

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY OF JOHN H. CRONIN, JR.
ON BEHALF OF ALOHA UTILITIES INC.
DOCKET NO. 020413-SU

1 **Q. Please state your name and business address.**

2 A. My name is John H. Cronin, Jr. and my business address is 2560 Gulf-to-Bay
3 Boulevard, Suite 200, Clearwater, Florida 33765.

4 **Q. By whom are you employed and what position do you hold?**

5 A. I am a partner in the accounting firm of Cronin, Jackson, Nixon & Wilson,
6 Certified Public Accountants, P.A.

7 **Q. Please describe your duties and responsibilities in that position.**

8 A. I am the managing partner and the partner responsible for all audit and review
9 financial statement engagements.

10 **Q. Please describe your education and professional experience.**

11 A. I have an Undergraduate Degree in Accounting and a Masters Degree in Business
12 Administration with a concentration in accounting. I am a Certified Public
13 Accountant and have been so since 1975. My professional career began with the
14 public accounting firm of Price Waterhouse in 1968. My accounting career was
15 interrupted for the three and one-half years that I spent as a U.S. Naval officer. I
16 returned to Price Waterhouse in 1972. I joined my present firm in 1978 and have
17 been continuously employed here since that date. As part of my duties described
18 above, I was responsible for a period of 20 years for the audited financial
19 statements of the Regency Organization, a major land developer, homebuilder and

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1 time share developer located in Pasco County, Florida until its sale in 1999.

2 **Q. Have you previously been qualified and testified as an expert?**

3 A. Yes, I have previously been qualified and testified as an expert in the area of
4 accounting and have testified before the circuit courts of Pinellas and
5 Hillsborough counties.

6 **Q. I would ask that the Commission accept Mr. Cronin as an expert in the field
7 of land development accounting and generally accepted accounting
8 principles.**

9 **Q. What is the purpose of your testimony?**

10 A. The purpose of my testimony is to address whether Adam Smith Enterprises, Inc.
11 has the ability to recover service availability charges backbilled to it by Aloha
12 Utilities, Inc.

13 **Q. Adam Smith Enterprises, Inc. (Adam Smith) has repeatedly stated that
14 should Aloha be allowed to backbill for lots connected to Aloha's system
15 from May 23, 2001 until April 16, 2002, it would be unable to recover those
16 charges. Do you agree with this statement?**

17 A. No. The lots connected to Aloha's system from May 23, 2001 until April 16,
18 2002 for which Aloha would be backbilling Adam Smith are lots for which Adam
19 Smith prepaid wastewater service availability charges pursuant to its developer
20 agreement with Aloha. This developer agreement covers all lots located within
21 Aloha's service territory which are also located within Trinity Communities.
22 Trinity Communities is a Development of Regional Impact (DRI) and is

1 controlled by Pasco County Development Order 157 as amended. The Master
2 Plan for Trinity Communities covers approximately 6,000 acres and development
3 is to proceed in two phases. Phase I contains 4,924 residential units with Phase II
4 adding an additional 4,752 mobile home, single-family and multifamily residential
5 units. As of this date, according to the deposition testimony of Mr. Ford,
6 Secretary/Treasurer of Adam Smith Enterprises, Inc., approximately 40-45% of
7 the development proposed for Phase I has been completed. A map of the Trinity
8 Communities DRI located within Aloha's service territory is attached as Exhibit
9 ____ (JHC-1).

10 **Q. How does a land development company like Adam Smith report income**
11 **realized by the sale of lots within the Trinity Communities DRI?**

12 A. In a land development project, whether large or small, one of the critical elements
13 from an accounting and tax standpoint is the allocation of the land development
14 costs to different parcels within a project. IRS Regulations (Reg. 1.61-6(a))
15 require that the cost basis be "equitably apportioned" among all parcels. Hence,
16 there are costs that directly benefit one phase of development and costs that
17 benefit several phases. For example, the cost of water and sewer lines within one
18 phase are properly allocated to the lots in that phase. The cost of a primary water
19 transmission line or a wastewater force main serving all phases of a development
20 is allocated among the estimated lots in all phases. Accounting for lot
21 development costs is a dynamic process, because original estimates almost never
22 equal actual costs. Management is continually reviewing its estimated lot cost

1 calculation with the goal of having no remaining development cost to allocate
2 after the last lot is sold.

3 Generally accepted accounting principles require that profit shall be
4 recognized in full when real estate is sold provided that collectibility of the sales
5 price is reasonably assured and the earnings process is virtually complete, that is,
6 the seller is not obligated to perform significant activities after the sale to earn the
7 profit. Profit on real estate sales transactions shall be recognized on the full
8 accrual method of accounting (FAS 66). Hence, there is a matching of estimated
9 development costs per lot to the specific selling price of that lot.

10 **Q. What is included in this inventory of land account?**

11 A. The original cost of land, administrative overhead, permitting, engineering, legal,
12 capitalized interest on related development debts (e.g., interest on purchase money
13 mortgages for the land being developed), construction costs and service
14 availability fees, often referred to as impact fees, are all included in this account.

15 **Q. What is the purpose of this inventory of land account?**

16 A. As explained above, the inventory of land account is maintained in order to
17 accumulate development costs which can be allocated to individual lots.

18 **Q. Is either the inventory of land account or the number of lots proposed for a
19 development, unit or phase static?**

20 A. No. Throughout the development process the inventory of land account is
21 constantly changing as new expenses are incurred. Further, the number of lots in
22 a development, unit or phase often change in response to changes in land use

1 regulations and unforeseen events.

2 **Q. Given the constant changes in the inventory of land account and changes in**
3 **number of lots developed, does the cost of sales per lot change over time as**
4 **well?**

5 A. Yes.

6 **Q. Given the above, would it be appropriate to capitalize the additional service**
7 **availability charges backbilled for Trinity Community lots and include those**
8 **charges in the inventory of land account for the DRI?**

9 A. Yes. As management becomes aware of new development costs, whether planned
10 or unplanned, they are capitalized to the land development inventory account.
11 This additional cost effects the estimated per lot development cost. Generally, no
12 change is made to the lost cost for lots sold in a prior period. Rather, this new
13 cost is allocated, in some equitable fashion, to the remaining lots.

14 **Q. What is the effect of including the capitalized backbilled service availability**
15 **charges in the inventory of land account for the DRI?**

16 A. As discussed above, the backbilled service availability charges, as other inventory
17 of land account expenses, would be allocated over the remaining lots in the DRI,
18 increasing the cost of sale per lot.

19 **Q. What will the impact on Adam Smith be if it capitalizes Aloha's backbilled**
20 **service availability charges to its inventory of land account?**

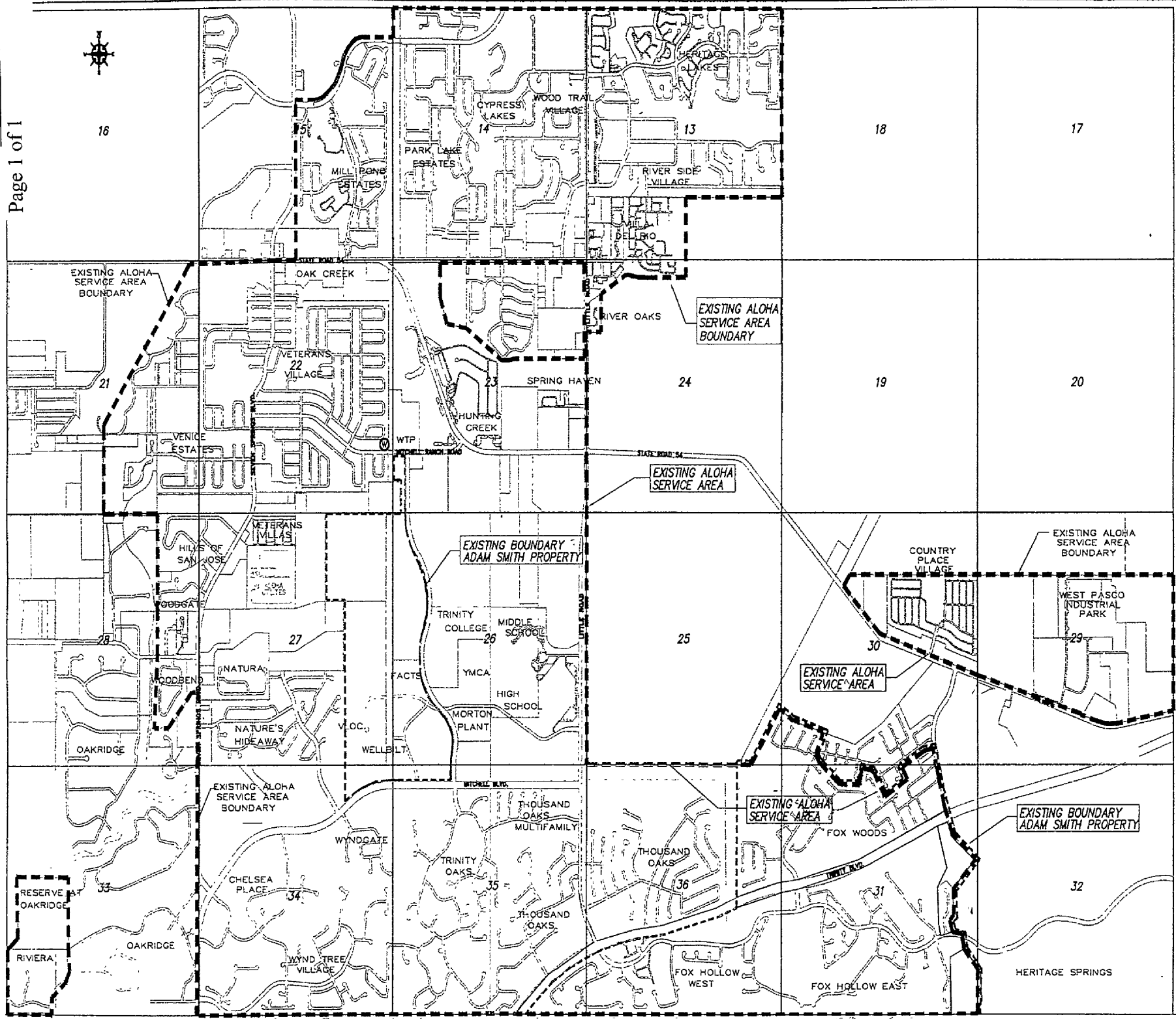
21 A. Mr. Ford, Secretary/Treasurer of Adam Smith, testified at deposition that Phase I
22 of the Trinity Communities DRI has approximately 40-45% of the original

1 planned 4,924 units remaining to develop and that no development has begun on
2 the 4,752 units proposed for Phase II. Using a simple average of Mr. Ford's
3 estimate, there are 42.5% of the original lots remaining to develop or 2,093 Phase
4 I lots. Equitably apportioning Adam Smith's \$229,477 backbilled service
5 availability charges over the remaining Phase I lots results in an additional cost
6 per lot of \$109.64. If these costs are equitably apportioned over both Phase I and
7 Phase II lots, this additional cost would decrease to \$33.52 per lot.

8 According to the public records maintained by Pasco County, from April
9 17, 2002 until October 31, 2002, lots sold in Adam Smith's Fox Wood Phase 5
10 for approximately \$25,000 per lot. Assuming that the remaining lots in Phases I
11 and II are sold at the same price, the additional cost per lot associated with
12 backbilling the service availability charges would range from 0.438% to 0.134%
13 of the total sales price per lot for Phase I and Phase I + Phase II lots, respectively.

14 **Q. Does that conclude your testimony?**

15 **A. Yes.**



ADAM SMITH PROPERTY IN AUI SERVICE AREA
ALOHA WATER SERVICE AREA

ALOHA UTILITIES INC.
6915 PERRINE RANCH RD.
N.P. RICHEY, FL 34619

CIVIL ENGINEERING ASSOCIATES INC.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT a true and correct copy of the foregoing has been provided to the persons listed below by U.S. Mail, (*) Hand Delivery, or (**) E-Mail, this 6th day of January, 2003.

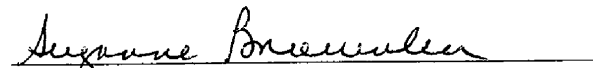
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