

REPORT
of the
CHICAGO
NORTH SHORE
AND
MILWAUKEE RAILROAD
COMPANY

(A. A. SPRAGUE, *Receiver*)



FOR THE FISCAL YEAR ENDED
DECEMBER 31, 1938

CHICAGO NORTH SHORE AND MILWAUKEE
RAILROAD COMPANY

(A. A. SPRAGUE, *Receiver*)

BOARD OF DIRECTORS

BERNARD J. FALLON	CHARLES C. SHEDD
ADDISON L. GARDNER	JOHN R. THOMPSON, JR.
JOSEPH E. OTIS	CHARLES E. THOMPSON
EDGAR L. WOOD	

OFFICERS

EDGAR L. WOOD, *President*
CHARLES E. THOMPSON, *Vice-President*
WILLIAM V. GRIFFIN, *Secretary and Treasurer*
LINCOLN C. TORREY,
Assistant Secretary and Assistant Treasurer

TO THE STOCKHOLDERS
OF THE
CHICAGO NORTH SHORE AND MILWAUKEE
RAILROAD COMPANY

Herewith is submitted the annual report of the Chicago North Shore and Milwaukee Railroad Company for the year ended December 31, 1938. A. A. Sprague, as Receiver, continued his administration of the business and assets of the Company throughout the year. The facts and figures contained in this report were obtained from the Receiver.

The Year's Business:

Due to labor difficulties the railroad was unable to operate between August 16, 1938, and October 6, 1938, a period of 51 days. As a result, operations for the year are not comparable with the previous year.

Total revenue from railway operations and other income for the year amounted to \$3,428,512.36. Operating expenses, taxes and other deductions for the year were \$3,647,388.08. Operations for the year, after including taxes, Receiver's interest and other charges and other non-operating income, showed a deficit of \$218,875.72.

Operating expenses for the year included retirement reserves in the amount of \$219,940.26.

Total interurban passenger revenue for the periods of actual operation during the year was \$2,011,570.91. The number of interurban passengers carried was 6,621,024. Freight and express revenue amounted to \$655,146.27.

Additions and Betterments:

Installation of the automatic block signal system on the Skokie Valley Division between Dodge Avenue, Evanston and North Chicago Junction, Illinois, was completed during the year at a total cost of \$157,644.08. Of this amount, \$66,939 was expended during 1937 and \$90,705 in 1938.

During the latter part of 1938 arrangements were consummated to bring about a separation of the grades of streets and highways in the Village of Winnetka from the grades of the tracks of the Chicago and North Western Railway Company and of the Chicago North Shore and Milwaukee Railroad Company. The total cost of such grade separation is estimated not to exceed \$3,450,000. The project will be constructed and financed under special assessment proceedings instituted by the Village of Winnetka in the Superior Court of Cook County. As an aid to the financing of the project the Federal Emergency Administration of Public Works allotted as a grant to the project the approximate sum of \$1,552,909 or about 45% of the estimated cost and in addition thereto made a loan allotment in the approximate amount of \$898,000 to be paid by bonds issued to anticipate the collection of special assessments in the amount of \$502,600 against the property of the Chicago and North Western Railway Company and in the amount of \$394,900 against the property of the Chicago North Shore and Milwaukee Railroad Company. \$999,591 of the estimated cost of the project was assessed against the Village of Winnetka as a public benefit. The special assessments are payable in annual installments over a period of 30 years with interest at 4%. It is estimated that the annual savings to the Company through the elimination of existing cost of crossing protection will at least equal the annual payments to be made by the Company for said grade separation project; and other pending crossing protection litigation which might have required immediate cash outlay of more than \$100,000 by the Receiver will be nullified by such grade separation.

Financial Operations:

Receiver's Certificates in the principal amount of \$20,565 fell due during the year and were paid at maturity. Receiver's Certificates in the principal amount of \$109,759 were issued during the

year. Of this amount, \$48,990 dated February 1, 1938, bearing interest at the rate of 4% per annum and maturing serially in six semi-annual installments, were issued as part payment in connection with the block signal installation hereinabove referred to, and \$60,769 with various dates of issue, bearing interest at the rate of 3% per annum, maturing one year from date, were issued to employes of the Company in accordance with their subscriptions for the purchase of Receiver's Certificates to the extent of, but not to exceed, 20% of wages earned during the period from October 1, 1938 to December 5, 1938, inclusive, and in amounts not to exceed 15% of wages earned between December 6, 1938 to December 31, 1938, inclusive. The subscription by employes for purchase of Receiver's Certificates was the result of the agreement of such employes to accept in cash for wages an amount less than called for by wage scales to the extent represented by their subscriptions.

Principal payments of \$13,500 were made on real estate mortgages.

The Court, upon recommendation of the Receiver, authorized rental payments for use by the Receiver of equipment covered by equipment trust certificates aggregating approximately 2 percent on the principal amount on the outstanding equipment trust certificates.

Maintenance of Property:

The property of the Company, including rolling stock, has been maintained in a safe and efficient condition throughout the year. All renewals made were charged to operating expenses.

Certificate of Audit:

On the following pages will be found the Certificate of Audit of Arthur Young and Company, Certified Public Accountants, with appended Consolidated Corporate and Receiver's Income Account, Statement of Deficit Account and Balance Sheet.

EDGAR L. WOOD,
President.

ARTHUR YOUNG & COMPANY

CABLE ADDRESS "ARTHYOUNG"

ACCOUNTANTS AND AUDITORS

NEW YORK
CHICAGO
PITTSBURGH
KANSAS CITY
MILWAUKEE
LOS ANGELES
DALLAS
TULSA
LONDON, ENGLAND
PARIS, FRANCE

1 NORTH LA SALLE STREET

CHICAGO

February 13, 1939.

Mr. A. A. Sprague,
Receiver, Chicago North Shore and Milwaukee Railroad Company,
Chicago.

Dear Sir,

We have made an examination of the consolidated balance sheet of Chicago North Shore and Milwaukee Railroad Company, in receivership, and its subsidiaries as at December 31, 1938 and of the consolidated statements of income and deficit for the year 1938. In connection therewith, we examined or tested accounting records of the companies and the Receiver and other supporting evidence and obtained information and explanations from officers and employes of the Receiver; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

Substations and facilities having a book value of \$1,719,061.84 are under lease for the period from December 31, 1928 to December 31, 1958 at an annual rental of \$180,656.04. The leasehold indenture involved provides that the leased buildings and facilities, on the expiration of the lease, shall become the property of the lessee, without further or other payments than the rentals provided, but only in so far as the Railroad Company may legally part with the title, having in mind at all times the prior rights of security holders under both present and future mortgages of the railroad. Although the rental received is being taken up as income, no provision is being made to amortize the investment in the leased property, it being the opinion of counsel for the Receiver that there is no obligation to do so under the lease or otherwise.

Provision was made during the year to retirement reserve in the amount of \$221,114.54 as determined by the Receiver, of which \$204,189.26 was applicable to operating equipment, \$15,751 to way and structures and \$1,174.28 to auxiliary equipment. No provision was made to retirement reserve for other property.

General taxes have not been paid in full for the years 1933 to date and certain assessments for the years 1933, 1934 and 1935 are being contested. The balance in the reserve, \$420,620.69, includes provision for these prior years' taxes less payments made on account.

In the opinion of officers of the Receiver the provision made for the current year from operating income is ample to cover the taxes that will ultimately be paid for that year. The net reduction of taxes, applicable to prior years' operations, of \$37,021.27 which was effected during the year is reflected in the income account as a prior years' adjustment.

The reserve for injuries and damages shown on the balance sheet is considered by the management to be adequate to cover settlements of claims not covered by insurance, arising out of accidents prior to December 31, 1938.

Interest has not been accrued on the \$2,500,000 in principal amount of Series "A," 6% Income Debentures, due December 15, 1955. The Trust Indenture relating to this issue provides in effect that no interest is due at any time until it shall have been declared due by the Board of Directors and then only out of earnings as therein prescribed. The indenture further provides that "in any liquidation of the company's affairs and assets, whether voluntary or involuntary, the income debentures then outstanding hereunder, together with all unpaid interest due thereon, shall have priority over all issued and outstanding stock of the company." Counsel for the Receiver advises that there have been no earnings (as prescribed in the indenture) since the issuance of the Debentures which justified the declaration of interest and therefore no interest is due. Counsel also advises that this position has been sustained by the Federal Master in Chancery in the receivership proceedings and that no interest on the Debentures has been allowed as a claim against the company.

We understand that certain operating agreements with Chicago Rapid Transit Company are subject to possible modification, but the status thereof is indefinite and no provision has been made therefor in the attached statements.

Subject to the foregoing paragraphs, it is our opinion, based upon our examination, that the accompanying consolidated balance sheet and related statements of consolidated income and consolidated deficit fairly present, in accordance with accepted principles of accounting consistently maintained during the year, the consolidated position of the companies at December 31, 1938 and the results of their operations for the year ended that date.

ARTHUR YOUNG & COMPANY,
Certified Public Accountants.

CHICAGO NORTH SHORE AND MILWAUKEE RAILROAD COMPANY, IN RECEIVERSHIP

AND SUBSIDIARY COMPANIES

Consolidated Income Account For The Year Ended December 31, 1938

Operating Revenues:		
Passenger and Special Car.....	\$2,228,827.24	
Freight and Express.....	655,146.27	
Miscellaneous.....	338,321.84	
	\$3,222,295.35	
Operating Expenses:		
Way and Structures (including provision to Retirement Reserve of \$15,751.00).....	\$ 349,063.93	
Equipment (including provision to Retirement Reserve of \$204,189.26).....	454,555.09	
Power.....	456,874.06	
Conducting Transportation.....	1,215,602.28	
Traffic and Advertising.....	95,016.49	
Rent of Leased Lines.....	317,011.46	
Rent of Equipment, subject to Equipment Trust Indentures.....	27,079.15	
Rent of Foreign Freight Equipment on per diem and mileage bases.....	28,976.71	
General and Administrative Expenses, including Salaries of Officers and Clerks, Insurance, Legal Expenses, Storehouse Expense, Stationery, Printing and Provision for Injuries and Damages to Persons and Property.....	423,161.22	
	3,367,340.39	
Net Loss, Railway and Motor Coach Operations.....		\$ 145,045.04
Net Auxiliary Operating Revenue.....		9,560.19
Net Loss from Operations.....		\$ 135,484.85
Taxes Assignable to Railway Operations (including Social Security Taxes).....		234,472.34
Operating Loss.....		\$ 369,957.19
Non-Operating Income:		
Rent Received under Lease Contract covering Property, Title in which is to be Relinquished at Expiration of Lease.....	\$ 180,656.04	
Income from Miscellaneous Physical Property.....	9,031.80	
Interest and Dividends.....	1,401.58	
Miscellaneous.....	5,567.40	
	196,656.82	
		\$ 173,900.37
Deduct:		
Rentals.....	\$ 8,155.47	
Interest on Receivers' Certificates.....	2,494.06	
Interest on Real Estate Mortgages, Special Assessments, Etc.....	30,568.42	
Miscellaneous Debits.....	4,357.40	
	45,575.35	
Net Loss Before Adjustments Applicable to Prior Years' Operations and Deductions for Interest and Expense on Obligations not Assumed by Receiver and Loss on Retirement of Corporate Property.....	Forward	\$ 218,875.72

Figures in *italics* denote deficit.

CHICAGO NORTH SHORE AND MILWAUKEE RAILROAD COMPANY, IN RECEIVERSHIP

AND SUBSIDIARY COMPANIES

Consolidated Income Account—Continued For The Year Ended December 31, 1938

	Forward	\$ 218,875.72
Adjustments Applicable to Prior Years' Operations:		
Reduction in Liability for General Taxes due to Excess Provisions in Prior Years.....		37,021.27
Net Loss Before Interest and Expense on Obligations not Assumed by Receiver and Loss on Retirement of Corporate Property.....		<u>\$ 181,854.45</u>
Add:		
Interest and Expense on Obligations not Assumed by Receivers:		
*Interest on Funded Debt and Collateral Loans.....	\$1,037,884.49	
Interest on Equipment Trust Certificates..	\$ 95,400.50	
Less: Interest on Equipment Trust Certificates Charged as Rental of Equipment.....	27,079.15	
		68,321.35
Amortization of Debt Discount and Expense.....		27,961.35
Loss on Retirement of Corporate Property.....		136,863.63
		<u>1,271,030.82</u>
Net Loss for the Year, Before Providing for Amortization of Property Under Lease at the Expiration of which Title is to be Relinquished (See Comments Thereon in Accompanying Report).....		<u><u>\$1,452,885.27</u></u>

*Does not include interest on the Series "A" Income Debentures. (See comments thereon in accompanying report.)

Figures in *italics* denote deficit.

Consolidated Deficit Account For The Year Ended December 31, 1938

Deficit, December 31, 1937.....		\$8,163,638.20
Add:		
Net loss for the year 1938.....		1,452,885.27
Deficit, December 31, 1938.....		<u><u>\$9,616,523.47</u></u>

**CHICAGO NORTH SHORE AND MILWAUKEE
AND SUBSIDIARY
CONSOLIDATED BALANCE**

ASSETS

Investments:

Property at book value at date of receivership, plus additions made by receivers, at cost:	
Road and Equipment (including Assessment of \$394,900 for Winnetka Grade Separation and Accrued Interest thereon to December 31, 1938).....	\$43,625,088.01
Property Leased (Substations and Facilities).....	1,719,061.84

Other Investments:

Sinking Fund, Cash.....	1,174.66	
Deposits in Lieu of Mortgaged Property Sold.....	10,758.50	
Other Property not Used in Operations, at Cost.....	379,820.36	
Contracts, Notes, Accounts, Etc., pertaining to Transactions in Real Estate, at Face Value.....	2,876.41	
Other Investments, at Cost or at Estimated Value at Date of Receivership.....	19,076.60	\$45,757,856.38

Current Assets:

Cash.....	\$ 258,319.31	
Accounts Receivable.....	\$ 156,526.82	
Due from Officers and Employees.....	6,597.81	
	\$ 163,124.63	
Less: Reserve for Doubtful Accounts...	33,797.80	
	129,326.83	
Materials and Supplies, at Book Value.....	220,674.91	608,321.05

Other Assets:

Equipment Renewal Account—Cash in Bank.....	\$ 50,447.31	
Deposits for Payment of Matured Principal and Interest on Funded Debt and Normal Income Tax thereon (Per Contra).....	39,837.32	
Miscellaneous Special Deposits.....	4,000.00	94,284.63

Deferred Charges and Adjusted Accounts:

Unexpired Insurance, Prepaid Rentals, Etc.....	\$ 24,663.98	
Unamortized Debt Discount and Expense.....	444,861.08	
Unpaid Special Assessments on other than Right of Way Property.....	5,363.21	
Miscellaneous Unadjusted Items.....	702.60	475,590.87

Notes: 1. Dividends on preferred 7% cumulative prior lien stock are in arrears since September 30, 1931 in the amount of \$50.75 per share and aggregate \$4,054,620.50 at December 31, 1938.

2. *Interest has not been accrued on the Series "A" income debentures (see comments thereon in the accompanying report).

\$46,936,052.93

**RAILROAD COMPANY (IN RECEIVERSHIP)
COMPANIES**

SHEET, DECEMBER 31, 1938

Capital Stock:		LIABILITIES	
Common Stock, Par Value \$100 per share—			
Authorized and issued, 50,000 shares...	\$ 5,000,000.00		
Less: In Treasury, 43 shares.....	4,300.00	\$ 4,995,700.00	
Preferred stock, 6% Non-Cumulative, par value, \$100 per share—			
Authorized—76,842 shares.	\$7,684,200.00		
Issued—76,254 shares.....	\$ 7,625,400.00		
Less: In Treasury, 43 shares.....	4,300.00	7,621,100.00	
Preferred Stock, 7% Cumulative Prior Lien, par Value \$100 per Share—			
Authorized—100,000 shares	\$10,000,000.00		
Issued—80,000 shares.....	\$ 8,000,000.00		
Less: In Treasury, 106 shares.....	10,600.00	7,989,400.00	\$20,606,200.00
Receiver's Certificates of Indebtedness, 2% and 4%:			
Due in 1940.....	\$ 28,730.00		
Due in 1941.....	8,165.00		36,895.00
Funded Debt (See Statement Attached):			
Secured by Liens on Property—			
Past Due.....	\$ 4,852,100.00		
Due in 1939.....	274,612.67		
Due in 1940.....	286,900.00		
Due subsequent to 1940.....	10,661,350.00	\$16,074,962.67	
Unsecured—*Income Debentures and Gold Notes—			
Past Due.....	\$ 1,665,613.41		
Due December 31, 1955.....	2,500,000.00	4,165,613.41	20,240,576.08
Collateral Loans—Past Due (Secured by First and Refunding Mortgage Gold Bonds of the Company, Par Value \$3,388,000):			
Reconstruction Finance Corporation.....	\$ 1,150,000.00		
Others.....	1,145,980.58		2,295,980.58
Accounts Payable at Date of Receivership and Accrued Interest on Funded Debt and Collateral Loans (Corporate):			
Accounts Payable.....	\$ 1,684,752.21		
Accrued Interest on Funded Debt.....	6,130,014.12		
Accrued Interest on Collateral Loans.....	902,634.50		8,717,400.83
Current Liabilities:			
Special Assessments, due January 2, 1940 and Prior (Including Winnetka Grade Separation Assessment—\$25,300).....	\$ 68,877.42		
Accounts Payable.....	365,352.20		
Accrued Wages.....	53,878.89		
Accrued Taxes.....	420,620.69		
Accrued Interest.....	25,456.05		
Accrued Rental of Rolling Stock.....	17,919.40		
Receiver's Certificates of Indebtedness, 2%, 3% and 4%, due January 2, 1940 and Prior.....	89,499.00		1,041,603.65
Matured Principal and Interest on Funded Debt and Normal Income Tax Thereon for which Funds are on Deposit (Per Contra).....			39,837.32
Deferred Liabilities and Unadjusted Accounts:			
Special Assessments due Subsequent to January 2, 1940 (Including Winnetka Grade Separation Assessment—\$369,600).....	\$ 374,761.63		
Accounts Payable Due Subsequent to January 1, 1940.....	20,669.12		
Deposits by Protective Committee of Old Predecessor Company, Less Securities on Hand (\$11,600) Deposited by Committee.....	4,800.07		
Deposits for Industrial Sidings.....	2,160.15		
Miscellaneous Unadjusted Items.....	15,544.04		417,935.01
Reserves:			
Retirement.....	\$ 3,002,186.38		
Amortization of Franchises.....	43,251.19		
Injuries and Damages.....	105,980.24		
Plate Glass Insurance.....	4,730.12		3,156,147.93
Deficit.....			<i>9,616,523.47</i>
			\$46,936,052.93

Figures in *italics* denote deficit.

CHICAGO NORTH SHORE AND MILWAUKEE RAILROAD COMPANY (IN RECEIVERSHIP)
AND SUBSIDIARY COMPANIES

FUNDED DEBT. DECEMBER 31, 1938

	Maturity		
	1940	1939	Subsequent to 1940
	In Hands of Public	Past Due	Date
Secured by Liens on Property: First Mortgage Gold Bonds— Series "A", 5%—Issued.....\$5,967,800.00 <i>Less:</i> Pledged as Collateral to Chicago North Shore and Milwaukee Railroad Company First and Refunding Mortgage Gold Bonds..... 2,080,000.00			
Series "B", 6%—Issued.....\$3,420,000.00 <i>Less:</i> Pledged as Collateral to Chicago North Shore and Milwaukee Railroad Company First and Refunding Mortgage Gold Bonds..... 3,420,000.00	\$ 3,887,800.00	\$3,887,800.00	July 1, 1936
First and Refunding Mortgage Gold Bonds— Series "A", 6%—Issued.....\$8,502,100.00 <i>Less:</i> Pledged as Collateral to Loans. 555,800.00			
Series "B", 5½%—Issued.....\$2,236,700.00 <i>Less:</i> Pledged as Collateral to Loans. 110,200.00	7,946,300.00		Jan. 1, 1955
Series "C", 5½%—Issued.....\$2,722,000.00 <i>Less:</i> Pledged as Collateral to Loans. 2,722,000.00	2,126,500.00		Apr. 1, 1956
<i>None</i>	<i>None</i>		Apr 1, 1956

Equipment Trust Certificates—									
Series "D-1", 6%.....	\$ 46,200.00	\$ 46,200.00	\$ 72,000.00	\$ 72,000.00	\$ 140,000.00			Apr. 1, 1933	
Series "E-1", 5½%.....	188,000.00	188,000.00	373,000.00	373,000.00	8,400.00	8,400.00		Jan. 1, 1934-36	
Series "F-1", 5½%.....	657,000.00	373,000.00	44,100.00	8,400.00	70,000.00	70,000.00		Dec. 1, 1933-42	
Series "F-2", 5½%.....	77,700.00	278,000.00	35,000.00	124,212.67	136,500.00	151,750.00		Dec. 1, 1933-42	
Series "G", 6%.....	698,000.00	35,000.00						Dec. 1, 1935-44	
Real Estate Mortgages (Various Interest Rates).....	447,462.67								
Total Funded Debt, Secured by Liens on Property.....	\$16,074,962.67	\$4,852,100.00	\$ 274,612.67	\$ 286,900.00	\$10,661,350.00				
Unsecured:									
Income Debentures, Series "A", 6%.....	\$ 2,500,000.00							Dec. 31, 1955	
Three Year Gold Notes, 7%—Issued.....	\$ 1,532,000.00	\$1,532,000.00						Apr. 1, 1935	
Less, Held in Treasury.....	75,000.00	75,000.00						Apr. 1, 1932	
Three Year Gold Notes, 6%.....	58,613.41	58,613.41						July 1, 1928	
Five Year Gold Notes, Non-Interest Bearing.....	\$ 4,165,613.41	\$1,665,613.41							
Total Funded Debt Unsecured.....	\$20,240,576.08	\$6,517,713.41	\$ 274,612.67	\$ 286,900.00	\$13,161,350.00				