

Southern Indiana Gas and Electric Company

Evansville, Indiana, February 28, 1936

To the Stockholders:

There is submitted herewith a report covering operations of the Company for the year ended December 31, 1935 together with balance sheet as of that date and statement of earnings, operating expenses, etc., as compared with the preceding year.

During 1935, the New Business Department continued its vigorous sales activities to increase the use of electricity and gas. Industrial and commercial power and light, househeating, air conditioning and domestic appliances all contributed to the satisfactory gains made. The distribution of gas and electricity consuming appliances was especially gratifying—1935 being the biggest year in this respect in the Company's history.

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

	1935	1934
Electric sales in kilowatt hours.....	85,346,577	73,197,517
Gas sales in cubic feet.....	756,376,800	613,937,300
Heating sales in pounds.....	118,851,800	116,555,000
Revenue passengers carried.....	5,765,664	5,531,401
Electric customers served at end of year.....	32,394	31,070
Gas customers served at end of year.....	18,679	17,450
Steam heating customers served at end of year.....	369	366
Average use in kilowatt hours per residential customer....	625	581

Gross earnings for 1935 showed an increase of \$231,368.68 as compared with 1934. Taxes, as noted on page 2, were \$480,966.41, representing 15.22 cents out of every dollar of gross earnings. These taxes are a cash obligation and must be met before interest on the Company's bonds and dividends on the preferred stock can be paid.

Effective January 1, 1935, rate reductions and revisions became effective to all residential and commercial electric customers in Evansville, and on October 15, 1935, electric rates to residential and commercial customers were revised downward in all territory outside of Evansville.

It is anticipated that vigorous promotional work aided by generally improved business conditions will within a reasonable time regain the losses occasioned by these and previous rate reductions.

During the year substantial additions and improvements were made to the property in anticipation of future load requirements and to safeguard present service. A total of \$617,635.55 was spent for this purpose. An additional boiler was installed at the Ohio River Station and work was begun on the installation of a 12,500 K. W. turbo-generator at this station. A 6000 KVA distribution substation with adequate high voltage line connections to more efficiently serve our industrial load was built at the center of industrial distribution and is now in operation.

To supplement the Company's Indiana natural gas supply, connection was made early in the year with the pipe line of the Indiana-Kentucky Natural Gas Corporation. At the same time ownership was assumed of this corporation's distribution systems in Knight Township, Vanderburgh County.

The books and accounts, securities, cash, etc., of the Company have been examined and verified by Arthur Andersen & Co., Accountants and Auditors, and their Certificate of Audit is included in this report.

The officers and employees of the Company are to be commended on their meritorious work during the past year. Their efforts in behalf of the stockholders and the public are appreciated by the directors.

By order of the Board of Directors.

W. H. BARTHOLD,
President

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY

INCOME ACCOUNT FOR THE YEARS ENDED DECEMBER 31

	1935	1934
GROSS EARNINGS:		
Electric	\$2,045,033.60	\$1,921,588.92
Gas	640,673.12	541,711.01
Transportation	377,051.53	365,552.69
Heating and water	81,221.08	79,320.41
Non-operating revenues	16,420.19	20,857.81
Total gross earnings	<u>\$3,160,399.52</u>	<u>\$2,929,030.84</u>
OPERATING EXPENSES AND TAXES:		
Operation	\$1,137,460.47	\$ 981,160.68
Maintenance	203,672.41	199,613.93
Provision for retirement reserve (see footnote).	277,700.00	277,700.00
General taxes	399,063.29	402,926.99
Federal income taxes	81,903.12	84,890.00
Total operating expenses and taxes	<u>\$2,099,799.29</u>	<u>\$1,946,291.60</u>
Net earnings	<u>\$1,060,600.23</u>	<u>\$ 982,739.24</u>
INTEREST CHARGES, ETC.:		
Interest on funded debt	\$ 302,500.00	\$ 302,500.00
Interest on unfunded debt	5,312.13	5,919.50
Amortization of debt discount and expense, etc.	25,664.68	25,664.68
Total	<u>\$ 333,476.81</u>	<u>\$ 334,084.18</u>
Less—Interest charged to construction	16,103.44	2,082.70
Total	<u>\$ 317,373.37</u>	<u>\$ 332,001.48</u>
Net income	<u>\$ 743,226.86</u>	<u>\$ 650,737.76</u>

SUMMARY OF SURPLUS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 1935

Surplus balance—December 31, 1934, per previous report	\$ 863,770.12	
Net income for year, as above	743,226.86	
Miscellaneous direct surplus credits	3,469.39	\$1,610,466.37
DEDUCT:		
Dividends—		
On preferred stock	\$ 542,476.80	
On common stock	140,000.00	
Total	<u>\$ 682,476.80</u>	
Surplus acquired from predecessor companies reclassified below as acquired surplus	96,906.59	779,383.39
EARNED SURPLUS—DECEMBER 31, 1935		\$ 831,082.98
ACQUIRED SURPLUS—DECEMBER 31, 1935		96,906.59
TOTAL SURPLUS—DECEMBER 31, 1935		\$ 927,989.57

Note: The company, in its accounts and financial statements, follows the retirement-reserve method of providing for property retired from service, which is an accepted practice in the utility industry. The provisions for retirements are not represented to be a measure of depreciation due to wear and tear, obsolescence and inadequacy which may have accrued during the periods but represent amounts set up annually on the books of the company for the purpose of providing a reserve which, in consideration of the amount expended for current maintenance, will be, in the judgment of the management of the company, adequate to provide for and equalize charges on account of retirements of property. The provisions for retirements deducted from earnings are substantially 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 U. S. Treasury Department.

To Southern Indiana Gas and Electric Company:

We have made an examination of the balance sheet of the Southern Indiana Gas and Electric Company (an Indiana corporation) as at December 31, 1935, 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 substantially 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 on the examination referred to above, the accompanying balance sheet and the related statement of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the company during the year under review, its financial position at December 31, 1935, and the results of its operations for the year ended that date.

Chicago, Illinois,
February 1, 1936.

(Signed) ARTHUR ANDERSEN & CO.

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY

BALANCE SHEET—DECEMBER 31, 1935

ASSETS

FIXED CAPITAL, including intangibles, 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 taken over of \$148,893.86) 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 . . .	\$20,284,558.56	
INVESTMENTS IN SECURITIES OF VARIOUS COMPANIES—AT COST	17,203.12	
DEBT DISCOUNT AND EXPENSE IN PROCESS OF AMORTIZATION	524,123.55	
DEFERRED CHARGES AND PREPAID ACCOUNTS . . .	39,839.46	
CURRENT ASSETS:		
Cash	\$ 215,200.05	
U. S. Government securities, \$376,000.00 principal amount, at cost	376,000.00	
Accounts receivable, less reserve of \$42,450.61	508,808.66	
Materials and supplies, stated at average cost—quantities and condition determined by the management based on periodic physical inventories	164,853.46	1,264,862.17
Total		<u>\$22,130,586.86</u>

LIABILITIES

CAPITAL STOCK:		
Preferred stock, cumulative, par value of shares \$100.00—Authorized 150,000 shares		
Outstanding		
6% Preferred	\$5,610,700.00	
6.6% Preferred	670,300.00	
7% Preferred	2,308,500.00	
	<u>\$8,589,500.00</u>	
Common stock, without par value—		
Authorized 750,000 shares		
Outstanding—400,000 shares, stated at	4,000,000.00	\$12,589,500.00
FUNDED DEBT:		
First Mortgage 5½% Gold Bonds, due April 1, 1957		5,500,000.00
DEFERRED LIABILITIES:		
Consumers' deposits, etc.		156,995.12
CURRENT LIABILITIES:		
Accounts payable	\$ 115,033.38	
Accrued taxes—		
General	\$ 331,619.37	
Federal income—subject to review by U. S. Treas. Dept.	85,720.71	417,340.08
Dividends payable on preferred stock	145,205.70	
Accrued interest on funded debt	75,624.99	
Miscellaneous	8,963.11	762,167.26
RESERVES:		
Retirement reserve (see auditors' certificate)	\$2,020,222.02	
Casualty and insurance reserve	55,958.93	2,076,180.95
CONTRIBUTIONS FOR EXTENSIONS		84,863.96
PREMIUM ON PREFERRED STOCK		32,890.00
SURPLUS:		
Acquired	\$ 96,906.59	
Earned	831,082.98	927,989.57
Total		<u>\$22,130,586.86</u>

D I R E C T O R S

W. H. BARTHOLD	NEW YORK, N. Y.
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E. E. NELSON	<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

Office of the Company	Evansville, Ind. (For 6%, 6.6% and 7% Preferred Stock)
Agents of the Company	120 Wall Street, New York, N. Y. (For 6% Preferred Stock)

R E G I S T R A R S

The National City Bank	Evansville, Ind. (For 6%, 6.6% and 7% Preferred Stock)
Bankers Trust Company	New York, N. Y. (For 6% Preferred Stock)

GENERAL OFFICE
EVANSVILLE, INDIANA