

The table of Treasury Resources on page 16 is misleading. At first glance one might think that the Company had an absolute surplus of assets which would realize at least \$7,979,680.27. This is not the case. \$3,948,846.67 of the amount is a special fund which can only be used for certain specified purposes and is valueless for use in paying any of the Company's liabilities. It can only be used in paying for future betterments or enlargements, all expenditures of that nature to July 1, 1897, having already been paid out of this fund. This reduces the total to \$4,030,833.60, which should be still further reduced by the value of "Material, fuel, and stores", \$1,317,735.91. These are not a cash asset and are not convertible into cash. Fully 50% of the amount would be used for operating the road during the month of July. They are not even admitted as "Current Assets" in the Interstate Commerce Commission's form of report. This would leave the surplus \$2,713,097.69. To arrive at this surplus it has been necessary to include what are called "Treasury Securities", \$3,701,566.70. Upon reference to page 17 it will be found that this amount is made up as follows:-

Stock and Bonds of Northern Pacific Ry.Co.....	\$2,163,283.20
Bonds that can be disposed of without injury to the System.....	113,000.00
Preferred Stock of Oregon Ry.& Nav.Co. that cannot be disposed of under contract with Great Northern Ry.Co., and which if disposed of would lose the control of the O.R.& N.Co.....	1,082,923.50
Sundry stocks and bonds without value to any one but the Northern Pacific Ry.Co., or which cannot be disposed of without destroying the integrity of that System.....	<u>342,360.00</u>
TOTAL.....	<u>\$3,701,566.70</u>

Deducting from the apparent surplus above given, of. \$2,713,097.69 the items that cannot be disposed of,

\$1,082,923.50	
<u>342,360.00</u>	<u>1,425,283.50</u>

gives as the true surplus.....\$1,287,814.19

and in order to obtain this it would be necessary to dispose of the Company's entire holdings of its own Stocks and Bonds.

This amount of \$3,701,566.70 should not really be taken up as an

asset. It is an Investment on Capital Account, but had it been so shown the result would not have looked well, as it would have been:-

Current Assets.....		\$3,495,516.20
Current Liabilities:		
Pay Rolls and Vouchers.....	\$1,769,789.06	
Matured Interest.....	<u>1,258,478.00</u>	<u>3,028,267.06</u>

Balance of Cash Assets.....\$ 467,249.14

Against which would have appeared:-

Accrued Taxes, not due.....	\$ 299,739.79
Accrued Bond Interest, not due...	447,505.00
Contingent liabilities of old Co..	<u>603,753.03</u>
A total of.....	\$1,350,997.82

To say nothing of the book-keeping account of Equipment Renewal Fund of..... 104,720.33

Pages 28 - 29.

Spokane Improvements. Total cost.....\$ 185,231.30

Report states,"The construction of this plant was well advanced prior to September 1, 1896,"

On page 42 it is stated that there was charged to the special fund for Betterments and Enlargements, on account of this work..... 108,918.60

Balance charged to some other account.....\$ 76,312.70

This balance is about the amount of insurance collected on Sprague Shops, burned in 1895, as currently reported. It is possible that some of the \$108,918.60 represents the cost of the "important additions to the freight yards at Spokane" referred to in the report. But it would seem that the money spent by the Receivers on the Spokane Shop plant was not charged out as it should have been, but carried in a special or open account and turned over to the new Company as an asset, thus enabling the new Company to draw out of the "Betterment and Enlargement Fund" money to pay for work done by the Receivers.

This has probably not affected the total cost of property, as the cutting down of the assets turned over to the new Company by the Re-

ceivers would have increased "Northern Pacific Estate" correspondingly, but it has drawn from a special trust fund and turned over to the Company for current uses an amount which it is doubtful if they are entitled to under the conditions of the trust. How much more of the \$1,051,153.33 shown on page 42 was really expended by the Receivers, if any, is a question. My conclusions may be all wrong, but the above is the way it appears from the report. An examination of the books might show differently.

Page 33 - How did a new Company make bad accounts and losses to amount of \$12,228.79 in ten months? If worthless accounts turned over by Receivers, should have been charged against "Northern Pacific Estate." If made during ten months, matters could not have been carefully watched. If losses through operation of Hotels, &c., should be so shown.

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N.P.Ry.Co. G.N.Ry.Line.

Note - As the N.P.Ry. figures given are for but ten months, averages only are compared.

Average earnings per passenger per mile....	2.8¢	2.591¢
Pass.train earnings per train mile.....	1.37	1.0342
Average earnings per ton per mile.....	1.14¢	.956¢
Freight train earnings per train mile.....	2.104	2.73
Gross earnings per mile of road.....	\$4,105.50	\$4,402.52
Operating Expenses per mile of road.....	\$2,515.71	\$2,424.11
Net earnings per mile of road.....	\$1,589.79	\$1,978.41
Percentage of Operating Expenses to Gross Earnings (Taxes not included).....	61.28%	55.06%
Average number of freight cars in trains:		
Loaded.....	18.18	19.81
Empty.....	6.60	6.19
Total.....	24.78	26.00
Average load per loaded car:		
Including Company freight.....	12.67	16.374
Revenue freight only.....	10.05	14.188
Average load per train:		
Including Company freight.....	230.33	324.402
Revenue freight only.....	182.64	281.097

Note - I think that the comparisons of tons per train and cars per train above given are unfair to the Great Northern, as the N.P. did, if they do not now, leave out of their train mileage items the Great Northern included. This would reduce the divisor and so increase the quotient.

When making a comparison of cost per train mile the comparison would be unfair for the Northern Pacific.

Cost per train mile run.....	\$ 1.1634	\$ 1.17
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Number of freight train miles run by N.P. Railway.....	5,269,646
Number that would have been required had they hauled the same tonnage as G.N. Railway trains average.....	3,424,040

Excess Freight Train Mileage.....	1,845,606
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This excess train mileage at 44.7¢, the cost to the Great Northern Railway for Engine and Train Service only (not including any repairs to Locomotives and Cars) during the year, amounts to \$824,985.88.

Had the Great Northern received the same average revenue per ton per mile as the Northern Pacific, its earnings would have been increased \$3,049,291.65.

Page 42 -

<u>Interlocking Plants cost.....</u>	\$ 23,516.70
<u>Not mentioned in President's Report at all.</u>	

<u>Walbridge Line cost.....</u>	27,775.90
Statement on page 45 shows it to be 3.4 miles long, or an average cost of \$8,169.38 per mile.	

<u>Changes of grade and alignment cost.....</u>	28,279.77
The propriety of charging this to Betterments is questionable. In most cases it is a repair item, one line taking place of another without increase in track or yardage in grade.	

<u>New branches and surveys cost.....</u>	8,912.83
The report shows no increase in mileage during the year. It is therefore fair to assume that this charge represents cost of surveys made for, and possibly some little work done on, lines not com- pleted or built. If so, there seems to be no reason why it should be paid for out of the fund. The item should be carried in an open account un- til line built, when entire cost could be paid as provided in Mortgage; or if line abandoned, ex- pense should be charged against income.	

Page 53 - The report of the Land Department is absolutely worthless, and conveys no idea as to what has been done.

Collections were made during the ten months on old contracts of but.....	23,441.31
New sales were made, to the amount of.....	\$ 418,024.73

(See page 15)

How much cash was collected on this account is not given, but say one sixth.....	69,670.79
The Ry.Co.had to advance to the Land Department (P.54) ..	<u>157,850.58</u>

From which it might be inferred that it cost the Co.....\$ 250,962.68 approximately, to run the Land Department for ten months.

I understand from talking with the Comptroller of the Northern Pacific Railway that the advance of \$157,850.58 was largely, if not fully, made by the Receivers and the old Company, and transferred by them to the new Company as an asset. The above has been mentioned to show what wrong conclusions could, and naturally, be drawn from the report owing to the manner in which prepared.

The Land Department had current liabilities of \$61,935.38. Its assets are such as to lead one to think they could not be realized on at once, and that the Railway Company would be called upon for further advances immediately.

It will be noticed that the amount of contracts for land sold since September 1, 1896, has not been taken up in the report in any manner. Why should contracts dated after September 1, 1896, be treated differently from those dated before that time? Why should these contracts have been taken up at all? How will any of these contracts that may be canceled be treated hereafter? It would have been much better if the entire Land Department had been left out of the Balance Sheet, and a Land Department report made, similar to the one given in Great Northern Railway reports.

Pages 35 - 36. General Balance Sheet.

On September 1, 1896, the new Company issued securities (see page 13) for.....	\$284,816,500.00
Between that date and June 30, 1897, it has issued.....	996,000.00
Additional in Prior Lien Bonds to take place of First Mortgage Bonds.....	\$750,000.00
30% bonus on same.....	225,000.00
Missouri Division Bonds.....	21,000.00

Bonds of the old Company and of the St Paul & N.P.

R.R.Co. have been assumed to the amount of..... 25,570,000.00

Making the total capital created and assumed and actually outstanding..... \$311,382,500.00

The Report shows Firsts now outstanding to the amount of..... \$15,392,000.00

The Company offers to issue Prior Lien Bonds in exchange for these until November 1, 1897, at 130.

This 30% bonus amounts to \$4,617,600., and it will be noticed that there has been taken up in Capital Account on this account..... 4,617,500.00

although the exchange has not yet been effected or the Bonds actually issued.

This makes the total capitalization of..... \$316,000,000.00

The explanation of increase of \$996,000. in Prior Lien Bonds between September 1, 1896, and June 30, 1897, is based upon a comparison of the Bonds outstanding on the latter date, as shown by General Balance Sheet, with a table given on page 12 of an "Official Statement", issued December 1, 1896.

The counterbalancing items on the other side of the Balance Sheet I assume to be:-

Northern Pacific Estate.....	\$293,947,706.35
Equipment as inventoried and valued.....	12,692,180.00
Sinking Funds deposited with Trustees by the Receivers or old Company, and not applied.....	195,103.15
Betterment and Enlargement Fund.....	5,000,000.00
Treasury Securities.....	\$3,701,566.70
Less those actually paid for by the new Company, as explained below.....	1,107,023.50
Stock of material, fuel, and supplies, say.....	2,594,543.20
Land Department assets.....	1,000,000.00
	624,005.80

, TOTAL, say..... \$316,053,538.50

The amount deducted from Treasury Securities is made up as follows:-

Oregon Ry.& Nav.Co. Preferred Stock.....\$ 1,082,923.50
The new Company has purchased some stock of the
Yellowstone Park Ass'n. during the year. How
much is not shown, but they show on page 17
that they now own.....\$429,000. at 20 +
Report to R.R.& Warehouse Com'n.
of Minnesota for last year
shows holdings of..... 308,800.

Have therefore assumed pchse. of \$120,200. at 20 +, or 24,100.00

TOTAL.....\$ 1,107,023.50

"Northern Pacific Estate" is simply the balancing item, or the difference between the capitalization on one side and the amounts put into specific accounts (like Equipment, Material, &c.) on the other.

As soon as it is seen what was obtained for the securities issued and assumed by the new Company, the incorrectness of placing the different items where they appear on the published Balance Sheet will be apparent and will confirm the objections hereinbefore made to table on page 16.

The Debit side of the Balance Sheet should have read, in my ~~view~~ opinion:-

Northern Pacific Estate.....	\$290,615,485.89		\$303,539,694.90
Equipment.....	<u>12,924,209.01</u>		3,948,846.67
Betterment and Enlargement Fund.....			2,594,543.20
Securities acquired through re-organization, say,.....			1,107,023.50
Investments, say,.....			195,103.15
Trustees of Sinking Funds.....			<u>1,317,735.91</u>
Stock of Material, Fuel, and Supplies.....			

Total invested or Capital Assets.....\$312,702,947.33

Current Assets:			
Cash.....	\$	2,000,681.88	
Accounts Receivable.....		1,322,207.92	
Bills Receivable.....		172,626.40	
Advanced to Land Department..		<u>157,850.58</u>	3,653,366.78

TOTAL.....\$316,356,314.11

The Credit side should be:-

Capital Liabilities.....		\$311,382,500.00
Current Liabilities:		
Pay Rolls, Vouchers, &c.,.....	\$ 1,769,789.06	
Matured Interest.....	1,258,478.00	
Deferred Liabilities:		3,028,267.06
Taxes accrued, not due.....	\$ 299,739.79	
Interest accrued, not due.....	447,505.00	
Contingent Liabilities.....		747,244.79
Reserve or Renewal Fund.....		603,753.03
Profit and Loss.....		104,720.33
		489,828.90
TOTAL.....	\$316,356,314.11	

It will be noticed that in making up the above, the Land Department account and the bonus on unexchanged First Mortgage Bonds have been dropped.

The propriety of some of the entries that have been made to bring out the "Northern Pacific Estate" account as shown on the published Balance Sheet may be questioned. On page 13 will be found a list of securities turned over to the Company by the Re-organization Managers, as not being required to complete the re-organization. The plan of re-organization provides for the unneeded Preferred and Common Stocks to be turned over to the new Company as a "Treasury Asset", but does not provide that any surplus of bonds shall be so turned over. One would infer that any surplus of bonds would be added to the Betterment and Enlargement Fund, (see plan) or not issued. The new Company takes advantage of the Mortgages, which read that Bonds to a certain amount shall be issued and turned over to J.P.M. & Co., who do not have to account for them. Morgan & Co., while not required to do so, turn these surplus securities back to the Company, and the Company, instead of canceling them and so reducing the capitalization or putting them into the Betterment Fund, which would prevent their being disposed of except under certain restrictions, places a low value on them and takes them up as "Treasury Securities." It will be noticed that the smaller the amount charged to specific accounts, the larger the balancing account, "Northern Pacific Estate", will be. By putting a low value on these securities, the Company will be able to make a profit when it sells them,

and this profit is practically charged up to cost of the property.

The taking into cost of the property the estimated cost of refunding the First Mortgage Bonds, \$4,617,500., in advance of the actual exchanges being made, is wrong. Holders of Firstswere given, by the re-organization plan, the right to exchange them for Prior Lien Bonds at 135 up to a certain date. The option to exchange at 130 only holds until November 1, 1897. After that date the bonus may be reduced, say to 125, and from time to time may be still further reduced. Having already charged up the bonus at 30%, the Railway Company will profit to the extent of the difference between 30 and the amount that may be allowed. This profit will be obtained at the expense of the property, or in other words will be charged to the property. The proper way would be to take the bonus up only as exchanges were actually made, and to charge to property only the actual bonus allowed. If the entire amount of \$4,617,500. should not be required, the surplus could either not be issued or turned into the Betterment Fund as might be proper under the re-organization plan and Mortgages.

Taking up some other accounts shown by the Balance Sheet:

"Accounts Receivable.....\$1,322,207.92" is quite an amount for a single item. More detail should be given. As the Balance Sheet is signed by Expert Accountants, a large item of this kind will go with less criticism than if not so signed, as the public generally think the Accountants have verified the details making up this amount.

"Liquidation Fund.....\$603,753.03" is practically the net liabilities, after taking out certain assets like Material, of the Receivers taken over or assumed by the new Company. There have been some peculiar entries made in this account and in "Northern Pacific Estate", on account of the retirement of Pend d'Oreille Division Bonds, I imagine from some remarks dropped by the Comptroller of the Northern Pacific Railway.

I do not mean that they are wrong, but only unusual.

What has been given above is from an Accountant's standpoint, and are about the objections that would be raised if the Report was being criticized for a financial paper. Possibly the Railway Company's Accountant could answer most of them.