

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting and financial officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The System is further protected by fidelity bond insurance with outside underwriters. The audit tests were carried out in the offices of System Headquarters, Regions and Separately Operated Properties in Canada, the United States, London (England) and Paris (France).

Our audit of the accounts included the verification of the consolidated balance sheet and the consolidated income account and certification thereof.

Apart from the investment in Trans-Canada Air Lines, the holdings in the capital stocks of the Affiliated Companies are insufficient to give voting control and accordingly the Companies are not treated as units of the System nor have their accounts been audited by us. In the majority of instances they are audited by joint committees composed of System accountants and representatives of outside interests.

Further progress has been made during the year in the revision of the corporate structure of the System, the Muskegon Railway and Navigation Company having been merged into the Grand Trunk Western Railroad Company. Two land companies were dissolved late in the year and their charters surrendered.

#### CONSOLIDATED INCOME ACCOUNT

##### *Surplus For The Year*

There was an increase in net railway operating revenue of \$39,904,000 as compared with the previous year, railway operating revenues being greater by \$42,452,000 principally accounted for by an increase of \$36,198,000 in freight revenues, and railway operating expenses increasing by \$2,548,000.

After providing for Taxes and Rents, there was an increase in net railway operating income of \$36,071,000, and net income from other sources rose by \$3,882,000.

After provision for Fixed Charges, the surplus for the year amounted to \$10,717,000, which is payable to the Government of Canada as a dividend on its holding of preferred stock.

Depreciation of property investment has been calculated on the same bases as in the previous year. We refer you to the notes applicable to the consolidated balance sheet in this regard.

We have received certificates from responsible operating and executive officers to the effect that the fixed properties and equipment have been maintained in a proper state of repair and in an efficient operating condition during the year; that insofar as traffic demands would permit, such physical retirements as should have been made during the year; as a result of wear and tear and obsolescence have been made, and that notification of all such retirements has been given to the Accounting department.

#### CONSOLIDATED BALANCE SHEET

##### *Current Assets and Liabilities*

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information, but such accounts have not been verified by direct communication with the individual debtors and creditors.