PARAGRAPH 41—Unauthorized charge to National Museums Special Account.

(*See Minutes of Proceedings and Evidence, Issue No. 19, dated March 4, 1975*).

PARAGRAPH 80—Accounts of the National Museums of Canada.

(*See Minutes of Proceedings and Evidence, Issue No. 20, dated March 6, 1975*).

In its consideration of the serious breakdown in administrative procedures, control of grants and contributions of $7,742,800, made to the National Museums of Canada, your Committee is of the opinion that the harsh statements made by the Auditor General in the Committee's evidence on page 19:4 of March 4, 1975, Issue 19 pointed up the problem placed before the Committee.

Your Committee was assured by the Auditor General that considerable progress has been made in clearing up the inadequacies and unsatisfactory conditions referred to in the past, and although some weaknesses still exist in the view of the Auditor General, they only affect the accuracy of the accounts for the year ended March 31, 1974 as noted in Paragraphs 40, 41 and Item 4 of Paragraph 80.

Your Committee recommends that the Museum Officials continue to use the Audit Services of Supply and Services to eradicate the administrative, procedural and financial weaknesses in their Branch.

Your Committee recommends that the Museum Officials make the most determined efforts to achieve sound, administrative and financial procedure in processing their accounts. Your Committee requests the Auditor General to include a progress statement on this matter in his next Report.

CANADIAN BROADCASTING CORPORATION

PARAGRAPH 35—Unusual Loss on a Partnership Operation.

(*See Minutes of Proceedings and Evidence, Issue No. 21, dated March 11, 1975*).

The Canadian Broadcasting Corporation made an investment of $1.6 million in a wholly-owned subsidiary company, St. Clair River Broadcasting Limited (St. Clair), which in turn had entered into a partnership agreement with a private company to purchase Windsor television station CKLW with effect from March 1, 1970.

St. Clair's investment in the partnership, a one-quarter interest, had been impaired by operating losses of the television station since its acquisition.

In fact this venture has proven a financial failure from the start and by March 31, 1974, St. Clair's share of the $8,430,000 accumulated loss of the television station was $2,107,000 which was $270,000 more than the $1,837,000 it had invested in the partnership. Besides this St. Clair had also absorbed interest costs of $913,000 on its partner's notes and administration expense of $14,000, while earning investment income of $508,000 including $460,000 interest on cash contributed to the partnership. Its loss to March 31, 1974, thus amounted to $2,526,000.

The equity of the CBC in St. Clair has therefore been reduced from $1.6 million at March 1, 1970, to a deficiency of $926,000 at March 31, 1974. No provision for this loss has been made in the accounts of the Corporation but attention was drawn to it in a note to the Corporation's financial statements at March 31, 1974.

Under the terms of the agreement, St. Clair was required by May 31, 1975, to purchase its partner's share at cost $3,750,000, plus interest and the partner's share of any accrued profits to the date of sale (there was none to March 31, 1974). This purchase was completed in June 1974. Consequently the Corporation will absorb the full amount of the loss ($8,430,000 to March 31, 1974) incurred in operating the television station.

The evidence revealed some of the unusual financial arrangements. The partner had a 75% interest and St. Clair a 25% interest. St. Clair's contribution was in cash; one third of the partner's contribution (25%) was in cash and the remaining two-thirds (50%) of the partner's contribution was in the form of notes.

One unusual aspect about these notes is that under the terms of the partnership agreement, St. Clair and not the partner paid the interest on the notes. In addition, the partnership agreement provided that if the TV station was profitable, the partner's share would be in the ratio of his capital introduced, 75 per cent, but if losses were incurred, they would ultimately be borne by St. Clair.

Your Committee was made aware that the Chairman of the CBC in a letter to the Windsor *Star* dated June 6, 1972 (*See APPENDIX "AA" Issue No. 21, dated March 11, 1975*) that the CBC had always wanted to have a television outlet in Windsor, that the channel occupied by CKLW-TV was the only VHF channel in South Western Ontario available to Canada and should in his opinion, be in public rather than private hands. He mentioned that after a hearing the CRTC called upon the partner and the CBC to work out joint purchase arrangements, not on the basis of an option for the CBC to purchase but rather on a basis which would give the CBC an immediate equity position and a prospect of total acquisition in the future.

Your Committee also is aware that CBC has a mission to provide the Canadian people with Canadian content programs and the possible return on these programs is sometimes minimal.

However, your Committee recommends that a far more hard-headed financial policy is needed by the