

State of Florida



## Public Service Commission

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** February 8, 2002  
**TO:** Orlando Division of Economic Regulation (Costner)  
**FROM:** Division of Auditing and Safety (Vandiver) *AV*  
**RE:** 011481-WS; Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities; Staff-Assisted Rate Case; Audit Control Number 01-337-3-1

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Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp  
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)  
Division of the Commission Clerk and Administrative Services  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel

Mr. Terry W. Hartigh  
Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities  
152 Breeze Hill Utilities  
Lake Wales, FL 33853-7300

DOCUMENT NUMBER - DATE

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**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF AUDITING AND SAFETY  
BUREAU OF AUDITING*

*Orlando District Office*

**BIEBER ENTERPRISES, INC.  
D/B/A/ BREEZE HILL UTILITIES**

**STAFF-ASSISTED RATE CASE**

**HISTORICAL PERIOD ENDED DECEMBER 31, 2001**

**DOCKET NO. 011481-WS  
AUDIT CONTROL NO. 01-337-3-1**

A handwritten signature in black ink, appearing to read "Jeffery A. Small".

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*Jeffery A. Small, Audit Manager*

A handwritten signature in black ink, appearing to read "Duane Chamberlin".

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*Duane Chamberlin, Audit Staff*

A handwritten signature in black ink, appearing to read "Charleston J. Winston".

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*Charleston J. Winston, District Audit Supervisor*

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**DIVISION OF AUDITING AND SAFETY  
AUDITOR'S REPORT**

**JANUARY 31, 2002**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure for the historical 12-month period ended December 31, 2001, for Bieber Enterprises, Inc., d/b/a/ Breeze Hill Utilities. The attached schedules were assembled by the audit staff as part of our work in the utility's application for a Staff-Assisted Rate Case in Docket No. 011481-WS.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The utility's water and wastewater rate base balances are \$66,343 and \$46,542, respectively, as of December 31, 2001.

The utility's water and wastewater net operating income balances are \$1,893 and (\$3,256), respectively, for the 12-month period ended December 31, 2001.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report.

**Scanned** - The documents or accounts were read quickly looking for obvious errors.

**Verified** - The items were tested for accuracy, and substantiating documentation was examined.

**Confirmed** - Evidential matter supporting an account balance, transaction, or other information was obtained directly from an independent third party.

**Assembled** - Presented in Commission-required format financial information that was provided to the audit staff and is the representation of utility management.

**RATE BASE:** Reconciled account balances for utility-plant-in-service (UPIS) and accumulated depreciation (AD) from December 31, 1998 through December 31, 2000. Verified UPIS and AD additions as of December 31, 2001. Reconciled rate base balances authorized in Commission Order No. PSC-99-2394-FOF-WS, issued December 7, 1999, to the utility's general ledger. Reconciled account balances for contributions-in-aid-of construction (CIAC) and accumulated amortization of CIAC (AA) from December 31, 1998 through December 31, 2000. Verified CIAC and AA additions as of December 31, 2001. Calculated a working capital balance as of December 31, 2001.

**NET OPERATING INCOME:** Assembled and verified utility revenue and operating and maintenance (O&M) accounts for the 12-month period ended December 31, 2001. Chose a judgmental sample of customer bills and recalculated using FPSC-approved rates. Chose a judgmental sample of O&M expenses and scanned the invoices and other supporting documentation. Tested the calculation of depreciation expense. Scanned support for taxes other than income and income taxes.

**CAPITAL STRUCTURE:** Assembled and verified the components of the utility parent's capital structure as of December 31, 2001. Agreed interest expense to the terms of the note. Confirmed the note balance at December 31, 2001, with the grantor.

**OTHER:** Scanned the Regulatory Assessment Fees for the year 2000.

**Exception No. 1****Subject: Rate Base**

**Statement of Facts:** The utility has not closed its books and records for the 12-month period ended December 31, 2001, as of the date of the audit staff's report. Therefore, no utility rate base balances are presented at this time. See Disclosure No. 1 of this report for the audit staff's discussion on this issue.

**Recommendation:** The audit staff has determined the following rate base balances from utility records made available during the audit staff's fieldwork.

Water Rate Base	As of December 31, 2001
Utility-Plant-in-Service (UPIS)	\$127,031
Land	2,997
Contributions-in-Aid-of-Construction (CIAC)	(31,433)
Accumulated Depreciation of UPIS	(57,412)
Accumulated Amortization of CIAC	22,947
Working Capital (1/8 of O&M Expense)	<u>2,213</u>
Net Rate Base	<u>\$66,343</u>

Wastewater Rate Base	As of December 31, 2001
Utility-Plant-in-Service (UPIS)	\$251,809
Land	18,519
Contributions-in-Aid-of-Construction (CIAC)	(117,903)
Accumulated Depreciation of UPIS	(210,365)
Accumulated Amortization of CIAC	101,285
Working Capital (1/8 of O&M Expense)	<u>3,197</u>
Net Rate Base	<u>\$46,542</u>

**Exception No. 2****Subject: Net Operating Income**

**Statement of Facts:** The utility has not closed its books and records for the 12-month period ended December 31, 2001, as of the date of the audit staff's report. Therefore, no utility net operating income balances are presented at this time. See Disclosure No. 1 of this report for the audit staff's discussion on this issue.

**Recommendation:** The audit staff has determined the following net operating income balances from utility records made available during the audit staff's fieldwork.

Water Net Operating Income	For the 12-month period ended December 31, 2001
Revenues	\$25,184
O&M Expenses	(17,700)
Depreciation Expense	(4,918)
Amortization Expense	1,217
Income Tax Expense	0
Taxes Other Than Income	(1,890)
Net Operating Income	<u>\$1,893</u>

  

Wastewater Net Operating Income	For the 12-month period ended December 31, 2001
Revenues	\$26,491
O&M Expenses	(25,575)
Depreciation Expense	(4,679)
Amortization Expense	2,191
Income Tax Expense	0
Taxes Other Than Income	(1,684)
Net Operating Income	<u>(\$3,256)</u>

### **Exception No. 3**

**Subject: Capital Structure**

**Statement of Facts:** The utility has not closed its books and records for the 12-month period ended December 31, 2001, as of the date of the audit staff's report. Therefore, no utility capital structure balances are presented at this time. See Disclosure No. 1 of this report for the audit staff's discussion on this issue.

In the utility's last rate proceeding, Order No. PSC-99-2349-FOF-WS, issued December 7, 1999, consolidated the utility's capital structure with its parent's organization, Bieber Enterprises, Inc. The Order stated that in cases where a utility's capital structure is not available, the capital structure of the parent corporation is used.

**Recommendation:** The audit staff was not able to determine the parent's capital structure or its related costs because the parent's books and records were not closed.

However, the audit staff was able to determine the parent's outstanding long-term debt balance and its associated cost consist of a note payable to Paul Bieber with an outstanding balance of \$136,721 as of December 31, 2001, and an annual cost rate of 7.5 percent.

The utility does not collect customer deposits from its customers for water and wastewater services.

The remaining unknown portion of the parent's capital structure is its equity balance as of December 31, 2001, which will be available when the company closes its books and records in February 2002.



## **Disclosure No. 1**

### **Subject: Utility Books and Records**

**Statement of Facts:** The utility has not closed its books and records for the 12-month period ended December 31, 2001, as of the date of the audit staff's report.

**Recommendation:** The utility and its parent, Bieber Enterprises, Inc., engage the accounting services of Kohl & Company, CPAs, to provide all of their accounting, billing, and tax services which are discussed in detail in Disclosure No. 3 of this report.

The audit staff, in discussions with the utility owners and their CPAs, has determined that their books and records will not be closed for the 12-month period December 31, 2001, before the issuance of the audit staff's report. Therefore, no utility-compiled rate base, net operating income, and capital structure balances can be presented in this report.

The audit staff has directed the utility to send a copy of its final trial balance for the 12-month period December 31, 2001, to the staff analyst in Tallahassee as soon as its books are closed and compiled. The utility's CPAs have indicated that a final trial balance should be available before the utility is required to file its 2001 FPSC Annual Report on March 31, 2002.

The audit staff defers this issue to the analyst in Tallahassee.

**Disclosure No. 2**

**Subject: Pro Forma Plant**

**Statement of Fact:** The utility is planning to overhaul its master lift station in 2002. The overhaul includes two new pumps, a new duplex control panel, check valves, and associated piping in accordance with Department of Environmental Protection specifications. The utility provided one estimate for this overhaul from Pugh Utilities Service, Inc. of Lake Placid. The estimate included two options. One option was for \$11,939 for a single phase power system. The second option was for \$13,034 for a three-phase power system. No other written estimates or bids for this plant expansion were provided.

**Recommendation:** Audit staff defers this issue to the engineer and analyst in Tallahassee.

**Disclosure No. 3**

**Subject: Pro Forma Operation & Maintenance (O&M) Expense Adjustments**

**Statement of Fact:** The utility paid the following amounts for the 12-month period ended December 31, 2001, for the indicated services.

<u>Vendor</u>	<u>Service Provided</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Corman Bardo	Meter reading	\$360	\$0	\$360
Walter L. Messer	Licensed operator	\$4,051	\$4,879	\$8,930
Belma Bieber	Bookkeeping	\$1,000	\$1,000	\$2,000
Kohl & Company	Accounting	\$4,479	\$4,365	\$8,843

**Recommendation:** The utility received a letter on January 8, 2002, from Corman Bardo, stating that he was increasing the annual fee for his services to \$720 as of January 2002. This results in a net increase of \$360 to the current test year expense.

In January 2002, Walter L. Messer notified the utility that he was no longer able to provide his services to the utility as of February 28, 2002. On January 17, 2002, the utility received and accepted a bid from Pugh Utilities Services, Inc. to provide water and wastewater plant operations for an estimated annual fee of \$11,630. The utility has not executed a signed contract as of the date of this audit report. This results in a net increase of \$2,700 to the current test year expense.

See Schedule A on the following page for details.

Beginning January 2002, the utility has contracted all accounts receivable and accounts payable functions with its accounting firm, Kohl & Company, CPAs. The utility received an updated schedule of accounting fees from its CPAs on January 9, 2002, that included the above changes in accounting services for an estimated annual fee of \$12,989. This results in a net increase of \$2,145 to the current test year expense.

See Schedule B on the following page for details.

The audit staff defers this issue to the analyst in Tallahassee.

**Disclosure No. 4, continued**

**Schedule A**

<b>Pugh Utilities Service, Inc.</b>			
<u>Service Provided</u>	<u>Annual Water</u>	<u>Annual Wastewater</u>	<u>Total</u>
Operation of both plants	\$3,900	\$3,900	\$7,800
CBOD/TSS influent		780	780
CBOD/TSS effluent		780	780
Fecal coliform		480	480
Sewer nitrates		480	480
Monthly bacteriological samples	780		780
Annual sludge analysis		450	450
Annual nitrate/nitrite samples	<u>80</u>	<u>          </u>	<u>80</u>
Total pro forma charges	\$4,760	\$6,870	\$11,630
Remove Walter Messer for the test year	(\$4,051)	(\$4,879)	(\$8,930)
Net increase or (decrease) in cost	\$709	\$1,991	\$2,700

**Schedule B**

<b>Kohl &amp; Company Accounting Services</b>			
<u>Service Provided</u>	<u>Annual Water</u>	<u>Annual Wastewater</u>	<u>Total</u>
Monthly invoicing & acc./rec.	\$3,300	\$3,300	\$6,600
Postage	260	260	519
Supplies	175	175	350
Monthly check writing	1,500	1,500	3,000
Quarterly payroll	100	100	200
Annual payroll	25	25	50
Year-end adj. & corporate tax return	300	300	600
Tangible & intangible tax returns	50	50	100
FPSC Annual Report	500	500	1,000
Miscellaneous fees	<u>285</u>	<u>285</u>	<u>570</u>
Total pro forma charges	\$6,495	\$6,495	\$12,989
Remove Belma Bieber for the test year	(\$1,000)	(\$1,000)	(\$2,000)
Remove Kohl & Company for the test year	(\$4,479)	(\$4,365)	(\$8,844)
Net increase (decrease) in cost	\$1,016	\$1,130	\$2,145

**EXHIBIT I**

**BIEBER ENTERPRISES, INC.  
D/B/A BREEZE HILL UTILITIES  
DOCKET NUMBER 011481-WS  
WATER RATE BASE  
AS OF DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION	REFER TO	PER AUDIT(2)
UTILITY PLANT-IN-SERVICE			E1	\$127,031
LAND & LAND RIGHTS			E1	2,997
CONTRIBUTIONS-IN-AID- OF- CONSTRUCTION (CIAC)			E1	(31,433)
ACCUMULATED DEPRECIATION			E1	(57,412)
ACCUMULATED AMORTIZATION OF CIAC			E1	22,947
WORKING CAPITAL(3)			E1	<u>2,213</u>
TOTAL				<u>\$66,343</u>

**FOOTNOTES:**

- 1) See Disclosure No. 1 for details.
- 2) Small differences can be attributed to rounding errors.
- 3) Working Capital calculated as 1/8 of O&M Expenses.

**EXHIBIT II****BIEBER ENTERPRISES, INC.  
D/B/A BREEZE HILL UTILITIES  
DOCKET NUMBER 011481-WS  
WASTEWATER RATE BASE  
AS OF DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION	REFER TO	PER AUDIT(2)
UTILITY PLANT-IN-SERVICE			E1	\$251,809
LAND & LAND RIGHTS			E1	18,519
CONTRIBUTIONS-IN-AID- OF- CONSTRUCTION (CIAC)			E1	(117,903)
ACCUMULATED DEPRECIATION			E1	(210,365)
ACCUMULATED AMORTIZATION OF CIAC			E1	101,285
WORKING CAPITAL(3)			E1	<u>3,197</u>
TOTAL				<u>\$46,542</u>

**FOOTNOTES:**

- 1) See Disclosure No. 1 for details.
- 2) Small differences can be attributed to rounding errors.
- 3) Working Capital calculated as 1/8 of O&M Expenses.

**EXHIBIT III**

**BIEBER ENTERPRISES, INC.  
D/B/A BREEZE HILL UTILITIES  
DOCKET NUMBER 011481-WS  
WATER NET OPERATING INCOME  
12-MONTH PERIOD ENDED DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION	REFER TO	PER AUDIT(2)
OPERATING REVENUES			E2	\$25,184
<hr/>				
EXPENSES:				
O&M EXPENSE			E2	17,700
DEPRECIATION EXPENSE			E2	4,918
CIAC AMORTIZATION			E2	(1,217)
INCOME TAX EXPENSE(3)			E2	0
TAXES OTHER THAN INCOME			E2	<u>1,890</u>
TOTAL OPERATING EXPENSE				<hr/> \$23,291
NET OPERATING INCOME				<u>\$1,893</u>

**FOOTNOTES:**

- 1) See Disclosure No. 1 for details.
- 2) Small differences can be attributed to rounding errors.
- 3) Net loss reported in utility's 2000 FPSC Annual Report.

**EXHIBIT IV**

**BIEBER ENTERPRISES, INC.  
D/B/A BREEZE HILL UTILITIES  
DOCKET NUMBER 011481-WS  
WASTEWATER NET OPERATING INCOME  
12-MONTH PERIOD ENDED DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION	REFER TO	PER AUDIT(2)
OPERATING REVENUES			E2	\$26,491
EXPENSES:				
O&M EXPENSE			E2	25,575
DEPRECIATION EXPENSE			E2	4,679
CIAC AMORTIZATION			E2	(2,191)
INCOME TAX EXPENSE(3)			E2	0
TAXES OTHER THAN INCOME			E2	<u>1,684</u>
TOTAL OPERATING EXPENSE				<u>\$29,747</u>
NET OPERATING INCOME				<u><u>(\$3,256)</u></u>

**FOOTNOTES:**

- 1) See Disclosure No. 1 for details.
- 2) Small differences can be attributed to rounding errors.
- 3) Net loss reported in utility's 2000 FPSC Annual Report.



**EXHIBIT V****BIEBER ENTERPRISES, INC.  
D/B/A BREEZE HILL UTILITIES  
DOCKET NUMBER 011481-WS  
CAPITAL STRUCTURE  
AS OF DECEMBER 31, 2001**

Account Description	Per Company(1)(2)	Audit Adjustment	Refer To	Per Audit(3)	Ratio	Cost Rate	Weighted Cost Rate
Long-term-Debt			E3	136,721	100.00%	7.50%	7.50%
Common Equity(4)			E3		0.00%		0.00%
Customer Deposits(5)				<u>0</u>	<u>0.00%</u>	6.00%	0.00%
Total Debt and Equity				\$136,721	100.00%		7.50%

**FOOTNOTES:**

- 1) See Disclosure No. 1 for details.
- 2) Order No. PSC-99-2349-FOF-WS used the parent's consolidated capital structure which is presented here.
- 3) Small differences can be attributed to rounding errors.
- 4) To be determined when Bieber Enterprises, Inc.'s books are closed in February 2002.
- 5) The utility does not collect any customer deposits.