

has been continued in 1957. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force, nor for extraordinary obsolescence resulting from the introduction of more efficient equipment. In recognition of the obsolescence now occurring with steam locomotives, supplementary depreciation amounting to \$7,500,000 has been charged to operating expenses this year to provide in part for the deficiency in the depreciation reserves which will arise from the early retirement of steam locomotives and their replacement by diesel power.

In our report for the previous year, dated March 5, 1957, we referred to the anticipated deficiency in accumulated depreciation and we expressed the opinion that consideration should be given to providing out of income for the deficiency with respect to steam locomotives. We also noted that the railway's officers had been examining this situation with the object of devising remedial action which would be consistent with good accounting practice, acceptable to the Board of Transport Commissioners and compatible with the governing statutes. In our opinion the action taken by the Railway conforms with the foregoing requirements. We have been informed that further amounts will be provided in future years, the amount in each year being determined after considering, among other things, the influence of the dieselization programme which is related to the obsolescence of steam locomotives.

Other Assets and Deferred Charges

Included under the heading "Other investments" are deferred amounts receivable with respect to the disposal of certain properties, Government of Canada and System bonds valued at cost, and unlisted securities held primarily for purposes of traffic benefit valued at or below cost.

"Other assets" consist mainly of deferred receivables under agreement.

"Deferred charges" include the unamortized cost of opening ballast pits which will be written off on the basis of yardage used; the estimated salvage value of non-perishable material allotted temporarily to construction projects; miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Other Liabilities and Deferred Credits

The principal items included under the above heading are the outstanding capital value of the workmen's compensation awards by the Provinces of Ontario and Quebec; percentages retained from contractors pending completion of work in progress; deferred payments of principal and interest under agreement; estimated liability for overcharge claims; estimated portion of prepaid revenues on freight in transit; liability to former members of Grand Trunk Railway Insurance and Provident Society, and miscellaneous items not otherwise provided for or which cannot be disposed of until additional information is received.

Long Term Debt

System securities of a par value of \$73.3 million held by the public were repaid during the year. Additional funds of \$270.3 million were received from the Government of Canada as temporary loans to finance public debt repayments, capital expenditures and additional advances to Trans-Canada Air Lines.

Subsequent to December 31, 1957, the Railway has sold to the public, through the Bank of Canada, \$300 million twenty-three year 4 per cent bonds, the proceeds of which have been applied to the repayment of temporary loans received from the Government of Canada.