

Report of Examination

August 23, 2019

By Larry B. Lambert, Executive Vice President, Global Strategies Council, with extensive experience in forensic corporate and government financial examination.

(<https://www.globalstrategiescouncil.org>)

Engagement: Review the financial statements of the Starlight Water Company, Inc., at the law office of Steve Wene, counsel for Starlight Water Company, in Phoenix, AZ.

Findings: After signing a non-disclosure document, I reviewed the general ledger, profit and loss statements, cashflow statements and audited balance sheets for Starlight Water Company for 2017 and 2018. The documentation appears to be in order.

The total assets of Starlight Water Company as of December 31, 2018 were \$4,366,021.32. Land and land rights were carried on the books at purchase price of \$14,000.00, which is normal and in accordance with Arizona Corporations Commission (ACC) standards, but it does not reflect the current market value of that land. All other assets were valued according to current market valuation.

Depreciation for the purposes of principally tax accounting was an offset against assets, but is not significant for the purposes of government accounting, and for the Blue Ridge Water District.

Liabilities in the form of A. I. C. Line extensions exist in the amount of \$1,799,443.22. Those are general obligation contracts that were incurred when land developers in the various units were originated to install water lines/mains. I did not review those contracts, however it was represented by Mr. Wene, attorney for Starlight Water Company, that they are written off over time at a very low percentage of the total liability. They remain on the books as required by ACC standards and guidelines. At some point, prior to purchase of the Starlight Water Company, a representative of Blue Ridge Water District (purchaser) should review those original contracts.

Mr. Wene provided a Comparative Income Statement for Starlight Water Company for 2017 and 2018 at the conclusion of the meeting and discussed the changes in actual operating costing between Starlight Water Co. and the Blue Ridge Water District, which would exist as a not-for-profit government entity. I am entirely familiar with government accounting and of the differences that exist and the expense items that are either lower, mitigated by government regulations or don't exist at all (taxation, depreciation issues, owner income in the form of salaries/wages, etc.). The offset between those expenses and servicing a loan on a \$2.5 million purchase price @ 4% interest (roughly \$180,000.00 per year) divided among the members of the Blue Ridge Water District is quite small.

Opinions: Based on my examination of all these documents, and in light of the fact that Starlight Water Co. hasn't increased its rates to consumers in the past ten years, I found that Starlight Water Co. was operated very conservatively with regard to the service, to the profit taken from

water fees, and to the purchase of equipment. Essentially, the owner philosophy appears to have been

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‘treating it like their own money and not ‘the company’s money’. The purchase of largely unnecessary equipment (such as the annual purchase of new vehicles, etc.), buildings and the development of equally unnecessary programs at a cost-plus 10% basis that would have justified water rate increases and would have enriched the company and its shareholders was not present during the years evaluated. Likewise the fees levied to start new service and install a water meter seem to have been held at a very low rate when compared to other urban and rural locations.

The examination of A. I. C. line extension liability contracts should be undertaken prior to a purchase as stated in findings.