

Exhibit No.: _____
Issue: Financial Information
Witness: William A. Hughes
Sponsoring Party: Big Island Water & Sewer
Company, Inc.
Case No.: Case No. WO-2007-0277
Joined for hearing with
Case No. WC-2006-0082

BIG ISLAND WATER & SEWER COMPANY, INC.

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DIRECT TESTIMONY

OF

WILLIAM A. HUGHES

Denver, Colorado
February, 2007

1 **DIRECT TESTIMONY**
2 **WILLIAM A. HUGHES**

3 Q. **Please state your name and business address for the Commission.**

4 A. My name is William A. Hughes and my business address is Hughes, Wedgwood &
5 Company, LLC, 789 Sherman, #575, Denver, CO 80203.
6

7 Q. **What is your education and professional background?**

8 A. I graduated Summa Cum Laude with a Bachelor of Science Degree with an Accounting
9 Emphasis from Black Hills State University, Spearfish, South Dakota. I obtained my
10 certification as a Certified Public Accountant in the State of Colorado on April 24th,
11 1991. I currently have an active license as a Certified Public Accountant in the State of
12 Colorado and California. After graduation from Black Hills State in 1989, I joined the
13 firm of Bauerle & Company, Inc. a certified public accounting firm. In 1997, I became
14 the Chief Financial Officer for Kimmel Mechanical Inc., Denver Colorado where I
15 remained until 1999 when LouAnn Wedgwood and I formed our present partnership.
16

17 Q. **Do you act as the outside CPA for Folsom Ridge LLC?**

18 A. Yes.
19

20 Q. **Have you also provided services to Big Island Homeowners Water and Sewer**
21 **Association, Inc. (the Association)?**

22 A. I have provided services in the past to the Association through Folsom Ridge.
23

1 Q. In connection with the services you have provided to the Association have you
2 become familiar with how it is organized and its operations.

3 A. Yes, I have.
4

5 Q. Please tell the Commission whether the Association is organized as a for profit
6 corporation.

7 A. No it is not. I will explain more about this later in my testimony, but the Association's
8 purposes are not derived from a profit motive, or making a return. The Association
9 declares no dividends for distribution to its members.
10

11 Q. As a nonprofit corporation, is the Association subject to an income tax?

12 A. No and although nonprofit corporations are subject to a requirement to file informational
13 returns, as a result of the level of the Association's receipts in the past, no returns have
14 been filed.
15

16 Q. Mr. Hughes, at my request did you help assemble financial statements and other
17 statements of financial condition of the Association.

18 A. Yes, I assisted the Association in printing of the following reports utilizing the
19 company's internal accounting system (Quickbooks). The following reports were
20 printed from the Association's accounting system: Balance Sheets for December 31, 2006
21 and 2005 and Statement of Revenue and Expenses for the years ended December 31,
22 2006 and 2005. Copies of these reports are attached to my testimony as Schedule WAH
23 1.

1

2 **Q. Based upon your review of these reports, can you determine if the Association has**
3 **ever made a profit from its operations?**

4 A. The reports aside, in the terms of a homeowners' association or other entities that exist
5 completely for the service of its members, the entity does not profit from any operations.
6 Because of the purpose of the entity there is no profit motive or return allowed and
7 therefore, the term profit is not applicable to the Association. In standard terms the
8 Association produces a fund balance (also referred to as a sinking fund) to provide for
9 future possible expenses including extraordinary repairs or other activities. If the fund
10 balance is not significant enough to cover the event, special assessments are normally
11 provided. The Board of Directors elected by the members of the Association performs a
12 yearly budgetary analysis in determining the proper fee structure to ensure the activities
13 of the Association are completely funded. Any excess of the assessment is retained to
14 offset future expenses that exceed future budgeted costs. The reports attached indicate
15 that the Association is not engaging in its business for profit and has no profit.

16

17 **Q. Has the Association made any payments of fees or commissions to Folsom Ridge**
18 **LLC or its members?**

19 A. Yes, there have been payments made to Folsom Ridge LLC. In the years of 2002 and
20 2004, the Association reimbursed Folsom Ridge a total of \$18,286.77 for costs and
21 expenses advanced by Folsom Ridge as start up funding for the Association. When the
22 Association began to bill for its services, it started the process of paying Folsom Ridge
23 back for those advancements. The Association also paid Folsom \$2,284 for a

1 reimbursement of the construction costs related to the Caldwell crossing. These
2 payments are not dividends and do not constitute in my estimation a commission or fee of
3 any kind. Regarding members, the Association has not paid fees or dividends to its
4 members.

5
6 **Q. Regarding the rates for service charged by the Association to the customers**
7 **connected to the wastewater and water distribution system, is there any part of**
8 **those rates which is designed to recover a profit or return on investment?**

9 A. No. No individual or entity has an investment in the organization so there is no
10 expectation for a return or profit from the investment. The board goes through a
11 budgetary process each year and determines the level of assessment necessary to maintain
12 and operate the system.

13
14 **Q. Does the Association recover its costs for providing services to its customers.**

15 A. Yes.

16
17 **Q. Has the Association had a surplus of revenue in its operations?**

18 A. Yes, in the budgetary system, it would appear the board has been conservative in
19 allowing for revenues in excess of expenses. Since the Association is relatively new, it is
20 my professional opinion that this is a prudent decision. Because of the possibility of
21 major repairs or unforeseen circumstances, I believe it is prudent to develop a fund
22 balance necessary to absorb some unexpected expenses the Association may have. I am
23 also aware that developing a fund balance is a standard practice for associations of its

1 type. The surpluses the Association has experienced have been used to develop the fund
2 balance I have just described. That fund balance is used to absorb unforeseen costs and
3 expenses. Again, the amount used to develop the fund balance is not profit.

4

5 **Q. Does this conclude your testimony?**

6 **A. Yes, it does.**