Luzerne County Gas and Electric Corporation

Annual Report
Year Ended December 31
1942

This report and financial statements contained herein have been prepared for the stockholders of the Luzerne County Gas and Electric Corporation and are submitted for the sole purpose of providing them with general and statistical information concerning the Corporation. It is not a prospectus or representation in connection with the purchase or sale of any securities.
Luzerne County Gas and Electric Corporation

Board of Directors

Wm. W. Bodine
Fred B. Hofft
R. R. Van Horn

W. E. Long
Fred J. Rutledge

Officers

President, R. R. Van Horn
Vice-President, Fred B. Hofft
Vice-President, Stuart Cooper
Secretary, John Hopkins
Assistant Secretary, Albert Nalle
Treasurer, I. Wistar Morris
Assistant Treasurer, Joseph B. Townsend
Assistant Treasurer, Earnest MacMorris
Assistant Treasurer, Wm. Shewan

General Office

247 Wyoming Avenue, Kingston, Pa.

Other Offices

Hazleton, Nanticoke, Plymouth, Shickshinny and Wyoming, Pa.

Transfer Office

(Preferred Stock) Office of the Corporation,
1401 Arch Street, Philadelphia, Pa.

Registrar


Annual Meeting

First Tuesday of April at Kingston, Pa.
Luzerne County Gas and Electric Corporation

Office of the President

KINGSTON, PENNA., March 22, 1943.

TO THE STOCKHOLDERS:

There is presented herewith the Annual Report for the year ended December 31, 1942.

The territory served by the Corporation experienced variable business conditions during 1942. Anthracite mining and cigar manufacturing showed marked improvement, while the silk industry was adversely affected by the restricted supply of raw material. Many of the Corporation’s smaller commercial customers were obliged either to close entirely or to curtail their operations severely because of war-time restrictions on their business. The Corporation itself had to suspend its own merchandising activities because of such restrictions, with the result that sales of electricity and gas to its residential customers have remained stationary, load building appliances, such as refrigerators, ranges, and water heaters not being available for sale.

Electric sales increased 2,806,708 kilowatt hours, or 2.2%. Gas sales decreased 4,324,000 cubic feet, or 2.1%.

At the end of 1942, there were 37,366 electric customers, a decrease of 440 compared with last year, and 12,749 gas customers, an increase of 173.

Total operating revenues for the year amounted to $3,269,479, a decrease of $12,493, or 0.4%. Electric revenue decreased $7,966, or 0.3%; gas revenue decreased $4,527, or 1.3%. The increase of $29,719 in total operating revenue deductions is accounted for by a net increase of $72,408 in taxes, offset by a decrease of $44,342 in operating expenses including maintenance, due in large part to non-recurring expenses incurred in the previous year, and curtailment of sales promotion. Of the $72,408 net increase in provision for taxes, $76,160 was attributable to Federal income taxes. Other income, net, decreased $10,519, due to restrictions placed on merchandising, jobbing and contract work by the war program, as mentioned.

Total income deductions decreased $36,936, or 11.5%, due to the debt refinancing accomplished early in 1941.

Net income for the year amounted to $609,485, a decrease of $15,795.

Changes in the capitalization of the Corporation during the year consisted of the payment of the balance of $500,000 principal amount
of Serial Notes through call and maturity; the acquisition through the operation of the sinking fund of $85,000 principal amount First Mortgage Bonds, 3 1/4% Series due 1966; and the reacquiring of 500 shares of 5 1/4% Preferred Stock at a cost of $48,726.

Gross capital expenditures amounted to $103,212. Improvements throughout the year to the distribution system were greatly curtailed, due to priority restrictions on materials needed for national defense. Expenditures included the installation of protective equipment to guard against sabotage.

The property of the Corporation is in good physical condition and is being properly maintained.

Thirty-four employees have left the Corporation to join the armed forces and other branches of Government service. The cooperation and services rendered by all employees during the year is acknowledged, particularly the manner in which they have carried out the Corporation's defense program.

Submitted herewith are Earnings Statement for twelve months ended December 31, 1942 and 1941, Earned Surplus Statement for twelve months ended December 31, 1942, and Balance Sheet at December 31, 1942, together with a copy of report of Lybrand, Ross Bros. & Montgomery, Certified Public Accountants, who have examined the accounts of the Corporation for the year.

By Order of the Board of Directors.

R. R. Van Horn, President.
Lybrand, Ross Bros. & Montgomery
Certified Public Accountants
Packard Building
Philadelphia

To the Board of Directors,
Luzerne County Gas and Electric Corporation,
Kingston, Pennsylvania.

We have examined the balance sheet of
LUZERNE COUNTY GAS AND ELECTRIC CORPORATION
as of December 31, 1942, and the statements of earnings and earned surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the corporation and, without making a detailed audit of the transactions, have examined or tested accounting records of the corporation 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.

The corporation, in its accounts and financial statements, continued to follow the retirement-reserve method of providing for property retired from service, as is more fully set forth in Note 1 to the earnings statement, which note is incorporated herein by reference. The amounts charged annually against earnings and credited to reserve for depreciation, renewals and replacements by the corporation, we are informed, are considered by the management to be sufficient provision for the retirement of utility plant, including intangibles, and are not necessarily uniform in amount from year to year.

In our opinion, subject to the above explanation with respect to reserve for retirement of utility plant, including intangibles, the accompanying balance sheet and related statements of earnings and earned surplus present fairly the position of Luzerne County Gas and Electric Corporation at December 31, 1942, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LYBRAND, ROSS BROS. & MONTGOMERY.

Philadelphia, Penna.
March 8, 1943.
Luzerne County Gas and Electric Corporation

Earnings Statement

For Twelve Months Ended December 31st

<table>
<thead>
<tr>
<th></th>
<th>1942</th>
<th>1941</th>
<th>Increase* or Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric</td>
<td>$2,931,061</td>
<td>$2,939,027</td>
<td>$7,966</td>
</tr>
<tr>
<td>Gas</td>
<td>338,418</td>
<td>342,945</td>
<td>4,527</td>
</tr>
<tr>
<td></td>
<td><strong>Total Operating Revenues</strong></td>
<td><strong>3,269,479</strong></td>
<td><strong>3,281,972</strong></td>
</tr>
</tbody>
</table>

| Revenue Deductions: |          |          |                       |
| Operating Expenses, Other than Maintenance | 1,039,800 | 1,102,604 | 62,804               |
| Maintenance         | 214,325  | 197,863  | 18,462*              |
| Provision for Depreciation, Renewals and Replacements | 504,272 | 502,619 | 1,653*               |
| Provision for Taxes: |          |          |                       |
| Federal Income      | 371,278  | 295,118  | 76,160*              |
| Other Federal       | 74,895   | 78,331   | 3,436                |
| State and Local     | 172,132  | 172,448  | 316                  |
|                      | **Total Operating Revenue Deductions** | **2,376,702** | **2,346,983** | **29,719** |

<table>
<thead>
<tr>
<th></th>
<th>1942</th>
<th>1941</th>
<th>Increase* or Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Operating Revenues</td>
<td><strong>892,777</strong></td>
<td><strong>934,989</strong></td>
<td><strong>42,212</strong></td>
</tr>
<tr>
<td>Other Income, Net</td>
<td><strong>13</strong></td>
<td><strong>10,506</strong></td>
<td><strong>10,519</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Gross Income</strong></td>
<td><strong>892,764</strong></td>
<td><strong>945,495</strong></td>
</tr>
</tbody>
</table>

Income Deductions:

<table>
<thead>
<tr>
<th></th>
<th>1942</th>
<th>1941</th>
<th>Increase* or Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on Long-Term Debt...</td>
<td>245,995</td>
<td>267,914</td>
<td>21,919</td>
</tr>
<tr>
<td>Amortization of Debt Discount, Premium and Expense applicable to Bonds refunded or retired</td>
<td>40,925</td>
<td>37,231</td>
<td>3,694*</td>
</tr>
<tr>
<td>Amortization of Premium received on First Mortgage Bonds, 3¾% Series, due January 1, 1966</td>
<td>(5,639)</td>
<td>(5,676)</td>
<td>(37)</td>
</tr>
<tr>
<td>Taxes Assumed on Interest</td>
<td>(1,177)</td>
<td>16,078</td>
<td>17,255</td>
</tr>
<tr>
<td>Other Interest</td>
<td>840</td>
<td>979</td>
<td>139</td>
</tr>
<tr>
<td>Interest Charged to Construction</td>
<td>(526)</td>
<td>(670)</td>
<td>(144)</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>2,861</td>
<td>4,359</td>
<td>1,498</td>
</tr>
<tr>
<td></td>
<td><strong>Total Income Deductions</strong></td>
<td><strong>283,279</strong></td>
<td><strong>320,215</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1942</th>
<th>1941</th>
<th>Increase* or Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td><strong>$609,485</strong></td>
<td><strong>$625,280</strong></td>
<td><strong>$15,795</strong></td>
</tr>
</tbody>
</table>

*#loss.

( ) Denotes Credit.

See Notes 1 and 2 which are an integral part of this Earnings Statement.
Luzerne County Gas and Electric Corporation

Earned Surplus Statement
For Twelve Months Ended December 31, 1942

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance—January 1st</strong></td>
<td>$258,965</td>
</tr>
<tr>
<td>Net Income for the Year</td>
<td>$609,485</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$868,450</td>
</tr>
</tbody>
</table>

**Deductions:**

- Dividends:
  - Preferred: $230,467
  - Common: 176,694
  - Total: $407,161

- Amortization of costs in connection with exchanges and redemption of former issues of preferred stocks and the issuance of Serial Notes and presently outstanding 5\(\frac{1}{4}\)% Preferred Stock, including $3,379 applicable to 500 shares of 5\(\frac{1}{4}\)% Preferred Stock re-acquired in 1942 (which is net of $1,274 charged to available Capital Surplus): 137,139

- Refinancing expense and net premium applicable to First Mortgage 3\(\frac{1}{4}\)% Bonds retired in 1942: 2,402

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance—December 31, 1942</strong></td>
<td>$321,748</td>
</tr>
</tbody>
</table>

The balance at December 31, 1942, includes $288,261 not available for payment of dividends on common stock. See Note 4 to Balance Sheet.

Notes to Balance Sheet and Earnings Statement are incorporated herein by reference.
Luzerne County Gas and Electric Corporation
(Incorporated in Pennsylvania)

Balance Sheet, December 31, 1942

## ASSETS AND OTHER DEBITS

- **Utility Plant** (Including $101,137 for Organization Expenses, etc.):
  - Electric and Common (Including $475,149 for Acquisition and Other Adjustments) .......... $15,692,844
  - Gas (Including $1,268,682 for Acquisition Adjustments) .................................. 3,371,570

**INVESTMENT IN OTHER PHYSICAL PROPERTY** ........................................... 33,141

**SINKING FUND** ......................................................................................... 1,080

**AMOUNTS DUE FROM MUNICIPAL CUSTOMERS—Net** .................................. 140,780

**CURRENTLY RECEIVABLE** ........................................................................ 60,000

**Less—Reserve** ......................................................................................... 80,780

**CURRENT AND ACCRUED ASSETS**:

- Cash on Hand and Demand Deposits in Banks ........................................... 612,336
- Special Deposits (cash):
  - For payment of matured bond interest, dividends and securities called for redemption ............................................. $146,690
  - Other ............................................................................................................ 6,237

**Accounts Receivable**:

- Customers (Service) ................................................................................. 252,870
- Merchandise and Jobbing (Including Installment Accounts) ................. 53,430

**Less—Reserve for Uncollectible Accounts** ................................................. 306,300

**Other Accounts** (Including $29,262 receivable under interchange and other agreements) ...................... 246,300

**Deferred Debts**:

- Prepayments ............................................................................................. 4,981
- Unamortized costs in connection with exchanges and redemption of former issues of preferred stocks and the issuance of serial notes and presently outstanding $3% Preferred Stock .............................................. 364,563
- Unamortized Debt Discount, Premium and Expense applicable to bonds refunded or retired .................................................. 328,770

**Total Assets and Other Debts** ................................................................. $21,153,517

See Notes 1 to 5, inclusive, which are

## LIABILITIES AND OTHER CREDITS

**CAPITAL STOCK**:

- Preferred, Cumulative, Par Value $100 per share, authorized 5,000 shares:
  - Issued ........................................................................................................... 44,000 shares
  - Less Reacquired ......................................................................................... 500 shares

**Outstanding** ............................................................................................. 43,500 shares

**Premium** .................................................................................................... 12,063

(Redeemable at any time on 30 days’ notice at $110 per share or $4,785,000 and entitled to like amount in the event of voluntary liquidation.)

- Common (No Par Value), Authorized and Outstanding—176,694 shares ................................................................. $4,417,350

**LONG-TERM DEBT**:

- First Mortgage Bonds, 3½% Series due January 1, 1966 (See Note 2) .................. 7,415,000

**CURRENT AND ACCRUED LIABILITIES (See Note 2)**:

- Accounts Payable:
  - Associated Companies ........................................................................ $2,521
  - Others ...................................................................................................... 49,920

**Dividends Declared—Preferred Stock** ....................................................... 890

**Matured Interest** ..................................................................................... 121,659

**Matured Long-Term Debt** (Including premium of $525) .......................... 11,023

**Unpresented Preferred Stocks called for Redemption (Including premium of $1,654)** .................. 13,125

**Customers’ Deposits** .............................................................................. 14,622

**Taxes Accrued**:

- Federal Income .......................................................................................... 397,688
- Other Federal ............................................................................................... 22,115
- State ............................................................................................................ 126,391

**Interest Accrued** ...................................................................................... 785

**Other Current and Accrued Liabilities** ..................................................... 765,353

**Deferred Credits**:

- Unamortized Premium on First Mortgage Bonds, 3½% Series, due January 1, 1966 .. 129,076
- Customers’ Advances for Construction ........................................................................... 14,442

**RESERVES**:

- Depreciation, Renewals and Replacements .................................................. 3,640,484
- Injuries and Damages .................................................................................... 50,456

**Contributions in Aid of Construction** ..................................................... 36,545

**Earned Surplus—Subject to Certain Restrictions (See Note 4)** .................... 321,748

**Total Liabilities and Other Credits** ......................................................... $21,153,517

An integral part of this Balance Sheet.
Luzerne County Gas and Electric Corporation

Notes to Earnings Statement:

1. The Corporation has continued to follow the retirement-reserve method of providing for property retired from service, these reserves being determined by officials of the Corporation, based upon their studies of the history and experience of the Corporation over the period of its existence, consideration being given by them to the condition and efficiency of the property and to prospective retirements. This method differs from that provided in the uniform systems of accounts, which require, among other things, that the accounting company record, as of the end of each month, the estimated amount of depreciation accrued during that month on depreciable gas and electric plant. The Corporation is now making the necessary studies in connection with its depreciable properties in order that it may conform to this requirement but cannot determine at this time to what extent the administration of this requirement will affect its accounts.

   The amounts provided annually from income for depreciation, renewals and replacements, under the retirement-reserve method, do not purport to be a measure of depreciation due to wear and tear, obsolescence and inadequacy which may have accrued during the period, but are amounts reserved annually by the Corporation from income for the purpose of creating a reserve designed to care for current, and provide for future retirements of utility plant, including intangibles.

2. The amounts shown in the Earnings Statement for provision for taxes are based substantially on the ordinary operations of the Corporation. By reason of deductions in the Corporation's income and excess profits tax returns for the year 1941, for nonrecurring items of substantial amount, tax savings attributable thereto ($185,776 and $28,945, Federal and State income taxes, respectively) were credited to other accounts and not applied as a reduction of provision for taxes as shown in the Earnings Statement for 1941. The deductions for such nonrecurring items also had the effect of making provision for Federal excess profits tax unnecessary not only for the year 1941 but 1942 as well, since the benefit of such deductions was, in part, carried over to the latter year.
Luzerne County Gas and Electric Corporation

Notes to Balance Sheet

1. The amounts at which Utility Plant and Investment in Other Physical Property are stated do not purport to represent realizable or replacement values. They are stated at original cost as determined by the Corporation, assisted by independent engineers, in accordance with the prescribed uniform systems of accounts.

The prescribed systems of accounts require that the balances in Utility Plant Acquisition Adjustments account shall be disposed of as the Pennsylvania Public Utility Commission may approve or direct. The Commission has neither approved nor disapproved the original cost determinations or the re-classification entries and the Corporation is unable to predict the ultimate findings that may be made by the Commission with respect thereto or the effect on the accounts of the Corporation.

2. The amount of $765,353 shown in the Balance Sheet for Total Current and Accrued Liabilities does not include amounts of $112,500 and $107,479 payable in 1943 to the Trustee of the Corporation's First Mortgage Bonds, 3 3/4% Series, for sinking fund and maintenance requirements, respectively.

3. The balance in the Reserve for Depreciation, Renewals and Replacements at December 31, 1942, which has been provided under the retirement-reserve method, does not purport to be a measure of past depreciation due to wear and tear, obsolescence and inadequacy. Note 1 to the Earnings Statement is incorporated herein by reference.

4. The Securities and Exchange Commission issued an order dated May 27, 1941, which contains the following limitation on the declaration or payment of dividends on common stock:

"Luzerne shall not declare or pay any dividends (other than dividends payable in shares of its common stock) on any shares of its Common Stock, nor shall Luzerne make any other distribution of its Common Stock or purchase or retire any shares of its Common Stock out of net income unless the earned surplus after making such declaration, payment, distribution, purchase, or retirement is equal to or greater than the sum of $183,261 plus an accumulative amount equal to $60,000 per calendar year beginning with the year 1941 and continuing until the cost of retiring the presently outstanding $6 and $7 Dividend Cumulative Preferred Stock shall have been completely amortized, and thereafter an accumulative amount equal to $190,000 per calendar year to continue until the total earned surplus so accumulated, and unavailable for Common Stock dividends, shall equal $1,500,000; provided, however, that such earned surplus required to remain after declaration or payment of such dividends or after such distribution, purchase, or retirement may be reduced for the purpose of this computation by the amount of any surplus adjustments resulting from writing down or writing off the excess of carrying value of property now owned by Luzerne over the original cost of such property when first devoted to public use."

At December 31, 1942, the amount of surplus subject to the above limitation aggregates $288,261, representing the balance of $183,261 in surplus at March 31, 1941, plus $105,000, the amount applicable to the year and nine months ended December 31, 1942.

5. The Company has a contingent liability, estimated at $29,230, in connection with an additional Federal Income tax assessment for prior years, which is under appeal.
Statistics

**Electric Operations:**

<table>
<thead>
<tr>
<th></th>
<th>1942</th>
<th>1941</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers (At December 31)</td>
<td>37,366</td>
<td>37,806</td>
</tr>
<tr>
<td>Sales—M Kilowatt Hours</td>
<td>132,572</td>
<td>129,766</td>
</tr>
<tr>
<td>Generating Capacity—Kilowatts</td>
<td><em>55,000</em></td>
<td><em>55,000</em></td>
</tr>
<tr>
<td>Population Served (estimated)</td>
<td>172,630</td>
<td>172,630</td>
</tr>
</tbody>
</table>

**Gas Operations:**

<table>
<thead>
<tr>
<th></th>
<th>1942</th>
<th>1941</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers (At December 31)</td>
<td>12,749</td>
<td>12,576</td>
</tr>
<tr>
<td>Sales—M Cubic Feet</td>
<td>205,051</td>
<td>209,375</td>
</tr>
<tr>
<td>Generating Capacity—M Cubic Feet</td>
<td>3,300</td>
<td>3,300</td>
</tr>
<tr>
<td>Maximum Daily Output—M Cubic Feet</td>
<td>791</td>
<td>853</td>
</tr>
<tr>
<td>Capacity of Storage Holders—M Cubic Feet</td>
<td>537</td>
<td>537</td>
</tr>
<tr>
<td>Miles of Mains</td>
<td>153.6</td>
<td>153.1</td>
</tr>
<tr>
<td>Population Served (estimated)</td>
<td>182,870</td>
<td>182,870</td>
</tr>
</tbody>
</table>

*Limited to 47,000 kilowatts by boiler capacity.*