for some years to come, to yield a comfortable margin over the assumed av* · rate.

4. Failure of way Annual Levies to Sinking Fund.

This possible urce of loss may be totally disregarded.

Notwithstanding what has been said, it is well recognized by conservative investors and corporations, such as life insurance, trust and loan companies, that it is desirable to build up an "investment reserve fund" as a protection against contingencies and losses which may arise, and in the case of your sinking fund -in order that it may be maintained on an absolutely safe basis—it is my opinion that it would be desirable to have such a reserve fund. I do not, however, believe that it is essential to maintain an unduly large one. The securities, which the fund may, by law, invest in, are among the safest; while the maximum rate of interest which the fund is assumed to earn is relatively low; therefore, there is no temptation to invest in anything but the best.

The amount at which the "investment reserve fund" shall be placed should be considered at the end of each year when all the facts relating to the operations of the sinking fund are being considered, including especially (a) a careful review of the character and value of the securities held as investments, and (b) the margin between the average rate of interest earned and first assumed to be earned.

Speaking broadly, and having regard to present conditions, it appears to me, 'f an "investment reserve fund" of, say 5% of your sinking fund liabilities were maintained, it would be sufficient. On this basis, the balance sheet would be as follows :-

\$3,320,516.14

Assets Sinking Fund Liabilities...... \$3,003,147.39 Investment Reserve Fund

(5% of above)..... 150,157.36

3,153,304.75

This last amount, or say \$160,000, it appears to me, might-subject, of course, to any legal rest fctions or limitations-be utilized for such general purposes as the City might determine. This surplus is the result of years of accumulations-it is the product of practically