in banks and on hand	$6,659,715.17	
Cash in banks for payment of matured interest payable (contra)	137,272.00	
Accounts receivable from subsidiary companies	441,278.27	
Accrued interest and dividends receivable from subsidiary companies	104,855.33	
Miscellaneous accounts receivable	16,422.07	
Total current assets		7,359,542.84
Deferred charges:		
Unamortized debt discount and expense (see Note A)	$1,535,712.80	
Other deferred charges	45,137.42	
Total deferred charges		1,580,850.22
Total assets and deferred charges		$71,743,227.33

*Includes total investment of $726,005.13 in securities of and advances to American Communities Company and in securities of Community Water Service Company.

American Water Works and Electric Company, Incorporated

(A DELAWARE CORPORATION)

BALANCE SHEET AS OF DECEMBER 31, 1941

Liabilities, Capital and Surplus

Long-term debt (see Note B):		
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
Promissory notes payable to banks, 3%, due 1943 and 1944		6,880,000.00
Total long-term debt		$17,880,000.00
Current liabilities:		
Note installments payable to banks in 1942	$ 320,000.00	
Accounts payable	64,418.30	
Matured interest payable (contra)	137,272.00	
Taxes accrued	277,708.73	
Interest accrued	127,900.00	
Dividend declared on preferred stock payable January 2, 1942	300,000.00	
Other current liabilities	38,303.05	
Total current liabilities		1,265,602.08
Capital stock:		
First Preferred Stock (see Note B):		
Authorized 500,000 shares—no par value		
Outstanding 200,000 shares—$6 Series (cumulative)	$20,000,000.00	
Common Stock:		
Authorized 2,500,000 shares—no par value		
Outstanding 2,352,950 shares	23,529,500.00	
Total capital stock		43,529,500.00
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)	6,538,129.57	
Total surplus		9,068,125.25
Total liabilities, capital and surplus		$71,743,227.33

See Notes on page 15.

American Water Works and Electric Company, Incorporated

COMPARATIVE INCOME ACCOUNT

	For Year Ended Dec. 31, 1941	For Year Ended Dec. 31, 1940	Increase or Decrease*
Earnings:			
Dividends from subsidiary companies	$3,476,448.27	$3,379,583.30	$ 96,864.97
Other dividend income	3,910.80	15,619.35	11,708.55*
Interest on bonds of subsidiary companies	21,848.61	33,642.67	11,794.06*
Interest on notes and accounts of subsidiary companies	311,116.70	452,181.68	141,064.98*
Management and service charges to subsidiary companies	871,174.37	768,493.22	102,681.15
Other income	11,810.48	10,380.00	1,430.48
Total earnings	$4,696,309.23	$4,659,900.22	$ 36,409.01
Expenses:			
Salaries, rents and other expenses	$1,331,899.54	$1,409,616.55	$ 77,717.01*
Federal income taxes	106,200.00	102,525.00	3,675.00
General taxes	51,686.60	61,256.19	9,569.59*
Provision for net losses of orchard and farming subsidiaries not consolidated†	—	13,870.04	13,870.04*
	$1,489,786.14	$1,587,267.78	$ 97,481.64*
Less: Amount of salaries, rents, other expenses and general taxes chargeable to American Water Works Construction Company (a subsidiary)	60,839.36	66,871.55	6,032.19*
Net expenses	$1,428,946.78	$1,520,396.23	$ 91,449.45*
Net earnings	$3,267,362.45	$3,139,503.99	$127,858.46
Deductions:			
Interest on debentures	$ 630,000.00	$ 630,000.00	$ —
Interest on other long-term debt	221,626.67	231,226.66	9,599.99*
Amortization of debt discount and expense	90,192.26	92,920.72	2,728.46*
Miscellaneous	17,122.81	16,590.86	531.95
Total deductions	$ 958,941.74	$ 970,738.24	$ 11,796.50*
Net income	$2,308,420.71	$2,168,765.75	$139,654.96

†For results of operations in 1941, see comments on page 8.

American Water Works and Electric Company, Incorporated

SURPLUS ACCOUNT

YEAR ENDED DECEMBER 31, 1941

Balance at January 1, 1941		$ 7,953,657.36
Add:		
Net income for year ended December 31, 1941	$2,308,420.71	
Amount received in respect of investment previously written off	43,925.00	2,352,345.71
		$10,306,003.07
Deduct:		
Dividends on $6 Series, First Preferred Stock	$1,200,000.00	
Additional provision for Federal income taxes for prior years and interest thereon	36,974.48	
Sundry adjustments (net)	903.34	
Total deductions		1,237,877.82
Balance at December 31, 1941		$ 9,068,125.25

NOTE: There were no changes in the capital surplus account of the Company during 1941.

NOTES TO FINANCIAL STATEMENTS OF AMERICAN WATER WORKS AND ELECTRIC COMPANY, INCORPORATED

Note A: Included in 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 a debenture issue of the predecessor 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 company at the time of the transfer of its property and assets to the Company; the aggregate of items (c) and (d) approximates $559,000.

The method used in amortizing debt discount and expense is explained in Note C to the consolidated financial statements.

Note B: The Debentures and the $6 Series, First Preferred Stock are redeemable at the option of the Company. The preferred stock is redeemable at $110 per share and accrued dividends.

Note C: The Company is the guarantor of the payment of principal and interest on bonds of a subsidiary water company in the principal amount of $726,000.

Note D: The financial statements of American Water Works and Electric Company, Incorporated, should be read in conjunction with the consolidated financial statements of the Company and its subsidiary companies and the notes appended thereto (pages 16 to 23, inclusive) to which reference is made.

American Water Works and Electric Company, Incorporated
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1941

Assets and Deferred Charges

Property, plant and equipment (see Note A)			$374,985,127.27
Emergency plant facilities under contract with United States Government (see Note B):			
Costs to date—to be reimbursed by the Government		$ 727,750.96	
Less—Bank loan made in connection therewith		650,000.00	77,750.96
Investments and advances:			
Investments in securities of Community Water Service Company, a non-consolidated subsidiary, including those pledged by a subsidiary to secure a bank loan		$ 1,767,869.91	
Investment in and advances to associated and other non-consolidated subsidiary companies, and miscellaneous investments, less reserves		3,734,625.20	
Loans to superannuated employees secured by life insurance policies		226,070.00	5,728,565.11
Current and working assets:			
Cash in banks and on hand		$16,181,153.65	
United States Treasury tax notes		786,857.28	
Cash in banks for payment of matured interest payable (contra)		615,069.50	
Special deposits with trustees and others		1,074,392.99	
Accounts receivable from non-consolidated subsidiaries		242,820.75	
Customers accounts receivable (includes $1,731,281.45 for appliances—principally installment accounts)	$6,564,771.50		
Miscellaneous accounts receivable	431,650.64		
	$6,996,422.14		
Less reserves for doubtful accounts receivable	477,658.00	6,518,764.14	
Operating and construction materials and supplies and appliance merchandise—at cost or less		4,099,537.39	
Prepaid insurance, taxes, etc.		314,464.13	29,833,059.83
Deferred charges:			
Prepaid royalties on coal properties		$ 522,723.78	
Unamortized debt discount, premium (net) and expense (see Note C)		12,504,771.24	
Unamortized commission, redemption premium and expense on capital stock issues (see Note D)		1,592,468.16	
Other deferred charges		663,112.79	15,283,075.97
Total assets and deferred charges			$425,907,579.14

American Water Works and Electric Company, Incorporated
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1941

Liabilities, Capital and Surplus

Long-term debt of subsidiaries (see Note E)			$179,748,500.00
Preferred capital stocks of subsidiaries (see Note E)			90,189,550.00
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	
Promissory notes payable to banks, 3%, due 1943 and 1944		6,880,000.00	17,880,000.00
Current and accrued liabilities:			
Notes payable to banks		$ 2,831,000.00	
Accounts payable to non-consolidated subsidiaries		250,531.47	
Accounts payable to others, including payrolls of $507,751.04		1,899,839.15	
Taxes accrued		10,412,448.84	
Interest accrued		1,989,132.01	
Matured interest payable (principally due Jan. 1, 1942—contra)		615,069.50	
Preferred dividends accrued		98,158.40	
Dividends declared on preferred stocks, payable after Dec. 31, 1941		1,309,502.13	
Customers' deposits		1,292,924.34	
Long-term debt of subsidiaries due in 1942		16,000.00	
Other current and accrued liabilities		283,154.64	20,997,760.48
Customers' advances for construction			1,208,144.75
Deferred credits			161,696.66
Reserves:			
For depreciation, retirements and depletion (see Note F)		$46,526,494.95	
For claims, contingencies and other purposes		1,112,950.23	47,639,445.18
Contributions in aid of construction			1,903,022.00
Premium on preferred capital stock			462,938.71
Minority interest in common stocks and surplus of subsidiaries			2,085,964.23
Capital stock of American Water Works and Electric Company, Incorporated:			
First Preferred Stock:			
Authorized 500,000 shares—no par value			
Outstanding 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	43,431,050.00
Capital surplus		$ 1,318,067.97	
Earned surplus, including earned surplus of predecessor company, American Water Works and Electric Company, Incorporated (of Virginia), and subsidiaries		18,881,439.16	20,199,507.13
Total liabilities, capital and surplus			$425,907,579.14

See Notes on pages 20 to 23.

American Water Works and Electric Company, Incorporated
AND SUBSIDIARY COMPANIES

COMPARATIVE CONSOLIDATED INCOME ACCOUNT

	For Year Ended Dec. 31, 1941	Dec. 31, 1940	Increase or Decrease*
Operating revenues:			
Electric	$43,657,077.60	$40,209,878.36	$3,447,199.24
Water	14,602,002.18	13,762,787.74	839,214.44
Gas	1,028,871.68	945,156.78	83,714.90
Railway	1,336,290.65	1,268,595.76	67,694.89
Bus	2,211,111.31	1,668,826.32	542,284.99
Other	31,126.73	31,211.60	84.87*
Total operating revenues	$62,866,480.15	$57,886,456.56	$4,980,023.59
Expenses:			
Operating expenses	$21,242,975.26	$19,109,183.61	$2,133,791.65
Maintenance	4,363,719.91	4,231,173.50	132,546.41
Federal taxes on income (see Note G)	6,808,147.84	4,129,419.17	2,678,728.67
Other taxes	6,423,406.26	6,148,492.02	274,914.24
Provision for depreciation, retirements and depletion (see Note F)	5,335,533.04	4,959,459.08	376,073.96
Amortization of property account adjustments (see Note H)	831,190.72	928,011.12	96,820.40*
Total expenses	$45,004,973.03	$39,505,738.50	$5,499,234.53
Operating income	$17,861,507.12	$18,380,718.06	$ 519,210.94*
Non-operating income	827,273.45	689,543.99	137,729.46
Gross income	$18,688,780.57	$19,070,262.05	$ 381,481.48*
Deductions—Subsidiaries:			
Interest†	$ 7,362,007.19	$ 7,637,554.28	$ 275,547.09*
Amortization of debt discount, premium (net) and expense (see Note C)	849,164.93	853,048.46	3,883.53*
Preferred dividends	5,264,139.08	5,202,614.06	61,525.02
Minority interests	276,041.00	216,928.86	59,112.14
Miscellaneous	169,823.12	148,196.44	21,626.68
	$13,921,175.32	$14,058,342.10	$ 137,166.78*
Balance	$ 4,767,605.25	$ 5,011,919.95	$ 244,314.70*
Deductions—American Water Works and Electric Company, Incorporated:			
Interest	$ 851,626.67	$ 861,226.66	$ 9,599.99*
Amortization of debt discount and expense	90,192.26	92,920.72	2,728.46*
Miscellaneous	17,122.81	16,590.86	531.95
	$ 958,941.74	$ 970,738.24	$ 11,796.50*
Net income (see Note F)	$ 3,808,663.51	$ 4,041,181.71	$ 232,518.20*

†After deduction of interest charged to construction amounting to $223,299.24 in 1941 and $73,473.32 in 1940.

American Water Works and Electric Company, Incorporated
AND SUBSIDIARY COMPANIES

CONSOLIDATED SURPLUS ACCOUNTS
YEAR ENDED DECEMBER 31, 1941

Earned Surplus:		
Balance at January 1, 1941		$19,846,499.56
Add:		
Net income for year ended December 31, 1941		3,808,663.51
		$23,655,163.07
Deduct:		
Dividends on $6 Series, First Preferred Stock of American Water Works and Electric Company, Incorporated		$ 1,200,000.00
Amortization of commission, redemption premium and expense on capital stock issues	$ 496,084.03	
Unamortized expense, redemption premium and interest applicable to certain refunded bond issues (see Note C)	632,161.09	
Interest on retirement reserves applicable to prior years, accrued under contracts with municipalities	362,300.07	
Adjustments relating to reclassification of property (see Note A)	1,948,234.12	
Earned-surplus reclassified as capital surplus	214,920.68	
Sundry adjustments (net)	61,738.64	
	$3,715,438.63	
Less:		
Proportion of surplus adjustments applicable to common stocks of subsidiaries held by public	141,714.72	
		3,573,723.91
		$ 4,773,723.91
Balance at December 31, 1941		$18,881,439.16
Capital Surplus:		
Balance at January 1, 1941		$ 560,894.48
Add:		
Credit arising from purchase and retirement of a subsidiary company's capital stock previously held by the public		542,252.81
Earned surplus reclassified as capital surplus		214,920.68
Balance at December 31, 1941		$ 1,318,067.97

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN WATER WORKS AND ELECTRIC COMPANY, INCORPORATED, AND SUBSIDIARIES

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 two minor subsidiaries and Community Water Service Company and its subsidiaries. At December 31, 1941, the equity applicable to the investments of the Company and a consolidated subsidiary in the net assets of Community Water Service Company and its consolidated subsidiary companies, based on the consolidated accounts of that group, amounted to $3,921,682.14. The equity of the Company and a consolidated subsidiary in the consolidated net income of Community Water Service Company and its consolidated subsidiaries was $377,421.06 for 1941 and $156,228.68 for 1940.

No subsidiary company is included in the consolidated accounts less than 94.549% of whose common stock is owned in the system. The preferred stocks of certain subsidiaries in the hands of the public have equal voting rights with the common stocks and comprise a substantial percentage of the total voting stock in such instances; however, such subsidiaries are included in the consolidation since the Company owns at least 94% of the common stock in each case.

* * * * * *

Note A: Property, plant and equipment comprises electric generating stations, electric and gas transmission and distribution systems, electric railways, buses, water pumping stations, reservoirs, water distribution systems, real estate, intangibles, etc., and includes $15,394,740.65 representing the excess of carrying values of the investments of the Company and of its subsidiaries, in securities of their respective subsidiaries over the par or stated book values (including purchased surplus) of such securities.

The uniform systems of accounts prescribed by the Federal and State Commissions having jurisdiction over the electric, gas and certain of the water subsidiaries provide for a reclassification of the companies' utility plant accounts to set forth, among other things, the "original cost" of such plant (generally defined as "the cost of such property to the person first devoting it to public service"), and for the segregation of the differences between book cost and "original cost" in separate accounts to be depreciated, amortized, or otherwise disposed of as the Commissions may approve or direct. In connection with the foregoing requirements the position of the subsidiaries is stated generally as follows:

SUBSIDIARY WATER COMPANIES

The "original cost" requirements mentioned above apply to ten of the thirty-eight subsidiary water companies included in the consolidation. Three of these companies have not completed the reclassification of their properties on an "original cost" basis. Seven companies have completed their studies and filed the results thereof with the respective State Commissions. The studies so filed are subject to review and possible revision of the amounts tentatively included in the adjustment accounts provided in the various systems of accounts. The final effect of the reclassifications that have been finished and those yet to be completed on the accounts of the water companies can not be determined until all of the studies have been filed and reviewed by the various State Commissions.

WEST PENN POWER COMPANY AND CONSOLIDATED SUBSIDIARIES

During 1939, these companies filed with the Commissions, where required, reports with respect to the "original cost" of their properties as of December 31, 1936, based on studies made by or on behalf of the companies. The excess of book cost over "original cost" on that date, as shown by such reports, was $9,191,457.16; on a consolidated basis, however, such "excess" is reduced to $7,793,246.62 as a result of the elimination, in consolidation, of an amount of $1,398,210.54 representing capital surplus arising from a revaluation on the books of a subsidiary company. The reduced consolidated "excess" of $7,793,246.62 is classifiable as follows: Account 100.5—Electric Plant Ac-

quisition Adjustments $12,189,467.00, and Account 107—Electric Plant Adjustments (credit) $4,396,220.38. The above reports have not been approved by the respective Commissions and it is not expected that such "original cost" studies will be reflected upon the books of the companies or that the present accounts will be adjusted unless and until the requisite authority of the respective Commissions is obtained with respect thereto. Important controversial questions exist as to the method of determining "original cost" and, accordingly, the amount and nature of the adjustments which will be necessary in the accounts to give effect thereto cannot be determined until the "original cost" and the treatment of related matters have been finally determined by duly constituted authorities.

MONONGAHELA WEST PENN PUBLIC SERVICE COMPANY AND SUBSIDIARIES

As authorized or directed by regulatory Commissions, a subsidiary, Monongahela West Penn Public Service Company, as of January 1, 1941, made material adjustments to its property and related reserve accounts in connection with the reclassification of the subsidiary's electric utility plant and partial reclassification of its gas utility plant on an "original cost" basis. In the consolidated accounts of American Water Works and Electric Company, Incorporated, and its subsidiaries, this results in (1) a decrease of $7,667,591.08 in property, plant and equipment, equivalent to utility plant adjustments written off by the subsidiary; (2) a decrease of $1,948,234.12 in consolidated surplus (before deducting amount applicable to minority), equivalent to the amount charged to earned surplus by the subsidiary; and (3) an increase of $5,719,356.96 in the excess of carrying values of the investments of American Water Works and Electric Company, Incorporated, and of its subsidiaries in securities of their respective subsidiaries over the par or stated values (including purchased surplus) of such securities, which amount is included under property, plant and equipment in the consolidated balance sheet.

At December 31, 1941, after the adjustments referred to above, the property, plant and equipment accounts of Monongahela West Penn Public Service Company and subsidiaries included (1) $2,650,320.74 classified as "Utility Plant Acquisition Adjustments" and (2) $2,169,035.28 classified as "Utility Plant Adjustments."

Certain relatively small subsidiary gas and electric companies have completed their "original cost" studies and filed the results of such studies with the respective regulatory Commissions but no entries have been recorded on the books pending receipt of proper Commission authorization.

THE POTOMAC EDISON COMPANY AND SUBSIDIARIES

In respect of these companies, the property, plant and equipment account includes, in addition to "original cost," Electric Plant Acquisition Adjustments of approximately $1,230,000 representing the excess of the cost to the companies of electric plant over "original cost." In this connection the regulatory authorities have reserved the right to examine the companies' records and to order such adjusting entries as may be appropriate.

Note B: Under an Emergency Plant Facilities Contract with the United States Government, Monongahela West Penn Public Service Company, a subsidiary, is constructing a transmission line and installing substations and other necessary equipment to furnish power to a defense plant. The cost of the construction is estimated to be approximately $780,000 of which $727,750.96 had been expended to December 31, 1941.

The facilities contract provides, among other things, that the title to the facilities will be in the subsidiary but also provides for reimbursement by the Government for the cost of such facilities over a five-year period commencing after date of completion. The contract also provides that the subsidiary may retain certain or all of these facilities at a price or prices specified in the con-

tract or to be agreed upon when the emergency is terminated, or shall transfer the same to the Government.

The funds for constructing these facilities are being provided in part from bank loans made by the subsidiary which it expects to liquidate out of the payments to be received from the United States Government.

Note C: Since December 31, 1935, it has been the general policy of the companies to write off debt discount, premium (net), and expense in equal annual installments over the life of the respective bond issues. Prior to January 1, 1936, a different method of amortization was used for a number of years with the result that the unamortized balance to which the straight-line method was applied, effective January 1, 1936, was larger than if the straight-line method had been used up to that date. Where bonds are refunded in advance of their maturity dates, it is the practice of the companies to continue the amortization of debt discount and expense applicable to such issues to the original maturity dates thereof and to amortize call premiums and duplicate interest, incurred in connection with the refundings, over the life of the new bonds.

However, as a result of an order by the Federal Power Commission dated February 3, 1942, $632,161.09 of unamortized expense, redemption premium and interest applicable to certain refunded issues was charged to surplus as at December 31, 1941 and an amount of $1,104,855.35 is to be amortized over a five-year period. It is estimated that as a result of these changes the amount of amortization to be charged to income in the five years subsequent to January 1, 1942 will be increased by $128,479.83 per annum over the amount which would have been charged under the companies' usual policy.

Note D: To and including the year ended December 31, 1930, commission and expense on issues of capital stock were written off to surplus over a ten-year period from the original date of the issue of the stock. Beginning with the year 1931, this basis was changed to a thirty-year period from the original date of issue of stock, based upon the balance remaining on the books at January 1, 1931, for each individual issue. Exceptions exist in the case of two subsidiaries which under orders of regulatory Commissions are amortizing, by charges to earned surplus over five-year periods, the amounts of cash premiums paid and cash adjustments made on the exchange and redemption of preferred stocks, and commissions and expenses paid on the issuance of new preferred stocks. For the year 1941, the aggregate amount charged to earned surplus in respect of amortization on the five-year basis was approximately $471,600.

Note E: Long-term debt of subsidiaries includes funded debt of $1,452,000 due within five years. At December 31, 1941, there were no arrears in dividends on preferred capital stocks of subsidiaries held by the public.

Note F: The companies' provisions for depreciation, retirements and depletion are determined for the various classes of operating companies in accordance with the following general principles:

1. In the case of the water works properties, provisions for depreciation and retirements are based upon the application of fixed rates to depreciable property. For certain of the companies, the rates used are determined by officers and engineers of the companies while for others the rates are prescribed by or agreed upon with State regulatory Commissions or other public agencies. Certain of the companies have bond indentures under which they are required to provide for depreciation and retirements amounts not less than the difference between a percentage of operating revenue, ranging from 9% to 12½%, and the amounts charged to income for maintenance.

2. In the case of electric and gas subsidiaries, the uniform systems of accounts prescribed by Federal and State Commissions having jurisdiction require generally that each utility shall record as of the end of each month the estimated amount of deprecia-

tion accrued during that month on depreciable utility plant. Such subsidiaries are providing reserves for depreciation by charges to income determined from time to time by officers and engineers of the companies. The extent to which regulatory action in connection with depreciation, "original cost" studies (see Note A) and other related matters will affect the companies' accounts cannot at present be ascertained.

3. In the case of bus properties, provisions for depreciation are based upon the estimated service life of the equipment as determined from the companies' operating experience.

4. In the case of electric railway properties, provisions for retirements are based only on the requirements estimated to be necessary to take care of retirements of equipment and rolling stock. Abandonments of railway properties are not provided for by charges to income. Such abandonments on the books of subsidiaries are charged to reserves provided in prior years from the reduction of the par value of common stock in the case of one subsidiary, or to capital surplus or reserves, in the case of another subsidiary, which resulted from unrealized appreciation in investments in a system company. There were no railway abandonments in 1940, but in 1941 the net amount charged to such reserves or capital surplus in this respect amounted to $357,425.02. The approximate carrying value of electric railway properties on the books of subsidiaries at December 31, 1941, was $20,100,000 after deducting specific reserves of $3,700,000 for abandonment of railway properties.

5. One subsidiary company owns certain gas wells and provides a reserve for depletion based on the requirements of the mortgage covering the subsidiary's property.

The companies' provisions for depreciation, retirements and depletion have been less than the amounts claimed or to be claimed as deductions in their Federal income tax returns, which are determined in accordance with understandings reached with the Bureau of Internal Revenue. The amounts so claimed or to be claimed as deductions for the years 1940 and 1941, respectively, were $7,393,961.61 and approximately $7,500,000.

Note G: It is considered that adequate provisions for Federal taxes on income have been made, but the companies have not segregated in the financial statements the provisions for Federal income taxes as distinguished from the provisions for Federal excess profits taxes since the calculations of the two taxes are interdependent and since a number of questions exist which must be settled before the amount of excess profits taxes can be determined.

Non-recurring deductions for income tax purposes which were allowable as a result of bond issues refunded by various water company subsidiaries during 1940 and 1941 had the effect of reducing Federal taxes on income below what they otherwise would have been by amounts estimated at $175,000 and $425,000 respectively.

Note H: During 1940 and 1941, certain electric utility subsidiaries provided, by charges to income, for amortization of amounts carried in "Electric plant adjustments in process of amortization" and for amortization of a portion of the excess of carrying values of the investments in securities of subsidiaries over the cost of such investments.

COMPARATIVE STATISTICAL SUMMARY

Electric Power and Light Properties

	As of December 31, 1941	1940
GENERATING STATIONS—KILOWATT:§		
Steam Stations	623,870	558,870
Hydro Stations	57,390	57,390
Oil and Gas Stations	2,239	2,239
Total	683,499	618,499
NET KILOWATT-HOUR OUTPUT*	3,343,692,757	2,815,973,651
NUMBER OF ELECTRIC CUSTOMERS	446,421	424,418
TRANSMISSION LINES—POLE MILES:		
132,000 Volts	473	400
66,000 Volts	334	332
Less than 66,000 Volts	2,725	2,683
Total	3,532	3,415

Transportation Properties

ELECTRIC RAILWAYS:		
Miles of Track	291	298
Number of Cars	183	201
BUS LINES OPERATED:		
Miles of Route	1,658	1,576
Number of Buses	203	165

Water Works Properties

—Excluding subsidiaries of Community Water Service Company—
(Data adjusted for property sold in 1940)

PUMPING STATIONS—GALLONS PER DAY:		
Distributive Service	785,059,300	782,929,300
Low Service	677,800,600	665,264,000
Relay Service	300,229,000	279,222,140
TRANSMISSION AND DISTRIBUTION MAINS—MILES	6,347	6,220
GALLONS OF WATER SOLD*	66,520,001,000	59,936,558,000
NUMBER OF WATER CUSTOMERS	485,003	466,196

—Subsidiaries of Community Water Service Company—

PUMPING STATIONS—GALLONS PER DAY:		
Distributive Service	266,039,800	264,068,300
Low Service	173,035,800	160,871,800
Relay Service	87,107,000	68,232,600
TRANSMISSION AND DISTRIBUTION MAINS—MILES	2,834	2,797
GALLONS OF WATER SOLD*	23,493,002,000	21,068,844,000
NUMBER OF WATER CUSTOMERS	212,338	206,926

§Based on name-plate ratings.

*Twelve months ended December 31.