

is unsound and improper. All City bonds, in fact all securities, should be acquired at their market value at the time of purchase.

The City, when selling its bonds—whether to the sinking fund or to investment houses—should aim at obtaining the best possible price for them. On the other hand, the sinking fund when purchasing bonds—no matter whether they be City of Ottawa, or any other municipal or government bonds—should endeavor to acquire them on the most favorable terms obtainable.

This faulty method of making purchases appears to have been due to the failure to recognize the element of trusteeship which should characterize the management of every municipal sinking fund. The aim should be to make investments on the most favorable terms possible, consistent with the absolute security of the principal.

The bonds of the Province of Ontario, and of the Dominion of Canada, were acquired at current market prices. Care should be taken to have the book value of all securities bought at a discount, or at a premium, adjusted from year to year so that when such investments mature their book value will be exactly the same as their face or par value. In this way the sinking fund will receive the exact rate of interest which the investments were bought to yield.

Cash in bank needs no explanation, excepting that, in the interest of the fund, practically the whole of it should have been invested at a more remunerative rate of interest.

The item "accrued interest," \$41,180.24, is the amount of interest, on investments held by the fund, from the date when interest last fell due to the 31st December—the date of the investigation. The City failed to include this item among the sinking fund assets.

The question arises as to the desirability of making further investments in the City's own bonds. At present 56% of the total assets consist of this security. In view of this large proportion, I am inclined to believe that it would be preferable to seek other bonds. In this connection, I would like to quote from a recognized authority:—

"For a municipality to sell its bonds to the sinking fund is the same thing as for the municipality to borrow money from the sinking fund.