

Material and Supplies

A physical inventory of material and supplies was taken by system personnel as at September 30, 1957, and the inventory records have been adjusted for overages and shortages disclosed by this count. Material and supplies at December 31, 1957 exceeded that of December 31, 1956 by approximately \$8.8 million. In addition to general price increases, the major factors accounting for this increase were:

Stores department increase.....\$ 2.4 million

The normal issues of stores items to the shops were severely curtailed during the latter part of the year as a result of a decline in activity. However, the stores department was still receiving new materials which had been previously ordered.

Roadway materials, rail and ties increase\$12.3 million

In the latter part of 1957 the Railway received materials with respect to 1958 requirements which customarily would have arrived at a later date.

Fuel stocks decrease(\$7.3 million)

Coal supplies have decreased by reason of the Railway's dieselization programme and the lead time on purchasing fuel oil is considerably less than that for coal stocks.

Insurance Fund

The investments of the fund comprise Government bonds and similar securities. Based on market quotations at December 31, 1957, the value of these securities was less than their cost by approximately \$1.4 million or 10 per cent. However, no loss will be sustained unless it is necessary to sell the securities prior to maturity.

Investments in Affiliated Companies not Consolidated

These investments are represented by capital stocks, bonds and advances to companies affiliated with but not forming part of the National System. Except for Trans-Canada Air Lines, they do not represent voting control and accordingly the companies are not treated as units of the System. Such investments have been made in association with other railways primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, at par which is less than the special valuations approved by the Interstate Commerce Commission.

We have carried out an audit of Trans-Canada Air Lines upon which we have reported separately. The amounts of the other companies have in the majority of instances been audited by joint committees composed of system accountants.

Property Investment

Additions to properties and equipment during the year, acquired in accordance with the approved Capital Budget, amounted to \$252.3 million. The property accounts of the Buffalo and Lake Huron Railway Company, were brought into the consolidated property accounts at December 31, 1957 accounting for an additional \$3.1 million increase in the property account.

Note 1 of the notes to financial statements deals with Property Investment and states, in part, as follows:

Depreciation on Canadian Lines: Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956