

(4) That the inventory of stores taken at the end of the year disclosed a large surplus stock on hand—now under investigation for adjustment—for which no credit is taken in the annexed Balance Sheet; that there are errors in the Consumers' Ledgers of approximately \$3,500.00—also under adjustment—for which allowance has been made in the annexed Balance Sheet; and that certain of the general liabilities have yet to be verified by the production of original documents called for by us, but not yet received by the officers of the Commission.

(5) That the accuracy and reasonableness of certain charges against the Corporation of the City of Toronto for the removal of poles, for the supply of motive power to the Civic Street Car System, and for other work, are disputed by the City; that no allowance has been made in the annexed accounts in respect thereof, and that while the income of and the expenditure upon the Municipal Light and Power System of North Toronto has been duly incorporated in the annexed Accounts, no liability has been assumed therein for its capital value as at the date of its acquisition, for the reason that so far as we can ascertain no agreement has yet been reached by the City and the Commissioners on the matter. If allowances should require to be made by the Commission in the final settlement with the City of these disputes, the amount thereof, together with provision for depreciation, interest, and sinking funds for the past year on the portions of the North Toronto System acquired at the time of the annexation, will constitute a charge upon next year's income of, perhaps, from \$6,000 to \$12,000. We are unable, however, by reason of insufficient information, to make a satisfactory appraisal of this contingency, although we do not think from the partial information before us, that it will absorb more than the amount stated.

Subject to the above reservations of paragraphs four and five, we certify that our requirements as Auditors have been complied with, and that the annexed Revenue Account and Balance Sheet are, in our opinion, properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Toronto Hydro-Electric System.

Respectfully submitted,

JOHN MACKAY & CO., Chartered Accountants, Auditors.

COMMISSIONERS' REPORT

To His Worship the Mayor and the Members of the Council of the Corporation of the City of Toronto, Toronto.

Gentlemen:—

Your Commissioners beg to submit their Third Annual Report, accompanied by the Revenue Account, the Balance Sheet, and certain subsidiary statements, of the Toronto Hydro-Electric System, for the year ended 31st December, 1913. The accounts have been audited by John MacKay & Co., Chartered Accountants, whose certificate is appended thereto.

APPOINTMENT OF GENERAL MANAGER:

Before referring to the accounts which set forth the financial progress and position of the enterprise, it is proper to say that in the early part of 1913 Mr. H. H. Couzens, Electric Engineer of Hampstead, England, was appointed General Manager of the System under a three years' engagement. Mr. Couzens entered upon his duties at the beginning of July last, and the high opinion originally formed by your Commissioners of his qualifications and attainments has been fully vindicated by the zeal and capacity he has shown in the interval in carrying on the responsible and difficult administrative duties of his post.

The former Acting General Manager, along with a number of subordinate employees, had been peremptorily dismissed in the month of April for grossly improper conduct. Shortly after their dismissal there was a strike among the union employees of the System, the matters at issue, including that of wages, being, however, settled by arbitration within a short time thereafter. The rupture of the organization occasioned by the misconduct of the Acting General Manager, and other consequences of his incompetence for the position, together with the added charges laid upon the System in consequence of the strike, have added materially to the financial as well as to the administrative burdens of the past year. It is a matter, however, for congratulation that, as the accounts will show, the financial burden has been entirely overcome, and no small part of the credit thereof is to be attributed to the General Manager, whose administration under these unusually difficult conditions has given your Commissioners a very high degree of satisfaction.

FINANCIAL POSITION AS AT 31st DECEMBER, 1913:

The operations for the year 1913 have yielded very satisfactory results. From the revenue account annexed hereto it will be observed that—

The gross income amounted to the sum of.....	\$1,159,339.71
The cost of electric current and the expenses of operation and management, including repairs and maintenance, absorbed the sum of.....	681,217.01
Leaving a balance of net income of.....	\$478,122.70
The interest, depreciation and sinking funds for the year absorbed the sum of	443,546.83
Leaving a balance of net surplus earnings for the year after meeting all charges applicable thereto, of	\$34,575.87

The whole of the cost of getting and promoting new business amounting to upwards of \$60,000.00 has again been met out of the year's income.

During the last quarter of the year a careful appraisal was made by the General Manager of the wearing lifetime and the residual values of the physical plant and equipment and the depreciation appropriation for the year, which is substantially larger than that of last year, has been based upon that appraisal. The amount set aside for depreciation in 1912, though quite sufficient to cover the actual wear and tear of the plant and equipment for that year—the first complete working year it had been in use—was, however, based, pending an appraisal of the wearing lifetime of the different parts of the plant, upon a tentative rate only. It is unnecessary to emphasize the capital importance of establishing and maintaining out of income a fund from which to maintain the physical plant in the highest state of efficiency, and to replace the various parts thereof as they wear out. This is a first principle in sound finance. No departure therefrom is capable of justification.

The Sinking Fund appropriation covers the amount required for the year under the three governing city by-laws, together with interest on past due instalments. The Sinking Fund Suspense Account likewise annexed hereto gives full details of the amount of \$94,617.20, which is carried forward as a charge upon the surplus earnings of 1914 and future years. The Corporation of the City of Toronto is under a contract obligation to the debenture holders to maintain sinking funds in accordance with the terms of the governing by-laws. These obligations have been quite properly charged by the Corporation against and assumed by the Hydro-Electric System. The total amount thereof at the 31st December, 1913, was \$289,211.16. From this total there has been deducted:—

(a) The provision made out of income for the year 1912, representing a full year's instalment and interest thereon on the actual net debt of the System as at the end of that year.

(b) The provision made out of income for the year 1913, representing a full year's instalment as required by the first two by-laws, and a half year's instalment as required by the terms of the third by-law and interest thereon.

(c) The surplus earnings for the year 1912; and,

(d) The surplus earnings for the year 1913, thereby leaving a net balance as aforesaid of \$94,617.20 to carry forward against future profits.

Had the enterprise been conducted as a commercial corporation, with share capital, instead of being charged with debenture capital subject to repayment, the net earnings for the year would have been shown at the amount of \$312,164.14, that being the sum of the interest and sinking fund appropriations and the net surplus, or the equivalent of a dividend at the rate of 7½ per cent. upon the average amount of cash capital invested therein.

Additions have been made to the physical system beyond the limits covered by by-laws 5036 and 5918, in respect of—

(a) Certain requirements of the street and park lighting system.

(b) A 13,200 volt commercial power distribution system.

(c) Some special equipment in connection with the civic car lines; and

(d) Certain other increases in general capacity, at a cost of approximately \$620,000. To cover this expenditure, by-law No. 6674, authorizing the issue of \$700,000 at 4½ per cent. sinking fund debentures, dated 1st July, 1913, and maturing on the 1st July, 1953, was passed by the Corporation of the City of Toronto on the 13th October, 1913, and duly sanctioned by the Ontario Railway and Municipal Board.