

Southern Indiana Gas and Electric Company

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 Evansville, Indiana, March 5, 1938

To the Stockholders:

Submitted herewith is a report covering operations of the Company for the year ended December 31, 1937, together with balance sheet as of that date and statement of income, as compared with the preceding year.

Gross revenue for the year showed an increase of \$304,375.32 over 1936. This is a relatively favorable showing, as the flood early in the year, mentioned in our report of a year ago, is estimated to have caused about \$100,000 loss in revenue. The effect of reductions in rates in 1936, also mentioned in last year's report, extended over into 1937. Operating expenses and maintenance increased \$180,284.67 over 1936. This was largely due to increases in wages, fuel and other supplies, and the expenditure of approximately \$75,000 for rehabilitation work necessitated by the flood. Cost of Government is placing an ever increasing burden on business. The charges for taxes for 1937 amounted to \$630,903.32 of which \$619,790.55 was charged to tax account, as shown in the statement of income on page 5; and \$11,112.77 was charged to operating accounts.

Comparative figures showing services rendered during the past two years follows:

	1937	1936
Electric sales (kilowatt hours).....	119,878,487	106,846,189
Gas (cubic feet)	1,050,399,500	877,877,100
Sales of steam for heating (pounds).....	123,522,500	136,127,900
Revenue passengers carried	6,511,377	6,798,799
Electric customers served (end of year).....	35,364	33,359
Gas customers served (end of year).....	21,759	20,393
Heating customers served (end of year).....	387	387
Average use in kilowatt hours per residential customer	761	698

A total of \$1,531,758.97 was expended for property additions, improvements and other capital purposes in 1937. Some of the more important items were as follows:

Installation completed of an additional boiler with auxiliaries and new concrete stack at the Ohio River station;

Construction of a new 12,500 volt wood pole transmission line of 18 miles from the Ohio River station in Evansville to Mt. Vernon;

Construction of a substation on Fulton Avenue in Evansville was started;

Purchase and improvement of the electric distribution systems at Haubstadt and Arthur; and

Enlargement of Ohio River station was begun in 1937 to house another 20,000 kilowatt turbo-generator unit with all auxiliaries including additional water intake facilities, also new high pressure boiler. This work is to be completed in 1938.

The Company continued its aggressive policy of bringing electric service to farms and other rural customers by constructing a total of 105 miles of line connecting 529 customers and, in addition, 233 new customers were added to the existing rural lines. The Company now has nearly 425 miles of rural lines supplying service to 1,367 farms and many non-farm customers.

The Company entered into an agreement with Commercial Credit Company providing for the operation of the Economy Purchase Plan, a co-operative instalment and finance arrangement for the sale of electric and gas consuming appliances by the Company and cooperating dealers on uniform terms and maturities. As provided in this agreement, the Company agrees to sell to the Commercial Credit Company all its future conditional sales contracts where the amount involved is in excess of \$30.00,

75% of the sales price being paid down and the remainder withheld by Commercial Credit Company to be paid over to the Company as collected, subject to certain charges for losses and other items chargeable under the plan. Commercial Credit Company agrees to purchase similar instalment contracts from cooperating dealers and the Company agrees to act as agent for Commercial Credit Company in furnishing notices of instalment payments due and past due and accepting payments on all instalment accounts purchased from the Company and the dealers. This plan offers the users of the Company's services the means of financing the purchase of appliances on favorable instalment terms and should result in wider distribution of service consuming appliances.

On January 25th and May 25th, 1937, upon authorization by the Public Service Commission of Indiana, the Company issued and sold a total of \$1,200,000 of its First Mortgage Bonds, 3.35% Series of 1936 due October 1, 1961, to two institutional investors for their investment portfolios. The sale of these bonds financed in part the cost of additions and improvements previously mentioned and the remainder of the cost was financed out of other funds including those provided by common stock contributions mentioned in last year's report.

The Company has agreed with the City of Evansville, Indiana, to discontinue on or before December 31, 1946, operation of all its street car lines located therein and to substitute bus service therefor. During 1937, modern bus service was inaugurated on three of its routes in Evansville in substitution for street car service. Twenty-five buses are now in operation.

On behalf of the Directors, it is a pleasure to express appreciation of the loyal and efficient service rendered by the organization under the rather trying conditions of the past year.

The books and accounts, securities, records and cash of the Company have been examined by Arthur Andersen & Co., Accountants and Auditors. Their certificate of audit is included in this report.

By order of the Board of Directors.

W. H. BARTHOLD,
President

ARTHUR ANDERSEN & CO.

135 South LaSalle Street
Chicago

To Southern Indiana Gas and Electric Company:

We have made an examination of the balance sheet of SOUTHERN INDIANA GAS AND ELECTRIC COMPANY (an Indiana corporation) as at December 31, 1937, and of the statement of income and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also 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.

The company, in its accounts and financial statements, follows the retirement-reserve method of providing for property retired from service. The provisions for retirements deducted from earnings are less than the amounts deducted for depreciation in the Federal income-tax returns, which amounts are computed on the basis of age and estimated life of depreciable property as allowed by the United States Treasury Department.

Subject to the comments in the preceding paragraph, in our opinion, based upon the examination referred to above, the accompanying balance sheet and the related statement of income and earned surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the company during the year under review, the financial position of the company at December 31, 1937 and the results of its operations for the year ended that date.

Chicago, Illinois
February 1, 1938.

(Signed) ARTHUR ANDERSEN & CO.

ASSETS

<p>FIXED CAPITAL, Including Intangibles — The amount at which fixed capital is stated does not purport to represent its present-day replacement or realizable value. Fixed capital is stated at amounts recorded for properties acquired as entireties at various dates (determined on the basis of cash paid, par or stated value of securities issued, liabilities assumed, and retirement reserves of \$245,800.45 taken over) plus subsequent additions at cost, less retirements. A complete segregation between tangible properties and intangibles has not been maintained on the books of the company (see Note 1)</p>	\$21,888,167.55
INVESTMENTS IN SECURITIES OF VARIOUS COMPANIES. ETC.—	
At cost	15,148.62
DEBT DISCOUNT, PREMIUM AND EXPENSE —In process of amortization (including \$606,482.65 applicable to bonds called prior to maturity being amortized on the basis of savings in interest resulting from refinancing)	640,789.53
PREFERRED STOCK PREMIUM, DISCOUNT, COMMISSION AND EXPENSE —In process of amortization (including \$494,058.49 premiums, discount and expense applicable to issues redeemed) being amortized on the basis of savings in preferred stock dividends resulting from refinancing	541,594.65
DEFERRED CHARGES AND PREPAID ACCOUNTS:	
Expense applicable to future abandonments of railway property	\$ 80,994.95
Appliance connections installed on customers' premises in process of amortization	70,497.76
Gas-conversion burners installed on trial basis	16,188.13
Prepaid insurance and taxes	22,141.62
Miscellaneous deferred and unadjusted items	<u>2,163.61</u>
	191,986.07
CURRENT ASSETS:	
Cash	\$165,107.71
U. S. Government securities, principal amount \$650,000 (quoted market value \$657,482.50) at cost	649,569.33
Accounts and interest receivable—	
Customers service accounts	\$247,487.15
Merchandise accounts (principally installment-sales contracts)	606,233.85
Miscellaneous accounts and interest	<u>15,816.03</u>
	<u>\$869,537.03</u>
Less—Reserve for uncollectible accounts	<u>72,487.25</u>
	797,049.78
Materials and supplies, stated at average cost—quantities and condition determined by the management, based on periodic physical inventories	<u>272,754.93</u>
Total	<u>1,884,481.75</u> <u>\$25,162,168.17</u>

NOTES:

- (1) The Public Service Commission of Indiana has with respect to Southern Indiana Gas and Electric things, require that (1) electric and gas plant shall be recorded in separate accounts, the "original cost" (person first devoting it to public service), estimated such "original cost" and the cost to the company January 1, 1938, between such "original cost" and was carried on such date, shall be segregated in accounts and shall be depreciated, amortized, or other of Indiana may subsequently approve or direct, an electric and gas plant for the loss in service value study of its plant account to determine the amount not determine at this time the extent to which its The company has agreed to discontinue on or before lines located in the City of Evansville, Indiana, future retirements of fixed capital incident thereto believed that they will be substantial in aggregate value.
- (2) In the indenture securing the First Mortgage Bond that, so long as any bonds of that series are outstanding its common stock (other than dividends payable to holders of such common stock by purchase of shares from December 31, 1935 as computed under the terms of earned surplus is restricted at December 31, 1935

LIABILITIES

CAPITAL STOCK:

Preferred stock, cumulative, par value		
\$100.00 per share—		
Authorized 400,000 shares—		
4.8% Series, outstanding 85,895 shares . . .	\$8,589,500.00	
Common stock, without par value—		
Authorized 500,000 shares—		
Outstanding 400,000 shares, stated at . . .	<u>5,200,000.00</u>	\$13,789,500.00

FUNDED DEBT:

First Mortgage Bonds—		
3.35% Series of 1936 due October 1, 1961 . . .		6,700,000.00

DEFERRED LIABILITIES:

Customers' deposits, etc.	\$ 184,188.74	
Contract payable—installments due subsequent to 1938	<u>80,000.00</u>	264,188.74

CURRENT LIABILITIES:

Contract payable—installment due in 1938 . . .	\$ 10,000.00	
Accounts payable	176,915.09	
Accrued taxes—		
General	\$411,172.54	
Federal income—subject to review by U. S. Treasury Department	<u>151,323.24</u>	562,495.78
Accrued interest on funded debt	56,112.51	
Accrued dividends on preferred stock	68,716.00	
Miscellaneous	<u>15,696.65</u>	889,936.03

RESERVES:

Retirement reserve (see Note 1 and auditors' certificate)	\$2,081,459.20	
Casualty and insurance reserve	26,274.93	
Reserve for unearned merchandise time-payment charges	57,883.46	
Contingency reserve	<u>15,000.00</u>	2,180,617.59

CONTRIBUTIONS IN AID OF CONSTRUCTION 93,100.86

EARNED SURPLUS (see Note 2) 1,244,824.95

Total \$25,162,168.17

adopted uniform systems of accounts to be effective, Electric Company, January 1, 1938, which, among other things, shall be classified and maintained so that there shall be no "cost" thereof (i. e., the cost of such property to the company) if not known, and so that the difference between the cost of such property and the amount at which such electric and gas plant is recorded in electric and gas plant adjustment accounts shall be disposed of as the Public Service Commission may direct and (2) depreciation shall be provided on depreciable property and not restored by current maintenance. Pending the adoption of property to be so segregated, the company cannot be affected.

On or before December 31, 1946 operation of all its street cars and to substitute bus service in lieu thereof. The future amount has not been determined by the company but it is estimated to be \$1,000,000.

Under the terms of the 3.35% Series of 1936 the company has covenanted that it will not declare or pay any dividends on the common stock or make any other distribution of assets to the stockholders or otherwise, except from earnings accumulated since the date of the indenture. On this basis \$878,745.74 is available for the payment of dividends.

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY
STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31ST

GROSS REVENUE:	1937	1936
Electric	\$2,571,575.69	\$2,345,980.68
Gas	823,814.39	715,297.15
Transportation	425,237.52	443,639.28
Heating and water	85,385.26	91,627.42
Non operating	7,683.66	12,776.67
Total gross revenue	<u>\$3,913,696.52</u>	<u>\$3,609,321.20</u>
OPERATING EXPENSES AND TAXES:		
Operation (including purchased gas of \$328,445.06 in 1937 and \$296,601.84 in 1936)	\$1,354,916.37	\$1,267,634.14
Maintenance	336,918.63	243,916.19
Provision for retirement reserve (see Note 1)	413,898.83	311,991.69
General taxes	506,531.55	435,771.12
Federal income taxes (see Note 2)	113,259.00	21,700.00
Total operating expenses and taxes	<u>\$2,725,524.38</u>	<u>\$2,281,013.14</u>
Gross income	<u>\$1,188,172.14</u>	<u>\$1,328,308.06</u>
INCOME DEDUCTIONS:		
Interest on funded debt	\$ 215,070.00	\$ 277,673.63
Interest on unfunded debt and miscellaneous charges	13,807.91	14,762.22
Amortization of debt discount, premium and expense	143,217.96	54,227.16
	<u>\$ 372,095.87</u>	<u>\$ 346,663.01</u>
Less—Interest charged to construction	23,381.68	21,189.44
Total income deductions	<u>\$ 348,714.19</u>	<u>\$ 325,473.57</u>
Net income	<u>\$ 839,457.95</u>	<u>\$1,002,834.49</u>

NOTES:

- (1) The Public Service Commission of Indiana has adopted uniform systems of accounts to be effective, with respect to Southern Indiana Gas and Electric Company, January 1, 1938, which, among other things, prescribe depreciation accounting, which will require a change from the retirement-reserve method of providing for property retired from service to providing for depreciation on depreciable electric and gas plant for the loss in service value not restored by current maintenance. In the Federal income-tax return for the year 1936, the company deducted \$409,784.71 for depreciation, computed on the basis of age and estimated life of depreciable property, and it is estimated that on the same basis, there will be deducted approximately \$428,000 in return for the year 1937. These latter amounts are exclusive of deductions made and to be made in the tax returns for amortization and abandonment of railway property of approximately \$626,000 for 1936 and approximately \$300,000 for 1937.
- (2) The provision for Federal income taxes for 1936 reflects the deduction, allowable under the U. S. Treasury Department regulations, of the amount of premium and unamortized debt discount and expense applicable to bonds refunded in 1936. In the accounts and financial statements such amount is being amortized on the basis of savings in interest resulting from refinancing. It is estimated that no surtax on undistributed profits will be incurred for the years 1936 and 1937.

SUMMARY OF SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1937

	Total Surplus	Earned Surplus	Acquired Surplus
BALANCE DECEMBER 31, 1936, per previous report	\$1,244,750.39	\$1,147,843.80	\$ 96,906.59
NET INCOME FOR YEAR, per above	839,457.95	839,457.95	—
Total	<u>\$2,084,208.34</u>	<u>\$1,987,301.75</u>	<u>\$ 96,906.59</u>
DEDUCT:			
Amortization of preferred stock premium, discount, commission and expense	\$ 130,180.80	\$ 130,180.80	\$ —
Dividends on preferred stock	412,296.00	412,296.00	—
Dividends on common stock	200,000.00	200,000.00	—
Transferred to retirement reserve acquired	96,906.59	—	96,906.59
Total	<u>\$ 839,383.39</u>	<u>\$ 742,476.80</u>	<u>\$ 96,906.59</u>
Balance December 31, 1937 (see Note 2 to balance sheet)	<u>\$1,244,824.95</u>	<u>\$1,244,824.95</u>	<u>\$ —</u>

D I R E C T O R S

W. H. BARTHOLD	NEW YORK, N. Y.
J. A. BROWN	NEW YORK, N. Y.
S. W. COOK	EVANSVILLE, IND.
F. B. CULLEY	EVANSVILLE, IND.
C. B. FROELICH	EVANSVILLE, IND.
H. C. KLEYMEYER	EVANSVILLE, IND.
E. E. NELSON	NEW YORK, N. Y.
D. H. ORTMEYER	EVANSVILLE, IND.
C. E. OSWALD	EVANSVILLE, IND.
J. R. WHITING	NEW YORK, N. Y.
WENDELL L. WILLKIE	NEW YORK, N. Y.

O F F I C E R S

W. H. BARTHOLD	<i>President</i>
F. B. CULLEY	<i>Executive Vice-President</i>
J. A. BROWN	<i>Vice-President</i>
G. H. BOURNE	<i>Comptroller</i>
C. E. OSWALD	<i>Secretary</i>
C. B. FROELICH	<i>Treasurer</i>
E. E. NELSON	<i>Asst. Secy. and Asst. Treas.</i>
E. C. WILKINS	<i>Asst. Secy. and Asst. Treas.</i>
C. WIGAND	<i>Asst. Treasurer</i>

T R A N S F E R A G E N T S

(For Preferred Stock)

Office of the Company	Evansville, Ind.
Agents of the Company	120 Wall St., New York, N. Y.

R E G I S T R A R S

(For Preferred Stock)

The National City Bank	Evansville, Ind.
Bankers Trust Company	New York, N. Y.

G E N E R A L O F F I C E
E V A N S V I L L E , I N D I A N A

This report and accompanying financial statements are submitted for information of stockholders, and are not intended for use in connection with any sale or purchase of, or any offer or solicitation of offers, to buy or sell, any securities.
