

- Line No. 5.—Line 5 after the above adjustments have been made, would produce the net income deficit as per the accounts. The expenses in the period were charged with the creation of an insurance reserve amounting to \$9,590,148, which reserve forms a quick asset of the Company and is therefore available in reduction of the income deficit. Further it might be pointed out that the net income deficit does not represent the cash deficit.
- Line No. 6.—No comment.
- Line No. 7.—The figure for 1935 is not in accordance with the accounts being overstated by \$415,367. The total for the 13 years is incorrect by the same amount.
- Line No. 8.—The figure for the year 1935 is understated in the amount of \$30,789.
- Line No. 9.—The figure for 1935 is understated in the amount of \$415,367 and the total for the 13 years is incorrect by a like amount.
- Line No. 10.—No comment.
- Line No. 11.—No comment.
- Line No. 12.—No comment.
- Line No. 13.—No comment.
- Line No. 14.—No comment.
- Line No. 15.—The figure for the year 1935 is understated in the amount of \$30,789.
- Line No. 16.—No comment.
- Line No. 17.—An arithmetical operation and requires no comment other than as contained in Item 15.
- Line No. 18.—Item 18 is an arithmetical operation and is subject to the reservations made in Items 1, 2, 4, 7, 8, 9 and 15.

As indicated previously, most of these corrections have arisen from the fact that the information has not been compiled upon the same uniform basis throughout. Attention is also directed to the remarks on Line 5, namely that income deficits include the cash insurance reserve in the amount of \$9,590,148. It might be pointed out that the addition of capital and interest charges in excess of revenue, producing one grand total, gives an arithmetical total, the significance of which cannot be judged unless accompanied by a careful study of the manner in which the capital expenditures were made. The amount by which interest charges exceeded revenue, using the term "revenue" in the sense of resources, is related entirely to the past. The effect of capital expenditures on the other hand is related to present and future operations, because money expended prudently upon improvements to the property increases the resources of the property by a greater amount than the interest and depreciation charges upon the additional capital. A few of the more important improvements through capital expenditures during the period are as follows:—

	Net Capital Expenditure
Improvement in track structure and roadway.. . .	\$77,550,000
Freight terminals, yards and sidings.. . . . .	20,836,000
Modern rolling stock purchased.. . . . .	93,017,000
Modernizing existing rolling stock.. . . . .	19,163,000
Modernizing shops, enginehouses and machinery.. . .	9,453,000
Modernizing telegraph facilities including installa- tion of carrier current system.. . . . .	8,530,000