

Exhibit No.:

Issue:

Witness:

Sponsoring Party:

Financial Information

William A. Hughes

Folsom Ridge LLC and Big Island  
Homeowners Water and Sewer  
Association, Inc.

Case No.:

Case No. WO-2007-0277

Joined for hearing with

Case No. WC-2006-0082

**FILED<sup>2</sup>**

APR 02 2007

**Missouri Public  
Service Commission**

FOLSOM RIDGE LLC  
AND BIG ISLAND HOMEOWNERS WATER AND SEWER ASSOCIATION, INC.

Case No. WO-2007-0277

Joined for hearing with

Case No. WC-2006-0082

DIRECT TESTIMONY

OF

WILLIAM A. HUGHES

Denver, Colorado  
February, 2007

*Folsom*  
*Ridge* Exhibit No. 13  
Case No(s) WC-2006-0082, etc.  
Date 2-28-07 Rptr MF

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the matter of the Application of )  
Folsom Ridge LLC and Big Island )  
Homeowners Water and Sewer Association, )  
Inc. for an order authorizing the transfer ) Case No. WO-2007-0277  
and Assignment of Certain Water and )  
Sewer Assets to Big Island Water )  
Company and Big Island Sewer )  
Company, and in connection therewith )  
certain other related transactions. )

AFFIDAVIT OF WILLIAM A. HUGHES

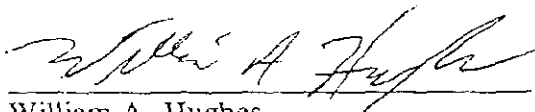
STATE OF COLORADO )  
 ) ss.  
COUNTY OF DENVER )

I, William A. Hughes, of lawful age, and being duly sworn, do hereby depose and state:

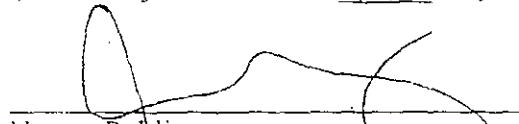
1. My name is William A. Hughes. I am a member of Hughes, Wedgewood & Company L.L.C., certified public accountants, 789 Sherman, Suite 575, Denver, CO 80203.

2. Attached hereto and made a part hereof for all purposes is my direct testimony.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my personal knowledge, information and belief.

  
William A. Hughes

Subscribed and sworn to before me, a Notary Public, this 14<sup>th</sup> day of February, 2007.

  
Notary Public  
Aracelia Vargas

**DIRECT TESTIMONY  
WILLIAM A. HUGHES**

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

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

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

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

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

**A.** Yes.

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

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

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

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  
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  
3 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.

**Big Island Homeowners Association Inc**  
**Balance Sheet Prev Year Comparison**  
As of December 31, 2006

	<u>Dec 31, 06</u>	<u>Dec 31, 05</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
<b>Checking/Savings</b>		
1000 - Central Bank #04-995-5	8,854.24	9,222.27
<b>Total Checking/Savings</b>	<u>8,854.24</u>	<u>9,222.27</u>
<b>Accounts Receivable</b>		
1200 - Accounts Receivable	5,481.00	5,043.00
<b>Total Accounts Receivable</b>	<u>5,481.00</u>	<u>5,043.00</u>
<b>Total Current Assets</b>	<u>14,335.24</u>	<u>14,265.27</u>
<b>TOTAL ASSETS</b>	<u><u>14,335.24</u></u>	<u><u>14,265.27</u></u>
<b>LIABILITIES &amp; FUND BALANCE</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
<b>Accounts Payable</b>		
2000 - Accounts Payable	1,334.50	1,959.14
<b>Total Accounts Payable</b>	<u>1,334.50</u>	<u>1,959.14</u>
<b>Total Current Liabilities</b>	<u>1,334.50</u>	<u>1,959.14</u>
<b>Total Liabilities</b>	1,334.50	1,959.14
<b>Fund Balance</b>		
3100 - Fund Balance	12,306.13	6,999.47
Revenues in Excess of Expenses	694.61	5,306.66
<b>Total Equity</b>	<u>13,000.74</u>	<u>12,306.13</u>
<b>TOTAL LIABILITIES &amp; Fund Balance</b>	<u><u>14,335.24</u></u>	<u><u>14,265.27</u></u>



**Big Island Homeowners Association Inc**  
**Statement of Revenues and Expenses**  
January through December 2006

	<u>Jan - Dec 06</u>	<u>Jan - Dec 05</u>
<b>Ordinary Income/Expense</b>		
Income		
4000 · Sewer and Water Assessments	20,346.50	22,656.00
<b>Total Income</b>	<u>20,346.50</u>	<u>22,656.00</u>
Expense		
6110 · Bad Debt Expense	0.00	324.00
6180 · Insurance	1,527.00	1,622.00
6230 · Licenses and Permits	1,262.72	1,200.00
6250 · Postage and Delivery	335.00	353.15
6280 · Legal Fees	1,116.75	1,558.00
6285 · Secretarial and Accounting Fees	1,200.00	1,200.00
6400 · Gas and Electric	1,731.46	1,579.18
6410 · Water	8,382.12	8,559.91
6420 · Maintenance	4,893.50	722.20
6570 · Office Supplies	0.00	255.60
6600 · Miscellaneous	10.00	0.00
<b>Total Expense</b>	<u>20,458.55</u>	<u>17,374.04</u>
<b>Net Ordinary Income</b>	-112.05	5,281.96
<b>Other Income/Expense</b>		
Other Income		
4001 · Hookup Fees	3,000.00	0.00
7010 · Interest Income	27.52	24.70
<b>Total Other Income</b>	<u>3,027.52</u>	<u>24.70</u>
Other Expense		
8020 · Cost of Tap	2,220.86	0.00
<b>Total Other Expense</b>	<u>2,220.86</u>	<u>0.00</u>
<b>Net Other Income</b>	<u>806.66</u>	<u>24.70</u>
<b>Revenues in Excess of Expenses</b>	<u><u>694.61</u></u>	<u><u>5,306.66</u></u>