

No depreciation has been provided on the Vickers Viscount aircraft received late in the year, as it has not yet been put into service.

We have received certificates from a responsible officer to the effect that all flight equipment and ground facilities have been maintained in a proper state of repair and in an efficient operating condition during the year, that 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.

Non-Operating Income—Net

This account is principally comprised of interest on deposits with the Canadian National Railways and discounts earned on purchases.

Interest Expense

Interest Expense covers interest on the Canadian National Railway Company's investment in the long term debenture, together with interest on notes payable to the railways.

BALANCE SHEET

Current Assets

To meet delivery payments on new aircraft, the Air Lines withdrew during the year the surplus funds of \$11,000,000 which were on deposit with the Canadian National Railways. Interest at the rate of 3 per cent per annum had been paid to the Air Lines on these deposits.

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.

No physical inventory of material and supplies was taken by the Air Lines during the year. The inventories at 31st December, 1954, as represented by the ledger balances, are carried on the basis of latest invoice price of new materials and estimated utility or sales value for usable second-hand, obsolete and scrap material, and are supported by perpetual inventory records and periodic internal audit tests.

Insurance Fund

The Insurance Fund increased during the year by \$218,000, and at the year end amounts to \$6,000,000, consisting of securities of the Government of Canada, Canadian National Railways (Guaranteed by the Government of Canada), and securities issued or guaranteed by Provincial Governments, together with cash and sundry current assets. The year end market value of these securities was slightly in excess of cost.

Capital Assets

Property and equipment is carried on the basis of cost less accrued depreciation. Major capital expenditures during the year comprised the final payments on eight Super Constellations and one Vickers Viscount aircraft and associated spare parts, the final payment on the new aircraft hangar at Malton and payments on the stores building and engine test house at Winnipeg. Proper deductions have been made to record the loss of the North Star and Constellation aircraft.

Insurance Reserve

The portion of the loss arising from aircraft accidents during the year, insured through the Air Lines' Insurance Fund, has been charged against Insurance Reserve. To off-set the impairment thereby created, an appropriation of \$2,000,000 has been made from Surplus.