

Decision No. 23032

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CENTRAL CANAL COMPANY)
for an order authorizing endorsement) Application No. 21090
of its outstanding stock certificates.)

McCutchen, Olney, Mannon & Greene, for applicant.

BY THE COMMISSION:

OPINION

ORIGINAL

Central Canal Company, a corporation, has applied to the Railroad Commission for an order authorizing it to stamp upon each of the certificates for shares of its stock now outstanding, an endorsement in or substantially in the following form:-

" All shares of stock of Central Canal Company were changed from shares having a par value of One Hundred Dollars(\$100.) each into shares without par value and the authorized number of shares was reduced from thirty thousand(30,000) to one hundred(100) by amendment of the Articles of Incorporation of this corporation effective December 18, 1936."

Central Canal Company is one of a group of eight corporations which are controlled through stock ownership by Kern County Canal and Water Company and which are engaged in supplying water for irrigation purposes in the lower San Joaquin Valley. The affairs of the companies, including their rates, service property values and operations, heretofore have been the subject of inquiry by the Commission in Applications Nos. 16610 to 16617, inclusive. (See Decision No. 26530, dated Nov. 13, 1933, Vol. 39, Opinions and Orders of the Railroad Commission of California, pages 90-109).

In Decision No. 26530 the Commission stated that "the capital accounts of the companies, because of their age and because of loose methods of accounting, are unsatisfactory as a guide to determining the amount of money actually invested in the properties".

Thereafter counsel for the companies in a letter dated November 20, 1936, asked the Commission to permit them to replace the fixed capital figures then appearing on the books with certain valuation figures developed in the above applications. The Commission considered the request and on December 2, 1936 authorized the adjustment of such accounts in a letter as follows:-

December 2, 1936
App.No. 16610
File 601 - 1

McCutchen, Olney, Mannon & Greene, Attorneys,
East Side Canal Company, et al.,
Balfour Building, San Francisco, Calif.

Dear sirs:-

The Commission has considered your letter of November 20th. It has no objection to the adjustment of the fixed capital accounts of the companies mentioned in your letter, so that such accounts reflect the following figures:-

Buena Vista Canal Company	\$59,200.00
Central Canal Company	1,127,900.00
East Side Canal Company	146,900.00
Farmers Canal Company	64,000.00
Kern Island Canal Company	540,000.00
Kern River Canal & Irrig.Co.	246,700.00
Pioneer Canal, Inc.	129,900.00
Stine Canal, Inc.	79,400.00

The figures which you submitted include allowances for working capital, which allowances should not be charged to fixed capital.

We have deducted the amounts allowed for working capital. The companies will show such cash and materials and supplies as they have on hand at the time the adjustments were made.

To the above figures may be added the cost of additions and betterments since December 31, 1929.

We observe from your letter that the companies agree never to contend in any rate proceeding that the assent of the Commission to the book adjustments is any evidence of value".

Yours truly,
Railroad Commission State
of California
By H.G. Mathewson, Secretary."

Central Canal Company, applicant in the present proceeding, was organized on or about July 2, 1890 with an authorized capital

stock of \$3,000,000. divided into 30,000 shares of the par value of \$100. each, all common. As of December 31, 1935 it reported all of its authorized capital stock outstanding and held by Kern County Canal and Water Company. It reported further, among other things, tangible fixed capital at \$513,119.60, unamortized discount on stock at \$2,488,650.39 and a deficit at \$497,957.04.

In accordance with the permission granted, the company adjusted its books as of December 31, 1935 by setting up in its fixed capital accounts the figure referred to by the Commission in its letter of December 2, 1936, modified by net retirements of \$75,422. between December 31, 1929 and December 31, 1935, and the additional sum of \$15,193. representing the estimated value of various structures at its so-called Calloway Headquarters not included in the figure authorized by the Commission.

As stated above, the company had been carrying on its books unamortized discount on its capital stock in the amount of \$2,488,650.39. It reports that the exact origin, nature and purport of the item were not apparent from the books of account and that therefore it was deemed advisable to write it from the records. Accordingly the amount was charged to surplus.

The net effect of these transactions increased applicant's deficit of December 31, 1935 from \$497,957.04 to \$2,432,056.03. In order to eliminate this deficit the company reduced its stated capital from \$3,000,000. to \$500,000., thereby creating a reduction surplus of \$2,500,000. which absorbed the deficit of \$2,432,056.03 and left a credit balance of \$67,943.97.

The assets and liabilities of the company as of December 31, 1935 and as adjusted to give effect to these various transactions, are reported as follows:-

<u>ASSETS</u>	<u>BEFORE ADJUSTMENT</u>	<u>AFTER ADJUSTMENT</u>
Fixed capital	\$513,119.60	\$1,067,671.00
Intangible capital	4,001.10	4,001.10
Machinery, Implements, tools . .	1,367.73	1,367.73
Accounts receivable	1,105.36	1,105.36
Materials and supplies	12,835.89	12,835.89
Unamortized discount	2,488,650.39	-
Corporate deficit	497,957.04	-
Total	<u>\$3,519,037.11</u>	<u>\$1,086,981.08</u>
 <u>LIABILITIES</u>		
Capital stock	\$3,000,000.00	\$ 500,000.00
Accounts payable	519,037.11	519,037.11
Reduction surplus	-	67,943.97
Total	<u>\$3,519,037.11</u>	<u>\$1,086,981.08</u>

To carry into effect the reduction in its stated capital, the holder of applicant's stock voted to amend the articles of incorporation so as to provide for a total authorized capital stock of 100 shares without par value and thereafter surrendered to applicant for cancellation 29,900 shares of the 30,000 heretofore outstanding. It appears that applicant does not propose to issue new shares of stock but desires to evidence the change in the par value by the endorsement on the certificates.

ORDER

Central Canal Company having applied to the Railroad Commission for an order authorizing it to place an endorsement on the certificate for shares of its stock now outstanding, and the Commission having considered applicant's request and being of the opinion that the issue presented by this application does not require the Commission to determine the value of applicant's properties; that this is not a matter in which a public hearing is necessary, and that the application should be granted.

IT IS HEREBY ORDERED that Central Canal Company be, and it hereby is, authorized to stamp upon each of the certificates for shares of its stock now outstanding, an endorsement in or substantially in the following form:-

"All shares of stock of Central Canal Company were changed from shares having a par value of One Hundred Dollars (\$100.) each into shares without par value and the authorized number of shares was reduced from thirty thousand (30,000) to one hundred (100) by amendment of the Articles of Incorporation of this corporation effective December 18, 1936."

DATED at San Francisco, California, this 5th day of April, 1937.

Walter W. Ware
Leon Whisell
Frank R. Wepner
Katharine Wepner
Paul L. Wepner
Commissioners.