April 27th.1933.

Dear Sirs :-

The Auditors statement arrived some days ago, but it was only yesterday that I uncovered the enclosed letter. It had been plawed in side one of the copies.

I am also enclosing the Balance Sheet and will forward our own detail statement later. You will find that the figures quoted in my letter of March the 12th. agree with the Balance Sheet but the arrangement has been changed slightly.
The vital figure of Inventory ~~has~~ value of fruit on consignment has been raised to $ 24,887.70 instead of my original guess of $ 21,375. an increase of $3,512.70 .
My figures include the Orchard supplies $ 112.60 and prepaid Insurance of $ 130.63 in the inventory. The Balance sheet does not.
The production and packing costs have not been checked but the totals agree with our figures.

I had and still have no reason to change my guess of Mar. the 12th. except that some thought it low, and it would be poor business to carry over a profit into the next year.

The Jonathan account sales are in, and turns out within a few dollars of my guess of March 12th. In arriving at the Inventory value used in the Auditors statement the average price of used was 65 cents per Packed box and 35 cents for an unpacked box. The Jonathan account sales is $ 750. less than these figures would work out at.

The question of charging the different items to capital to which I refered to in my last letter was put up to Mclachlan, and at the time he saw no advantage in doing so. The change was not made, but now after reading the letter from the Auditors office it would seem that it would have been good business to make the change so as to increase the Surplus account. I am taking the question up with them and may have to ask you to return you copy.

The Auditors letter and his remarks on the Balance Sheet again brings up the question of reorganization, and is going to force us to take some action sooner or later. Why he should jump on it now I do not know. The Advances to shareholders has always been questioned but it has never been put up in this way. One reason for me always wanting a City Auditor was to guard against just such things as this.

You should have a copy of the B.C. Companies Act. You will notice that Section 145 clearly states that no loans shall be made to shareholders.

One of the Auditors staff is in Vernon and I will try to get some advice and expanation from him.

April 27th. 1933.

I will also have to get legal advice as to wither we can lagally pass a Special Resulution without holding a formal meeting with more than two members present.

Under Section 69. of the Act a public Company can be converted into a Private Company without much trouble. A Private Company would likely get away with the question of the Advances to Sha reholders but the set up of the books would not be changed. The Private Co. has some advantages over the Public Co. but shares could not be sold to the public. The chief advantage in making this change would be the elimination of Section 145 and even with this eliminated there seems to be some doubt about the legality of making advances to shareholders.

The following is a copy of the correspondence between the Auditor and the Income Tax office at Vancouver in regard to reorganization.

To the Inspector of Income Tax December 9, 1931.
Vancouver, B.C.

Dear Sir : Re Rainbow Ranche Limited .

The above Company proposes reorganization under Section 19 of the Income Tax Act and we have been requested on its behalf to obtain a ruling as to whether in that event the Shareholders will be taxed individually on either their equities in the surplus of the Company or upon the amounts drawn by themselves as advances.

Signed. Helliwell, Maclachlan & Co.

To Helliwell, Maclachlan & Co. December 11th.1931.
525 Seymour St.
Vancouver, B.C.

Dear Sirs : Re Rainbow Ranche Ltd.

With reference to your letter of the 9th inst., re Shareholders Advances, I would advise that Sec. No. 19 of the Act, as amended, States :

" On the winding up, the distribution in "any form of the property of the Company shall "be deemed to be the payment of a dividend to "the extent that the Company has on hand undis- "tributed income earned in the 1930 period and "subsequent periods. "

Accordingly, on the winding up of the above named Company the Surplus, as by the books, would appear to be exempt up to and including 1929.

With regard to the Shareholders Advances, I understand that the major portion, if not the whole of these, were advances prior to 1925and,as such, this Office would be prepared to recommend to the Commissioner that same be considered in the light of an ordinary Accounts Receivable,and not taxable on the winding up.

Signed, Inspector of Income Tax.

April 27th. ~~1933~~ 1933.

To --- The Rainbow Ranche Limited. Jan. 4th.1932.
Okanagan Centre, B.C.

Dear Sirs : Re Reorganization.

We enclose herewith copy of a letter received from the Inspector of Income Tax.

The only question remaining is whether the dividend declared during the fiscal period ended February 28,1931 may be deducted from the surplus earned subsequent to the 1929 taxation period. We have been verbaly informed that this will not be permissible under the ruling now in force, so that on reorganization taxes would be collectd from the individual shareholders on the basis of a dividend of about $10,000.00. It appears to us, however, that the reorganization of the Company may safely be executed without further taxation than the foregoing.
Signed ------ Helliwell, Maclachlan & Co.

If arrangements can still be made along the lines of the above correspondence I think that we should proceed to wind up the present Company and reorganize under a private company charter. Our present charter has very wide powers and might be of value some time in the future. With the reorganization it would be lost, but it is hard to see at the present time how we would ever be able to make use of it. It is important to get rid of these Advances to Shareholders and Surplus, and reorganization seems to be the only way to do it. One objection to taking action at this time is the expense. A new balance would have to be made and a new charter secured. I will take up with the Auditor the possibility of at this time converting into a Private Company and then later reorganizing.

I have not heard anything of the "impending legislation" which Helliwell & Maclachlan speak of. It might be that it would force us to take action quickly in order to protect ourselves. I would like to have authority from you take action one way or another. Kindly give this your consideration and advise me as soon as possible.

Later on I will write you more in detail in regard to the Balance Sheet and the years operations.

The orchard looks as if we might have a fairly good crop. The blossom should be on in about ten days and until then we cannot be sure of it.

Apr. 27th. 1933.

The water conditions are very good. The orchard sub soil is in better shape than for some years. The lakes in the hills are full and a big run off is expected.

We have built a room in the tractor house and I have moved my office up from the house so that now I am on the job continuously. This move should give us better efficiency both as to the gang and myself. It has cost about $200. for the equipment, including a fire proof safe.

The banking arrangements have not been made for the year. If the returns come out as well as we have been guessing I think we will get by, but it will mean cutting of expenses considerable. With this last couple of years experience we know more about what we can take a chance in leaving undone.

I am sending you a copy of a detail inventory which covers all moveable property.

Yours sincerely

James Goldie

J.G.

To J.E. McAllister
R.S. Dormer

I have had no word from you since last November. When you write let me know how Donald is progressing.