

pended balance of the proceeds from the sale of bonds, and by deposits with the Government of special funds.

The published Balance Sheet at October 31, 1916, after including Crown Lands at a value of \$5 per acre, and placing a value of \$500,000 on the buildings, shows an apparent surplus of Assets over Liabilities of \$29,342,768.39. The corresponding figure at October 31, 1915, is \$29,717,922.74, so that during the year 1916 there is an apparent decrease in surplus of \$375,154.35. This is to a large extent explained by the fact that during the year the Province expended a total of \$347,103.58 under an appropriation for "Permanent Bridges" which is not shown as an Asset on the Balance Sheet, although the Bonds issued to provide funds for this improvement are included as a liability. The omission to include such expenditures on the Balance Sheet has of course the effect of decreasing the apparent surplus of Assets over Liabilities.

Again, Consolidated Revenue Account for the year ending October 31, 1916, shows Ordinary Revenue of \$1,580,419.36, and Ordinary Expenditure of \$1,568,342.07, so that from a reference to this Account it would seem that there had been a surplus of Revenue over Expenditure for the year 1916 of \$12,077.29. You will note, however, that amongst the expenditures following those which are classed as Ordinary Expenditures, there is (among others) an item of \$70,548.60 for Expenditures on Special Roads. So far as we have been able to determine, this item represents the balance of expenditure on roads over the original estimate for the year, and no evidence has been produced in support of the theory that the expenditure is of an extraordinary nature and should not have been charged against the ordinary revenues of the Province. The effect of charging this expenditure against the ordinary revenue of the year 1916 would of course be that in place of a surplus of \$12,077.29 there would be a deficit which (after making certain other necessary adjustments in the accounts) would amount to \$55,891.39. This amount would represent a deficit of Receipts over Expenditures, but not a Revenue deficit. The latter would be greater or less than the amount mentioned, according to whether the amount of unpaid liabilities at October 31, 1916, showed an increase or decrease over the amount unpaid at October 31, 1915. We have not made any calculation as to the amount of the unpaid liabilities at October 31, 1915.

As another illustration of our point that the Published Accounts do not reflect the financial position of the Province in a sufficiently clear and intelligible manner, we would refer you to the Balance Sheet at October 31, 1916, which shows that there were outstanding Provincial Debentures to the amount of \$6,910,646.66, and Government Stock of \$2,190,000.00. The Balance Sheet should in addition show as Liabilities the \$1,700,000 Debentures of the Province issued to provide funds for the St. John & Quebec Railway, and the \$4,250,000 Bonds of that Railway which are guaranteed by the Province both as to principal and interest, and which should be considered a direct liability in view of the fact that the Railway has been taken over by the Province.

One of the essential points in any System of Accounting is that a clear distinction be made between the expenditures of a permanent nature and those which in the ordinary course should be charged against the revenue of the year. The Published Accounts should reflect this principle, and for this reason Provinces and Municipalities are now adopting a form of Balance Sheet divided under two main captions—(a) Capital Assets and Liabilities, and (b) Revenue or Current Assets and Liabilities.

BALANCE SHEET, OCTOBER 31, 1916.

In connection with the Assets and Liabilities shown on the appended Balance Sheet at October 31, 1916 (Exhibit A) we would submit the following remarks:

CAPITAL ASSETS.

As already mentioned, the Annual Published Balance Sheets do not show the expenditures of a Capital nature (except in the case of Railway Investments), although they take up as Liabilities the Debentures and Government Stock issued to provide funds for the expenditures. There is, however, published in the Annual Accounts a statement of the Bonded Debt and information as to the expenditures made therefrom. In the Accounts submitted we have shown as Capital Assets all expenditures made out of monies received from the issue of Debentures and Government Stock, although in some cases the term "Capital Expenditure" cannot clearly be applied to them, as for example, the contribution of \$120,041.86 made towards the Imperial Government and Belgian Relief, and subsidies granted to Railways. Since these expenditures are of a special nature, they would seem to us best carried under the heading of "Capital," as the effect of providing an annual Sinking Fund for the Debentures which were issued therefor will be to charge the Expenditures against Revenue of future years over the life of the Debentures.

No Asset is carried on the books of the Province in respect of Crown Lands, but a value of \$35,000,000 (representing 7,000,000 acres at \$5 per acre), was incorporated in the Published Accounts at October 31, 1914, and has been shown in the Published Accounts at October 31, 1915 and 1916. We have not included this valuation in the Balance Sheet now submitted, but there is no reason why this should not be done if you desire it, although it seems to us preferable to refer to the Asset merely by way of a foot-note.

The Buildings owned by the Province have since October 31, 1914, been shown in the Published Accounts at a value of \$500,000. In the Balance Sheet which we have prepared, only such expenditures on buildings as have been made out of the proceeds of debentures, etc., are taken up as Assets. We would suggest that an appraisal be made of all buildings owned by the Province, and the value thereof incorporated on the books.