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# AMERICAN WATER WORKS AND ELECTRIC COMPANY

Incorporated

50 BROAD STREET  
NEW YORK

November 7, 1940

### *To Our Stockholders:*

The consolidated net earnings of the Company and its subsidiaries for the year ended September 30, 1940, show a decrease as compared with the year ended June 30. This decrease is attributable to increased taxes notwithstanding a substantial improvement in gross earnings.

In June, a Federal revenue act was enacted providing increased rates in income taxes, capital stock taxes, and electric energy taxes, applicable to the entire year's operations for 1940.

A second Federal revenue act was passed in October of this year which again increased rates in income taxes and provided for an excess profits tax also for the full calendar year and subsequent years.

While the total amount of the increase in the tax liability for the year, due to these two new revenue acts, cannot be determined until the end of the year's operations, there is included in the consolidated income accounts of American Water Works and Electric Company, Incorporated and its subsidiaries for the nine months and twelve months ended September 30, 1940 the amount of approximately \$835,000 which the Company believes to be a reasonable provision for such additional Federal taxes applicable to the first nine months of 1940.

H. HOBART PORTER,  
*Chairman.*

EARLE S. THOMPSON,  
*President.*

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## CONSOLIDATED INCOME ACCOUNT OF COMPANY AND SUBSIDIARIES

Consolidated net income of the American Water Works and Electric Company, Incorporated, and subsidiaries for the twelve months ended September 30, 1940, after all charges including reserves, was \$4,257,484.15. This is equivalent, after preferred dividends, to \$1.30 a share on the 2,343,105 shares of common stock outstanding at September 30, 1940, after excluding 9,845 shares held in the system. For the twelve months ended September 30, 1939, consolidated net income after similar charges amounted to \$2,655,159, which, after preferred dividends, was equivalent to 62 cents a share on the 2,343,105 shares of common stock outstanding at September 30, 1939, after excluding 9,845 shares held in the system.

	1940*	1939
<b>Nine Months Ended September 30</b>		
Gross earnings .....	\$43,288,653.24	\$39,707,734.23
Operating expenses and maintenance.....	\$17,420,926.00	\$16,550,781.05
Taxes .....	7,416,340.22	5,679,915.85
Reserved for renewals, retirements and depletion.....	3,700,142.42	4,009,859.18
Amortization of electric plant adjustments.....	734,831.53	
<b>Total expenses .....</b>	<b>\$29,272,240.17</b>	<b>\$26,240,556.08</b>
<b>Gross income .....</b>	<b>\$14,016,413.07</b>	<b>\$13,467,178.15</b>
<b>Less:</b>		
Interest, amortization of debt discount and premium (net), etc., of subsidiaries.....	\$ 6,502,135.76	\$ 6,582,864.69
Preferred dividends of subsidiaries.....	3,895,225.29	4,215,027.99
Minority interest of subsidiaries.....	131,096.78	—
<b>Total .....</b>	<b>\$10,528,457.83</b>	<b>\$10,797,892.68</b>
<b>Balance .....</b>	<b>\$ 3,487,955.24</b>	<b>\$ 2,669,285.47</b>
Interest, amortization of debt discount, etc., of American Water Works and Electric Company, Incorporated.....	730,566.44	742,763.44
<b>Net income .....</b>	<b>\$ 2,757,388.80</b>	<b>\$ 1,926,522.03</b>
Preferred dividends .....	900,000.00	900,000.00
<b>Balance for common stock and surplus.....</b>	<b>\$ 1,857,388.80</b>	<b>\$ 1,026,522.03</b>
<b>Twelve Months Ended September 30</b>		
Gross earnings .....	\$57,798,063.84	\$52,838,200.67
Operating expenses and maintenance.....	\$23,109,033.31	\$22,096,840.52
Taxes .....	9,511,999.56	7,155,458.35
Reserved for renewals, retirements and depletion.....	4,927,801.89	5,513,093.77
Amortization of electric plant adjustments.....	1,017,131.53	
<b>Total expenses .....</b>	<b>\$38,565,966.29</b>	<b>\$34,765,392.64</b>
<b>Gross income .....</b>	<b>\$19,232,097.55</b>	<b>\$18,072,808.03</b>
<b>Less:</b>		
Interest, amortization of debt discount and premium (net), etc., of subsidiaries.....	\$ 8,680,459.67	\$ 8,770,091.27
Preferred dividends of subsidiaries.....	5,189,530.91	5,654,538.14
Minority interest of subsidiaries.....	131,221.03	—
<b>Total .....</b>	<b>\$14,001,211.61</b>	<b>\$14,424,629.41</b>
<b>Balance .....</b>	<b>\$ 5,230,885.94</b>	<b>\$ 3,648,178.62</b>
Interest, amortization of debt discount, etc., of American Water Works and Electric Company, Incorporated.....	973,401.79	993,019.29
<b>Net income .....</b>	<b>\$ 4,257,484.15</b>	<b>\$ 2,655,159.33</b>
Preferred dividends .....	1,200,000.00	1,200,000.00
<b>Balance for common stock and surplus.....</b>	<b>\$ 3,057,484.15</b>	<b>\$ 1,455,159.33</b>

\*All figures shown are subject to audit in so far as they relate to the period covered by this statement.

# and Electric Company

## INCOME ACCOUNT OF COMPANY ALONE

Net income of the American Water Works and Electric Company, Incorporated, for the twelve months ended September 30, 1940, after all charges including reserves, was \$2,253,998. This is equivalent, after preferred dividends, to 45 cents a share on the 2,343,105 shares of common stock outstanding at September 30, 1940, after excluding 9,845 shares held in the system. For the twelve months ended September 30, 1939, net income after similar charges amounted to \$2,080,968, which, after preferred dividends, was equivalent to 38 cents a share on the 2,343,105 shares of common stock outstanding at September 30, 1939, after excluding 9,845 shares held in the system.

The income of the Company alone, referred to above and shown below, includes only so much of the net income of subsidiary companies as has actually been declared out of such subsidiaries to the Company. The difference between the earnings of \$1.30 per share of common stock shown on the consolidated statement and the 45 cents per share shown above represents in general the earnings of the subsidiary companies which have not been declared out in dividends and which remain in the surplus accounts of such subsidiaries, available for dividends to the Company or for corporate purposes of the subsidiaries as may be from time to time considered to be in the best interest of the respective companies.

<b>Nine Months Ended September 30</b>		1940*	1939
Earnings—dividends, interest, etc.....		\$3,278,183.40	\$3,379,196.15
Expenses .....		1,223,045.72	1,149,948.78
<b>Net earnings</b> .....		<u>\$2,055,137.68</u>	<u>\$2,229,247.37</u>
Interest, amortization of debt discount, etc.....		730,566.44	742,763.44
<b>Net income</b> .....		<u>\$1,324,571.24</u>	<u>\$1,486,483.93</u>
Preferred dividends .....		900,000.00	900,000.00
<b>Balance for common stock and surplus</b> .....		<u>\$ 424,571.24</u>	<u>\$ 586,483.93</u>

<b>Twelve Months Ended September 30</b>		1940*	1939
Earnings—dividends, interest, etc.....		\$4,744,657.27	\$4,523,795.16
Expenses .....		1,517,257.48	1,449,808.27
<b>Net earnings</b> .....		<u>\$3,227,399.79</u>	<u>\$3,073,986.89</u>
Interest, amortization of debt discount, etc.....		973,401.79	993,019.29
<b>Net income</b> .....		<u>\$2,253,998.00</u>	<u>\$2,080,967.60</u>
Preferred dividends .....		1,200,000.00	1,200,000.00
<b>Balance for common stock and surplus</b> .....		<u>\$1,053,998.00</u>	<u>\$ 880,967.60</u>

they contain earnings for the year 1940.

only and not in connection with any sale or offer  
r to buy any securities