

**CITY OF HAWTHORNE, FLORIDA**

**ANNUAL FINANCIAL REPORT**

**September 30, 2006**

**CITY OF HAWTHORNE, FLORIDA**

**ANNUAL FINANCIAL REPORT  
September 30, 2006**

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## **INTRODUCTORY SECTION**

**CITY OF HAWTHORNE, FLORIDA**

**LIST OF PRINCIPAL OFFICIALS**

**September 30, 2006**

**MAYOR**

**Terry Knowles**

**VICE MAYOR**

**Eleanor Randall**

**COMMISSION**

**John Martin**

**William Carlton**

**Deloris Roberts**

**CITY MANAGER**

**Chad M. Shryock**

**CITY CLERK**

**Donna R. Mayes**

## **FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor  
and City Commission  
City of Hawthorne, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of the City of Hawthorne, Florida, (City) as of and for the fiscal year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hawthorne, Florida's management. Our responsibility is to express an opinion on these financial statements based on our audit.

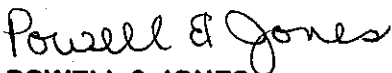
We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of the City of Hawthorne, Florida, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2006, on our consideration of the City of Hawthorne's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison information presented for the General Fund is not a required part of the basic financial statements of the City of Hawthorne, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Management's Discussion and Analysis on pages 3 through 7 is also not a required part of the basic financial statements of the City of Hawthorne but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



POWELL & JONES  
Certified Public Accountants  
December 15, 2006

## **CITY OF HAWTHORNE, FLORIDA**

### **Management's Discussion and Analysis**

This discussion and analysis is intended to be an easily readable analysis of the City of Hawthorne (City) financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

#### **Report Layout**

The City has implemented Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This statement requires governmental entities to report finances in accordance with specific guidelines. Among those guidelines are the components of this section dealing with management's discussion and analysis. Besides this Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, and the notes to the financial statements. The first two statements are condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized as applicable, and reported as either governmental or business-type activities. Governmental activities include basic services such as fire control, public works, parks and recreation, community development and general governmental administration. The City's water, sewer, and solid waste management services are reported as business-type activities. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the City.

#### ***Basic Financial Statements***

- The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snap-shot view of the assets the City owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. For the first time, governmental activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long been reported capital assets and long-term liabilities. Also, for the first time, governmental activities are reported on the accrual basis of accounting.
- The Statement of Activities focuses gross and net costs of the City's programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on governmental and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The City's has one major governmental fund, the General Fund. A budgetary comparison is presented for each of the governmental funds. Statements for the City's proprietary funds follow the governmental funds and include net assets, revenue, expenses and changes in net assets, and cash flows.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

- The MD&A is intended to serve as an introduction to the City's basic financial statements and to explain the significant changes in financial position and differences in operations between the current and prior years.

## City as a Whole

### Government-wide Financial Statements

#### Net Assets at September 30, 2006

	Governmental Activities	Business-type Activities	Total Government	
			2006	2005
Cash and cash equivalents	\$ 363,355	\$ 189,303	\$ 552,658	\$ 488,419
Other assets	512,377	213,902	726,279	782,251
Capital assets	1,609,736	5,075,123	6,684,859	7,097,891
Total assets	<u>2,485,468</u>	<u>5,478,328</u>	<u>7,963,796</u>	<u>8,368,561</u>
Other current liabilities	204,674	620,383	825,057	848,433
Long term outstanding	70,790	2,609,300	2,680,090	2,738,030
Total liabilities	<u>275,464</u>	<u>3,229,683</u>	<u>3,505,147</u>	<u>3,586,463</u>
Net assets:				
Invested in capital assets, net of related debt	1,575,535	2,416,150	3,991,685	4,358,392
Restricted	79,111	129,088	208,199	181,962
Unrestricted	555,357	(296,593)	258,764	242,144
Total net assets	<u>\$ 2,210,003</u>	<u>\$ 2,248,645</u>	<u>\$ 4,458,648</u>	<u>\$ 4,782,498</u>

90% of the City's net assets reflect its investment in capital assets (land, buildings, infrastructure, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional 5% of the City's net assets represent resources that are dedicated or subject to restriction on how they may be used. The remaining balance of unrestricted net assets \$258,764 may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net assets decreased \$323,850 or 6% over the year, which was primarily the result of recording depreciation in the proprietary funds.

The following schedule provides a summary of the changes in net assets. The decrease in Governmental Activities net assets is due primarily to ongoing operations. The decrease during the year through Business-type Activities net assets is due to ongoing operations, depreciation and interest expense.



A condensed version of the Statement of Activities follows:

**Change in Net Assets**  
For the fiscal year ended September 30, 2006

	Governmental Activities	Business-type Activities	Total Government	
			2006	2005
<b>Program revenues</b>				
Charges for services	\$ 87,485	\$ 743,308	\$ 830,793	\$ 723,249
Grants and contributions	80	-	80	397,110
<b>General revenues</b>				
Taxes	366,678	-	366,678	386,150
Franchise fees	43	-	43	50
Licenses	22,533	-	22,533	14,795
Tax increment	35,184	-	35,184	28,468
State shared revenues	145,232	-	145,232	138,237
Interest	2,449	3,860	6,309	4,491
Miscellaneous	5,687	1,045	6,732	29,013
<b>Total revenues</b>	<u>665,371</u>	<u>748,213</u>	<u>1,413,584</u>	<u>1,721,563</u>
<b>Expenses:</b>				
General government	356,045	-	356,045	272,889
Public safety	112,242	-	112,242	226,160
Transportation	200,417	-	200,417	195,242
Economic environment	-	-	-	101,150
Culture/recreation	70,100	-	70,100	32,556
Interest on long-term debt	2,320	134,744	137,064	137,329
Water	-	132,029	132,029	116,894
Garbage services	-	185,511	185,511	179,369
Sewer	-	544,027	544,027	414,518
<b>Total expenses</b>	<u>741,124</u>	<u>996,311</u>	<u>1,737,435</u>	<u>1,676,107</u>
<b>Changes in net assets</b>	(75,753)	(248,098)	(323,851)	45,456
Transfers	25,648	(25,648)	-	-
Beginning net assets	2,260,108	2,522,391	4,782,499	4,831,226
Prior period adjustment	-	-	-	(94,184)
<b>Ending net assets</b>	<u>\$ 2,210,003</u>	<u>\$ 2,248,645</u>	<u>\$ 4,458,648</u>	<u>\$ 4,782,498</u>

**Governmental activities:**

Taxes provide 55% of the revenues for Governmental Activities, while State Shared Revenue provides 22%. Most of the Governmental Activities resources are spent for General Government (48%), Public Safety (15%), and Transportation (27%).

**Business-type activities:**

Business-type activities decreased the City's net assets by (\$248,098). Key elements of this decrease are as follows:

- No capital grants were received this year which was \$142,000 less than the prior year.
- Charges for services increased by 12 percent or \$79,890. This is a result of increased water, garbage, and sewer collections.

- Expenses increased 17 percent, or \$148,276, as a result of increased depreciation.

### Budgetary Highlights

At the end of the year there were several individual departments with budget shortfalls due to unexpected events. In total, the general fund's expenditures were \$1,449 more than was budgeted. However, the general fund's revenues were \$8,944 less than was budgeted, resulting in a net negative variance of \$10,393.

### Capital Assets and Debt Administration

#### Capital Assets

At September 30, 2006, the City had \$6.7 million invested in capital assets, including police and fire equipment, park and recreation facilities, buildings, roads, bridges and water and sewer facilities. This amount represents a net decrease (additions, deductions, and depreciation) of \$413,032 or 6% less than last year.

#### Capital Assets at September 30, 2006

	Governmental		Business-type		Totals	
	Activities		Activities			
	2005	2006	2005	2006	2005	2006
Land	\$ 185,947	\$ 185,947	\$ 114,300	\$ 114,300	\$ 300,247	\$ 300,247
Buildings	704,345	704,345	4,851,775	4,851,775	5,556,120	5,556,120
Construction in progress	-	-	2,628,420	-	2,628,420	-
Improvements	1,416,821	1,419,090	986,742	3,615,162	2,403,563	5,034,252
Equipment	249,886	251,811	40,661	41,461	290,547	293,272
Subtotal	2,556,999	2,561,193	8,621,898	8,622,698	11,178,897	11,183,891
Accumulated depreciation	(881,157)	(951,457)	(3,199,849)	(3,548,575)	(4,081,006)	(4,499,032)
Capital assets, net	<u>\$ 1,675,842</u>	<u>\$ 1,609,736</u>	<u>\$ 5,422,049</u>	<u>\$ 5,074,123</u>	<u>\$ 7,097,891</u>	<u>\$ 6,684,859</u>

#### Debt Outstanding

At year-end, the City had \$2.76 million in bonds and notes outstanding versus \$2.83 million last year, a decrease of \$78,999.

#### Debt Outstanding at September 30, 2006

	Governmental Activities		Business-type Activities		Totals	
	2005	2006	2005	2006	2005	2006
Line of credit	\$ 43,955	\$ 20,255	\$ -	\$ -	\$ 43,955	\$ 20,255
USDA bonds	-	-	2,688,500	2,650,000	2,688,500	2,650,000
Loan payable	104,828	88,030	-	-	104,828	88,030
Total bonds and notes	<u>\$ 148,783</u>	<u>\$ 108,285</u>	<u>\$ 2,688,500</u>	<u>\$ 2,650,000</u>	<u>\$ 2,837,283</u>	<u>\$ 2,758,285</u>

More detailed information on the City long-term liabilities is presented in the notes to the financial statements.

## **OTHER FINANCIAL INFORMATION**

### **Economic Factors and Rates**

- The current unemployment rate for Alachua County was 2.6%. This is approximately the same as the prior year.
- The official population for the City in 2006 was 1,450 and is estimated to be approximately the same in 2007.
- The ad valorem tax millage rate for the City was 4.5 mills in 2006.

### **Financial Contact**

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City Manager at P.O. Box 1270, Hawthorne, Florida 32640.

# CITY OF HAWTHORNE, FLORIDA

## STATEMENT OF NET ASSETS

September 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 363,355	\$ 60,215	\$ 423,570
Accounts receivable-net	3,195	71,380	74,575
Due from other funds	485,070	135,766	620,836
Due from other governmental units	24,112	-	24,112
<b>Total current assets</b>	<u>875,732</u>	<u>267,361</u>	<u>1,143,093</u>
<b>Restricted assets:</b>			
Cash	-	129,088	129,088
<b>Total restricted assets</b>	<u>-</u>	<u>129,088</u>	<u>129,088</u>
<b>Non-current assets:</b>			
Bond costs, net	-	6,756	6,756
Capital assets, net	1,609,736	5,075,123	6,684,859
<b>Total non-current assets</b>	<u>1,609,736</u>	<u>5,081,879</u>	<u>6,691,615</u>
<b>Total assets</b>	<u>2,485,468</u>	<u>5,478,328</u>	<u>7,963,796</u>
<b>LIABILITIES</b>			
<b>Current liabilities (payable from current assets):</b>			
Accounts payable	51,475	-	51,475
Due to other funds	108,784	512,052	620,836
Due to other government units	1,411	-	1,411
Line of credit	20,255	-	20,255
Loan payable (current portion)	17,240	-	17,240
Accrued compensated absences	5,509	4,773	10,282
<b>Total current liabilities (payable from current assets)</b>	<u>204,674</u>	<u>516,825</u>	<u>721,499</u>
<b>Current liabilities (payable from restricted assets):</b>			
Accrued interest payable	-	10,828	10,828
Deposits	-	50,169	50,169
Bonds payable-current portion	-	40,700	40,700
<b>Total current liabilities (payable from restricted assets)</b>	<u>-</u>	<u>101,697</u>	<u>101,697</u>

(continued)

# CITY OF HAWTHORNE, FLORIDA

## STATEMENT OF NET ASSETS

September 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Non-current liabilities:</b>			
Loan payable	\$ 70,790	\$ -	\$ 70,790
Revenues collected in advance	-	1,861	1,861
Bonds payable	-	2,609,300	2,609,300
Total long-term liabilities	<u>70,790</u>	<u>2,611,161</u>	<u>2,681,951</u>
Total liabilities	<u>275,464</u>	<u>3,229,683</u>	<u>3,505,147</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,575,535	2,416,150	3,991,685
Restricted	79,111	129,088	208,199
Unrestricted	555,357	(296,593)	258,764
Total net assets	<u>\$ 2,210,004</u>	<u>\$ 2,248,644</u>	<u>\$ 4,458,648</u>

See notes to financial statements.

# CITY OF HAWTHORNE, FLORIDA

## STATEMENT OF ACTIVITIES For the Fiscal Year Ended September 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>							
General Government	\$ 356,043	\$ -	\$ -	\$ -	\$ (356,043)	\$ -	\$ (356,043)
Public Safety	112,241	(78,022)	-	-	(34,219)	-	(34,219)
Transportation	200,415	(9,463)	-	-	(190,952)	-	(190,952)
Economic Environment	-	-	-	(80)	80	-	80
Culture/recreation	70,101	-	-	-	(70,101)	-	(70,101)
Interest on long-term debt	2,320	-	-	-	(2,320)	-	(2,320)
<b>Total governmental activities</b>	<b>741,120</b>	<b>(87,485)</b>	<b>-</b>	<b>(80)</b>	<b>(653,555)</b>	<b>-</b>	<b>(653,555)</b>
<b>Business-type Activities</b>							
Water utility	132,029	(160,925)	-	-	-	28,896	28,896
Garbage services	185,511	(192,643)	-	-	-	7,132	7,132
Sewer utility	544,027	(389,740)	-	-	-	(154,287)	(154,287)
Interest on long-term debt	134,744	-	-	-	-	(134,744)	(134,744)
<b>Total business-type activities</b>	<b>996,311</b>	<b>(743,308)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(253,003)</b>	<b>(253,003)</b>
<b>Total government</b>	<b>\$ 1,737,431</b>	<b>\$ (830,793)</b>	<b>\$ -</b>	<b>\$ (80)</b>	<b>\$ (653,555)</b>	<b>\$ (253,003)</b>	<b>\$ (253,003)</b>
<b>General revenues</b>							
Property taxes					163,924	-	163,924
Sales and use taxes					74,682	-	74,682
Franchise fees					43	-	43
Utility services taxes					79,876	-	79,876
Communications surtax					48,196	-	48,196
Licenses and permits					22,533	-	22,533
State shared revenues					145,232	-	145,232
Tax increment funds					35,184	-	35,184
Interest					2,449	3,860	6,309
Miscellaneous					5,687	1,045	6,732
<b>Total general revenues</b>					<b>577,806</b>	<b>4,905</b>	<b>582,711</b>

(continued)

# CITY OF HAWTHORNE, FLORIDA

## STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
						Total
Change in net assets					\$ (75,749)	\$ (248,098)
Transfers					25,648	(25,648)
Net assets - beginning					2,260,108	2,522,391
Net assets - ending					<u>\$ 2,210,004</u>	<u>\$ 2,248,644</u>
						<u>\$ 4,458,648</u>
						<u>\$ (323,847)</u>
						<u>\$ -</u>
						<u>4,782,499</u>
						<u>\$ 4,458,648</u>

See notes to financial statements.

**CITY OF HAWTHORNE, FLORIDA**

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

For the Fiscal Year Ended September 30, 2006

	<b>General Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash	\$ 363,355
Accounts receivable	3,195
Due from other funds	485,070
Due from other governmental units	24,112
<b>Total assets</b>	<u><u>\$ 875,732</u></u>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 51,475
Due to other funds	108,784
Due to other governmental units	1,411
Line of credit	20,255
Accrued compensated absences	5,509
<b>Total liabilities</b>	<u><u>187,434</u></u>
<b>FUND BALANCES</b>	
Reserved:	
Library	455
Downtown	79,111
Unreserved	608,732
<b>Total fund balances</b>	<u><u>688,298</u></u>
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	\$ 1,609,736
Long-term liabilities are not due in the current period and, therefore, are not reported in the funds	(88,029)
<b>Net assets of governmental activities</b>	<u><u>\$ 2,210,005</u></u>

See notes to financial statements.



**CITY OF HAWTHORNE, FLORIDA**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

For the Fiscal Year Ended September 30, 2006

	<u>General Fund</u>
<b>REVENUES</b>	
Taxes	\$ 401,905
Licenses and permits	22,533
Intergovernmental revenue	145,312
Charges for services	9,463
Fines and forfeitures	26,017
Miscellaneous	60,141
Total revenues	<u>665,371</u>
<b>EXPENDITURES</b>	
Current Expenditures	
General government	353,260
Public safety	102,998
Transportation	156,409
Culture/recreation	55,808
Capital Outlay	
General government	4,219
Debt Service	
Transportation	19,119
Total expenditures	<u>691,813</u>
Excess of revenues over (under) expenditures	<u>(26,442)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Interfund transfers in	32,848
Interfund transfers out	(7,200)
Total other financing sources (uses)	<u>25,648</u>
Net change in fund balances	(794)
 Fund balances at beginning of year	 <u>689,092</u>
Fund balances at end of year	<u>\$ 688,298</u>

See notes to financial statements.

**CITY OF HAWTHORNE, FLORIDA**

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**For the Fiscal Year Ended September 30, 2006**

Net change in fund balances - total governmental funds		\$	(794)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			
Expenditures for capital assets	\$	4,219	
Less current year depreciation		<u>(70,325)</u>	(66,106)
Debt proceeds are financing sources in the governmental funds, but the debt increases long-term liabilities in the statement of net assets.			
Repayments of loan principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.			
Loan principal payments		<u>16,799</u>	<u>16,799</u>
Change in net assets of governmental activities			<u>\$ 50,101</u>

See notes to financial statements

**CITY OF HAWTHORNE, FLORIDA**

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS**

For the Fiscal Year Ended September 30, 2006

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Solid Waste</b>	<b>Sewer</b>	<b>Water</b>	<b>Totals</b>
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	\$ -	\$ 51,629	\$ 8,586	\$ 60,215
Accounts receivable (net of allowance for uncollectibles)	21,415	35,690	14,275	71,380
Due from other funds	15,838	-	119,928	135,766
<b>Restricted assets</b>				
Cash	-	-	129,088	129,088
<b>Fixed Assets</b>				
Land	-	114,300	-	114,300
Buildings	-	4,255,269	596,506	4,851,775
Improvements other than buildings	-	3,418,776	196,386	3,615,162
Equipment	-	37,335	4,126	41,461
Allowance for depreciation	-	(2,865,338)	(682,237)	(3,547,575)
<b>Other Assets</b>				
Bond costs	-	12,295	-	12,295
Accumulated amortization of bond cost	-	(5,539)	-	(5,539)
<b>Total assets</b>	<b>\$ 37,253</b>	<b>\$ 5,054,417</b>	<b>\$ 386,658</b>	<b>\$ 5,478,328</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Due to other funds	\$ -	\$ 511,385	\$ 667	\$ 512,052
<b>Current Liabilities Payable from restricted assets</b>				
Accrued Interest payable	-	8,973	1,857	10,830
Deposits	-	-	50,169	50,169
Serial bonds payable current	-	33,100	7,600	40,700
<b>Deferred Revenue</b>				
Revenue collected in advance	-	-	1,861	1,861
<b>Other Liabilities</b>				
Accrued compensated absences	-	3,196	1,576	4,772
<b>Long-Term Liabilities</b>				
Serial bonds payable	-	1,162,000	371,400	1,533,400
Bonds payable FMHA	-	1,075,900	-	1,075,900
<b>Total liabilities</b>	<b>-</b>	<b>2,794,554</b>	<b>435,130</b>	<b>3,229,684</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	-	2,680,369	(264,219)	2,416,150
Restricted for debt service	-	-	129,088	129,088
Unrestricted	37,253	(420,506)	88,659	(294,594)
<b>Total net assets</b>	<b>37,253</b>	<b>2,259,863</b>	<b>(46,472)</b>	<b>2,250,644</b>
<b>Total liabilities and net assets</b>	<b>\$ 37,253</b>	<b>\$ 5,054,417</b>	<b>\$ 388,658</b>	<b>\$ 5,480,328</b>

See notes to financial statements.

**CITY OF HAWTHORNE, FLORIDA**  
**PROPRIETARY FUNDS**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

For the Fiscal Year Ended September 30, 2006

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Solid Waste</b>	<b>Sewer</b>	<b>Water</b>	<b>Totals</b>
<b>Operating Revenues</b>				
Physical environment				
Water utility revenue				
Installation fees	\$ -	\$ -	\$ 3,575	\$ 3,575
Impact Fees	-	-	23,400	23,400
Water sales	-	-	123,724	123,724
Reconnect fees	-	-	3,400	3,400
Water later fees	-	-	6,826	6,826
Total water utility revenue	-	-	160,925	160,925
Garbage/solid waste revenue				
Operating income	192,643	-	-	192,643
Total garbage/solid waste revenue	192,643	-	-	192,643
Sewer utility revenues				
Sewer receipts	-	335,863	-	335,863
Installations	-	4,250	-	4,250
Impact Fees	-	21,000	-	21,000
Sewer late fees	-	6,826	-	6,826
Total sewer utility revenues	-	367,939	-	367,939
Total physical environment	192,643	367,939	160,925	721,507
Other miscellaneous	921	-	124	1,045
Total operating revenues	193,564	367,939	161,049	722,552
<b>Operating Expenses</b>				
Water utility services				
Personal services				
Regular salaries	-	-	24,841	24,841
FICA	-	-	1,842	1,842
Retirement	-	-	1,514	1,514
Life and health insurance	-	-	4,251	4,251
Worker's compensation	-	-	1,879	1,879
Total personal services	-	-	34,327	34,327
Operating expenses				
Depreciation	-	-	23,068	23,068
Accounting and auditing	-	-	2,000	2,000
Other contractual services	-	-	10,702	10,702
Communication services	-	-	443	443
Transportation	-	-	480	480
Utility services	-	-	9,426	9,426
Insurance	-	-	3,303	3,303
Repair and maintenance	-	-	39,539	39,539
Other current charges and obligations	-	-	480	480
Operating supplies	-	-	1,831	1,831

(continued)

**CITY OF HAWTHORNE, FLORIDA**  
**PROPRIETARY FUNDS**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

For the Fiscal Year Ended September 30, 2006

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Solid Waste</b>	<b>Sewer</b>	<b>Water</b>	<b>Totals</b>
Books, publications, subscriptions	\$ -	\$ -	\$ 864	\$ 864
Tests	-	-	5,566	5,566
Total operating expenses	-	-	97,702	97,702
Total water utility services	-	-	132,029	132,029
Garbage and solid waste services				
Operating expenses				
Other contractual services	185,261	-	-	185,261
Office supplies	250	-	-	250
Total garbage and solid waste services	185,511	-	-	185,511
Sewer services				
Personal services				
Regular salaries	-	35,904	-	35,904
FICA	-	2,702	-	2,702
Retirement	-	3,003	-	3,003
Life and health insurance	-	4,567	-	4,567
Worker's compensation	-	1,871	-	1,871
Total personal services	-	48,047	-	48,047
Operating expenses				
Depreciation	-	324,658	-	324,658
Accounting and auditing	-	2,000	-	2,000
Other contractual services	-	3,600	-	3,600
Communications services	-	1,465	-	1,465
Transportation	-	350	-	350
Utility services	-	32,446	-	32,446
Impact Fees	-	8,686	-	8,686
Repair and maintenance	-	16,763	-	16,763
Other current charges and obligations	-	7,450	-	7,450
Office supplies	-	315	-	315
Operating supplies	-	4,076	-	4,076
Gas and oil	-	1,260	-	1,260
Water services	-	1,617	-	1,617
Residual contract	-	66,525	-	66,525
Amortization	-	443	-	443
Diesel plant generator	-	3,780	-	3,780
Tests	-	20,546	-	20,546
Total operating expenses	-	495,980	-	495,980
Total sewer services	-	544,027	-	544,027
Total operating expenses	185,511	544,027	132,029	861,567
Operating income (loss)	8,053	(176,088)	29,020	(139,015)

**CITY OF HAWTHORNE, FLORIDA**  
**PROPRIETARY FUNDS**

**(continued) STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

For the Fiscal Year Ended September 30, 2006

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Solid Waste</b>	<b>Sewer</b>	<b>Water</b>	<b>Totals</b>
<b>Nonoperating Revenues (Expenses)</b>				
Interest earnings				
Interest on investments	\$ -	\$ 1,442	\$ 2,418	\$ 3,860
Rents and royalties				
Gator Tower	-	4,992	-	4,992
American Tower	-	12,909	-	12,909
FPL	-	3,900	-	3,900
Total rents and royalties	-	21,801	-	21,801
Water utility services				
Debt service				
Interest	-	-	(22,654)	(22,654)
Sewer services				
Debt service				
Interest	-	(112,090)	-	(112,090)
Total nonoperating revenues (expenses)	-	(88,847)	(20,236)	(109,083)
Income before operating transfers	8,053	(264,935)	8,784	(248,098)
Operating transfers				
Interfund transfers in	-	-	7,200	7,200
Interfund transfers out	(9,400)	(16,948)	(6,500)	(32,848)
Total operating transfers	(9,400)	(16,948)	700	(25,648)
Change in net assets	(1,347)	(281,883)	9,484	(273,746)
Net assets beginning of year	38,600	2,541,746	(57,955)	2,522,391
Net assets end of year	\$ 37,253	\$ 2,259,863	\$ (48,471)	\$ 2,248,644

**CITY OF HAWTHORNE, FLORIDA**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS**

For the Fiscal Year Ended September 30, 2006

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Solid Waste</b>	<b>Sewer</b>	<b>Water</b>	<b>Totals</b>
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 194,911	\$ 360,063	\$ 146,035	\$ 701,009
Cash payments to employees	-	(36,488)	(25,522)	(62,010)
Cash payments for employee benefits	-	(12,143)	(9,486)	(21,629)
Cash paid to vendors	(185,511)	(170,880)	(74,633)	(431,024)
<b>Net cash provided by operating activities</b>	<b>9,400</b>	<b>140,552</b>	<b>36,394</b>	<b>186,346</b>
<b>Cash flows from capital and related financing activities</b>				
Interest paid on bonds payable	-	(112,215)	(23,726)	(135,941)
Principal paid on bonds payable	-	(31,300)	(7,200)	(38,500)
<b>Net cash provided by (used for) capital and related financing activities</b>	<b>-</b>	<b>(143,515)</b>	<b>(30,926)</b>	<b>(174,441)</b>
<b>Cash flows from noncapital financing activities</b>				
Rents and royalties	-	21,801	-	21,801
Transfers	(9,400)	(16,948)	700	(25,648)
<b>Net cash provided by (used for) noncapital financing activities</b>	<b>(9,400)</b>	<b>4,853</b>	<b>700</b>	<b>(3,847)</b>
<b>Cash flows from investing activities</b>				
Purchase of fixed assets	-	(800)	-	(800)
Interest	-	1,442	2,418	3,860
<b>Net cash provided by (used for) investing activities</b>	<b>-</b>	<b>642</b>	<b>2,418</b>	<b>3,060</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>-</b>	<b>2,532</b>	<b>8,586</b>	<b>11,118</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>-</b>	<b>49,097</b>	<b>-</b>	<b>49,097</b>
<b>Cash and cash equivalents, end of year</b>	<b>-</b>	<b>51,629</b>	<b>8,586</b>	<b>60,215</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	8,053	(176,088)	29,019	(139,016)
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>				
Depreciation and amortization	-	325,101	23,068	348,169
(Increase) decrease in assets:				
Accounts receivable, net	(4,571)	(4,410)	(2,245)	(11,226)
Due from other funds	5,918	-	(17,162)	(11,244)
Increase (decrease) in liabilities:				
Due to other funds	-	(3,467)	-	(3,467)
Customer deposits payable	-	-	4,395	4,395
Accrued compensated absences	-	(584)	(681)	(1,265)
<b>Total adjustments</b>	<b>1,347</b>	<b>316,640</b>	<b>7,375</b>	<b>325,362</b>
<b>Net cash provided by operating activities</b>	<b>\$ 9,400</b>	<b>\$ 140,552</b>	<b>\$ 36,394</b>	<b>\$ 186,346</b>

See notes to financial statements.

**CITY OF HAWTHORNE, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 2006

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Hawthorne (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting principles. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB Statement 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

In June, 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement 34-Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments. This Statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation (based on the size of government) starting with the fiscal year ending 2002. As part of this statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year further delay for implementation of the infrastructure related portion in the fiscal year ending in 2006. The City has fully implemented the basic model in the FY 2003-2004, and will implement the required infrastructure related portion by 2006.

**A. Reporting Entity** - The City of Hawthorne, Florida is a municipal, political subdivision of the State of Florida created under the provisions of *Laws of Florida*, Chapter 8271 (1919). Accordingly, it is controlled by the Florida Constitution and various *Florida Statutes* as well as its own local charter, ordinances and policies. It is governed by a City Commission of five members, all individually elected, who select from among themselves one member to serve as Mayor/ Commissioner.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, management determined that the following component unit existed which should be included within the reporting entity.



**City of Hawthorne Community Redevelopment Agency** - This dependent special district was established for the fostering of economic development within the downtown district, by City Ordinance 94-1. The governing board is the City Commission which also establishes the agency's budget. Because this component unit is a substance part of the City's operations, it has been reported on a blended basis in the City's financial statements.

**B. Measurement Focus and Basis of Accounting** - The basic financial statements of the City are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

#### **1. Government-wide Financial Statements**

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from any legally separate component unit for which the primary government is financially accountable.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and agency fund financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement 33 - Accounting and Financial Reporting for Nonexchange Transactions.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. As applicable, the City also chooses to eliminate the indirect costs between governmental activities to avoid the "doubling up" effect.

#### **2. Fund Financial Statements**

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the City's governmental and proprietary funds are presented after the government-wide financial statements. These statements display information about major funds individually, and nonmajor funds in the aggregate for governmental and enterprise funds.

**Governmental Funds** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 40 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Franchise fees, licenses, sales taxes, gas taxes, operating and capital grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the City.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be measure of "available spendable resources." Governmental funds operating statements present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Any non-current portions of long-term receivables (special assessments) due to governmental funds are reported on their balance sheets in spite of their spending measurement focus.

Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Because of their spending measurement focus, expenditure recognition for governmental fund types exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**Proprietary Funds** - The City's Solid Waste, Water, and Sewer Enterprise Funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods and services are delivered. In the fund financial statements, proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets. The City applies all GASB pronouncements as well as all FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins, issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

Proprietary fund operation revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, taxes, and investment earnings, result from nonexchange transactions or ancillary activities.

Amounts paid to acquire capital assets are capitalized as assets in the fund financial statements,

rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liabilities, rather than as an expense.

**C. Basis of Accounting - GASB Statement 34** sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures, expenses of either fund category and the governmental and enterprise combined) for the determination of major funds. The City has used GASB 34 minimum criteria for major fund determination.

**1. Governmental Major Funds:**

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

**2. Proprietary Major Funds:**

The City maintains its utility services in the following Enterprise Funds, each of which is classified as a major fund:

- Solid Waste Fund
- Water Fund
- Sewer Fund

**3. Non-current Governmental Assets/Liabilities:**

GASB Statement 34 requires non-current governmental assets, such as land and building, and noncurrent governmental liabilities, such as general obligation bonds and capital leases, be reported in the governmental activities column in the government-wide statement of net assets.

**D. Assets, Liabilities and Net Assets or Equity**

**1. Cash and Investments** - Cash includes amounts in demand deposits as well as short-term money market investment accounts. Investments, consisting of certificates of deposit, are stated at cost which approximates market value. All such deposits and investments are insured and collateralized as required by state law.

**2. Cash Equivalents** - For purposes of the statement of cash flows, the City considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. As of September 30, 2006, the City's cash consisted solely of checking accounts and money market accounts, it has no other cash equivalents.

**3. Allowance for Doubtful Accounts** - As applicable year-to-year, the City provides an allowance for Enterprise Fund accounts receivable that may become uncollectible. At September 30, 2006, there were no amounts exceeding 180 days, therefore no allowance for doubtful accounts was reported. No other allowances for doubtful accounts are maintained since other fund accounts receivable are considered collectible as reported at September 30, 2006.

**4. Receivables and Payables** - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for doubtful accounts. Any receivables in excess of 180 days would comprise the trade accounts receivable allowance for doubtful accounts.

5. **Restricted Assets** - Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond current debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond reserve" account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account, and to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.
6. **Encumbrances** - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not utilized by the City.
7. **Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets, bridges, right-of-ways, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$500 or more and an estimated useful life in excess of one year. Except for roads and bridges constructed prior to October 1, 1981, assets are recorded at historical cost. Roads and bridges constructed prior to October 1, 1981 are reported at estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donations.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City, as well as component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Building and improvements	10 - 50
Machinery and equipment	5 - 12
Street and related infrastructure	20 - 40

8. **Capitalization of Interest** - Interest related to bond issues are capitalized during the construction period. These costs are netted against applicable interest earnings on construction fund investments. During the current period, the City did not have any capitalized interest.
9. **Deferred Revenues** - Deferred revenues reported in government-wide financial statements represent unearned revenues. The deferred revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in proprietary fund financial statements represent unearned revenues which are measurable but not available and, in

accordance with the modified accrual basis of accounting, are reported as deferred revenues.

10. **Accrued Compensated Absences** - The City accrues accumulated unpaid vacation and sick leave when earned by the employee. The current portion is the amount estimated to be used in the following year. The non-current portion is the amount estimated to be used in subsequent fiscal years. Both the current and non-current estimated accrued compensated absences amounts for governmental funds are maintained separately and represent a reconciling item between the fund and government-wide presentation.
11. **Capital Contributions** - Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.
12. **Proprietary Activity Accounting and Financial Reporting** - The City applies all applicable Government Accounting Standards (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements; Financial Accounting Standards (FASB) Statements and Interpretations. Accounting Principles Board (APB) Opinion and Account Research Bulletins (ARB's).

## **NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

### **A. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide State of Net Assets.**

"Total fund balances" of the City's governmental funds \$688,298 differs from "net assets" of governmental activities \$2,210,005 reported in the statement of net assets. This difference primarily results from the long-term economical focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheet.

#### Capital related items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets included those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 2,561,194
Accumulated depreciation	(951,458)
Total	<u>\$ 1,609,736</u>

#### Long-term debt transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets. Balances at September 30, 2006, were:

Loan payable	<u>\$(88,029)</u>
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# CITY OF HAWTHORNE, FLORIDA

## NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

	Total Governmental Governmental Funds	Capital Related Items	Long-Term Debt Transactions	Statement of Net Assets
<b>ASSETS</b>				
Cash and cash equivalents	\$ 363,355	\$ -	\$ -	\$ 363,355
Accounts receivable	3,195	-	-	3,195
Due from other funds	485,070	-	-	485,070
Due from other governmental units	24,112	-	-	24,112
Capital assets - net		1,609,736	-	1,609,736
Total assets	<u>\$ 875,732</u>	<u>\$ 1,609,736</u>	<u>\$ -</u>	<u>\$ 2,485,468</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 51,474	\$ -	\$ -	\$ 51,474
Due to other funds	108,784	-	-	108,784
Due to other governmental units	1,412	-	-	1,412
Accrued compensated absences	5,509	-	-	5,509
Line of credit	20,255	-	-	20,255
Loan payable		-	88,029	88,029
Total liabilities	<u>187,434</u>	<u>-</u>	<u>88,029</u>	<u>275,463</u>
Fund balances/net assets	<u>688,298</u>	<u>1,609,736</u>	<u>(88,029)</u>	<u>2,210,005</u>
Total liabilities and fund balance/net assets	<u>\$ 875,732</u>	<u>\$1,609,736</u>	<u>\$ -</u>	<u>\$ 2,485,468</u>

**B. Explanation of Differences Between the Governmental Fund Operating Statements and the Statement of Activities**

The "net change in fund balances" for governmental funds (\$50,101) differs from the "change in net assets" for governmental activities (\$794) reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

**Capital related items**

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balances decrease by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charges for the year.

Capital outlay	\$ 4,219
Depreciation expense	<u>(70,325)</u>
Difference	<u>\$ (66,106)</u>

**Long-term debt transactions**

Debt proceeds are reported as "other financing sources" in the governmental fund, and have the effect of increasing the fund balance. Debt proceeds increase the liabilities in the state of net assets and do not result in an increase in net assets in the statement of activities.

Conversely, repayment of debt principal is reported as an expenditure in the governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. However, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.

Debt principal payments made	<u>\$ 16,799</u>
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# CITY OF HAWTHORNE, FLORIDA

## NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

B. Explanation of Differences Between Government Fund Operating Statements and the Statement of Activities

	Total Governmental Funds	Capital Related Items	Long-Term Debt Transactions	Statement of Activities
<b>REVENUES</b>				
Taxes	\$ 401,905	\$ -	\$ -	\$ 401,905
Licenses and permits	22,533	-	-	22,533
Intergovernmental	145,312	-	-	145,312
Charges for services	9,463	-	-	9,463
Fines and forfeitures	26,017	-	-	26,017
Miscellaneous	60,141	-	-	60,141
Total revenues	<u>665,371</u>	<u>-</u>	<u>-</u>	<u>665,371</u>
<b>EXPENDITURES</b>				
Current Expenditures				
General government	353,260	2,783	-	356,043
Public safety	102,998	9,243	-	112,241
Transportation	156,409	44,006	-	200,415
Culture/recreation	55,808	14,293	-	70,101
Capital Outlay				
General Government	4,219	(4,219)	-	-
Debt Service				
Principal	16,799	-	(16,799)	-
Interest	2,320	-	-	2,320
Total Expenditures	<u>691,813</u>	<u>66,106</u>	<u>(16,799)</u>	<u>741,120</u>
Excess of revenues over (under) expenditures	(26,442)	(66,106)	16,799	(75,749)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	32,848	-	-	32,848
Transfers out	(7,200)	-	-	(7,200)
Total other financing sources (uses)	<u>25,648</u>	<u>-</u>	<u>-</u>	<u>25,648</u>
Net change in fund balance	(794)	(66,106)	16,799	(50,101)
Fund balance at beginning of year	689,092	1,675,842	(104,828)	2,260,106
Fund balances at end of year	<u>\$ 688,298</u>	<u>\$ 1,609,736</u>	<u>\$ (88,029)</u>	<u>\$ 2,210,005</u>



### **NOTE 3.       LEGAL COMPLIANCE--BUDGETS**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1.     Prior to September 1, the City Manager develops a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2.     Public hearings are conducted to obtain taxpayer comments.
3.     Prior to September 30, the budget is legally enacted by the City Commission through passage of an ordinance.
4.     Any revision that alters the total expenditures of any fund or transfers budgeted amounts between departments within any fund must be approved by the City Commission.
5.     Budgets for all City funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Commission. Individual amendments were not material in relation to the original appropriations which were amended.

### **NOTE 4.       DEPOSITS AND INVESTMENTS**

Deposits. The bank balances of the City deposits were fully insured by federal depository insurance or pledged collateral under state law.

Investments. Under state law, the City is allowed to invest surplus funds in guaranteed obligations of the U.S. government, interest bearing accounts of financial institutions which are legally secured, and the Local Government Surplus Funds Trust Fund. At year end, there were no investments.

### **NOTE 5.       PROPERTY TAX REVENUES**

Taxable values for all property are established as of January 1, which is the date of lien, for the fiscal year starting October 1. Property tax revenues recognized for the 2005-2006 fiscal year were levied in October 2005. All taxes are due and payable on November 1 or as soon as the assessment roll is certified and delivered to the Tax Collector. Discounts are allowed for early payment at the rate of 4% in November, 3% in December, 2% in January, and 1% in February. Taxes paid in March are without discount. All unpaid taxes become delinquent as of April 1. Virtually all unpaid taxes are collected via the sale of tax certificates on or prior to June 1; therefore, there were no material taxes receivable at fiscal year end.

### **NOTE 6.       CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2006, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets:				
Land	\$ 185,947	\$ -	\$ -	\$ 185,947
Buildings	704,345	-	-	704,345
Improvements	1,416,821	2,269	-	1,419,090
Equipment and vehicles	249,886	1,950	(25)	251,811
Total capital assets	2,556,999	4,219	(25)	2,561,193
Less accumulated depreciation	(881,157)	(70,325)	25	(951,457)
Governmental activities: capital assets, net	<u>\$ 1,675,842</u>	<u>\$ (66,106)</u>	<u>\$ -</u>	<u>\$ 1,609,736</u>
<b>Business-type activities:</b>				
Land	\$ 114,300	\$ -	\$ -	\$ 114,300
Buildings	4,851,775	-	-	4,851,775
Construction in progress	2,628,420	-	(2,628,420)	-
Improvements other than buildings	986,742	2,628,420	-	3,615,162
Equipment	40,661	800	-	41,461
Total capital assets	8,621,898	2,629,220	(2,628,420)	8,622,698
Less accumulated depreciation	(3,199,849)	(348,726)	-	(3,548,575)
Business-type activities: capital assets, net	<u>\$ 5,422,049</u>	<u>\$ 2,280,494</u>	<u>\$ (2,628,420)</u>	<u>\$ 5,074,123</u>

Depreciation expense was charged to functions/programs of the City as follows:

<b>Governmental activities:</b>	
General Government	\$ 2,783
Public Safety	9,243
Transportation	44,006
Culture/recreation	14,293
Total depreciation expense - governmental activities	<u>\$ 70,325</u>
<b>Business-type activities</b>	
Water utility	\$ 23,068
Sewer utility	324,658
Total depreciation expense - business-type activities	<u>\$ 347,726</u>

#### NOTE 7. INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of interfund receivables and payables at September 30, 2006.

Fund	Interfund Receivables	Interfund Payables
General	\$ 485,070	\$ 108,784
Water	119,928	667
Solid Waste	15,838	-
Sewer	-	511,385
	<u>\$ 620,836</u>	<u>\$ 620,836</u>

#### NOTE 8. INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2006, consisted of the following:

Fund	Transfers In	Transfers Out
General	\$ 32,848	\$ 7,200
Water	7,200	6,500
Solid Waste	-	9,400
Sewer	-	16,948
	<u>\$ 40,048</u>	<u>\$ 40,048</u>

#### NOTE 9. RECEIVABLE AND PAYABLE BALANCES

##### Receivables

Receivables at September 30, 2006, were as follows:

	Accounts	Due from Other Governmental Units	Total Receivables
Governmental activities:			
General	\$ 3,195	\$ 24,112	\$ 27,307
Business-type activities:			
Enterprise	71,380	-	71,380
	<u>\$ 74,575</u>	<u>\$ 24,112</u>	<u>\$ 98,687</u>

##### Payables

Payables at September 30, 2006, were as follows:

	Vendors
Governmental activities:	
General	<u>\$ 51,475</u>

**NOTE 10. LONG TERM DEBT -- BUSINESS-TYPE ACTIVITIES****A. Water Revenue Bonds Payable**

Water Revenue bonds for expansion of the City's water system were sold during the fiscal year ended September 30, 1991, in the amount of \$450,000. These bonds bear interest at the rate of 5.875% per annum, with different denominations maturing September 1, 1997 through the year 2030. The revenues of the water system after deduction of the costs of operation and maintenance are pledged for payment of these bonds. In addition to the scheduled payments of interest and principal, the City was required to deposit \$2,990 per year into a reserve account until it reached a minimum balance of \$29,900, which has been achieved. Future debt service of the Water Revenue Bonds, including interest, are as follows:

September 30	Principal	Interest	Total
2007	\$ 7,600	\$ 22,266	\$ 29,866
2008	8,000	21,820	29,820
2009	8,500	21,350	29,850
2010	9,000	20,850	29,850
2011	9,500	20,322	29,822
2012 - 2016	56,800	92,525	149,325
2017-2021	75,400	73,784	149,184
2022-2026	100,400	48,851	149,251
2027-2030	103,800	15,674	119,474
	<u>\$ 379,000</u>	<u>\$ 337,442</u>	<u>\$ 716,442</u>

**B. Sewer Revenue Bonds Payable**

Sewer revenue bonds for construction of the City's sewer system were issued during the fiscal year ended September 30, 1994, in the total amount of \$1,262,500. These bonds bear interest at the rate of 5% per annum, with different denominations maturing September 1, 1997 through the year 2033. The revenues of the sewer system after deduction of the costs of operation and maintenance are pledged for payment of these bonds. In addition to the scheduled payments of interest and principal, the City is required to deposit \$7,494 per year into a reserve account until it reaches a minimum balance of \$74,905. Future debt service and reserve requirements of the Sewer Revenue Bonds, including interest, are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total
2007	\$ 20,100	\$ 54,800	\$ 74,900
2008	21,100	53,795	74,895
2009	22,000	52,740	74,740
2010	23,200	51,640	74,840
2011	24,400	50,480	74,880
2012-2016	141,400	232,845	374,245
2017-2021	180,400	193,775	374,175
2022-2026	230,200	143,940	374,140
2027-2031	294,000	80,330	374,330
2032-2033	139,200	10,525	149,725
	<u>\$ 1,096,000</u>	<u>\$ 924,870</u>	<u>\$ 2,020,870</u>

**B. Water and Sewer Revenue Bonds, Series 2004**

On January 24, 2004, the City closed on the Water and Sewer Revenue Bond, Series 2004 in the amount of \$1,187,300. These bonds, sold to the U.S. Department of Agriculture, were utilized to fully repay the bond anticipation notes. The bonds are payable in annual payments over 40 years at average payments of \$65,732, including interest at 4.5%. The bonds are payable solely from sewer revenues. Future debt service of the Water and Sewer Revenue Bonds, including interest are as follows:

<u>Fiscal Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 13,000	\$ 52,875	\$ 65,875
2008	14,000	52,290	66,290
2009	14,000	51,660	65,660
2010	15,000	51,030	66,030
2011	15,000	50,355	65,355
2012-2016	88,000	240,795	328,795
2017-2021	110,000	219,150	329,150
2022-2026	137,000	192,105	329,105
2027-2031	171,000	158,310	329,310
2032-2036	212,000	116,235	328,235
2037-2041	265,000	64,080	329,080
2042-2043	121,000	8,190	129,190
	<u>\$ 1,175,000</u>	<u>\$ 1,257,075</u>	<u>\$ 2,432,075</u>

The following is a schedule of changes in proprietary fund long-term debt for the year ended September 30, 2006:

	<u>Balance September 30 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30 2006</u>	<u>Due Within One Year</u>
Water revenue bonds	\$ 386,200	\$ -	\$ (7,200)	\$ 379,000	\$ 7,600
Sewer revenue bonds	2,302,300	-	(31,300)	2,271,000	33,100
	<u>\$ 2,688,500</u>	<u>\$ -</u>	<u>\$ (38,500)</u>	<u>\$ 2,650,000</u>	<u>\$ 40,700</u>

**NOTE 11. LONG-TERM DEBT - GOVERNMENTAL ACTIVITIES**

**A. Loan Payable - Truck**

On June 28, 2004, the City entered into a loan agreement with Merchants and Southern Bank to purchase a 2004 Ford F250 Truck. The loan agreement totaling \$18,838 requires 48 payments of \$423 per month, including interest at 3.75%.

A summary of minimum debt requirements are as follows:

Year Ending September 30,	
2007	\$ 5,079
2008	3,809
Total payments	8,888
Less interest	(298)
	<u>\$ 8,590</u>

**B. Loan Payable - Backhoe**

On October 14, 2004, the City entered into a loan agreement with John Deere Credit, Inc. to purchase a 2004 Wheel Loader Backhoe. The loan agreement totaling \$41,804 requires three payments of \$2,000, then 44 payments of \$896 per month, including interest at 4.75%.

A summary of minimum debt requirements are as follows:

Year Ending September 30,	
2007	\$ 10,751
2008	9,855
Total payments	20,606
Less interest	(948)
	<u>\$ 19,658</u>

**C. Loan Payable - Lawn Mower**

On April 13, 2005, the City entered into a loan agreement with Sheffield Financial Corp. to purchase a lawn mower. The loan agreement totaling \$8,521 requires 36 payments of \$274 per month, including interest at 9.80%.

A summary of minimum debt requirements are as follows:

Year Ending September 30,	
2007	\$ 3,289
2008	3,289
Total payments	6,578
Less interest	(625)
	<u>\$ 5,953</u>

**D. Note Payable - Interlocal Agreement with Alachua County**

On October 4, 2004, the City entered into an agreement with Alachua County for the payment of fire service from Alachua County in 2003. The agreement totaling \$80,961 requires one payment of \$11,400 and then eight payments of \$11,171 per year, including interest at 2.20%.

A summary of minimum debt requirements are as follows:

<u>Year Ending September 30,</u>	
2007	\$ 11,171
2008	11,171
2009	11,171
2010	11,171
2011	11,171
2012-2013	<u>22,342</u>
Total payments	78,197
Less interest	<u>(8,408)</u>
	69,789
Recorded in general fund	<u>(15,960)</u>
	<u>\$ 53,829</u>

The following is a schedule of changes in general long-term debt for the year ended September 30, 2006:

	<u>September 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2006</u>	<u>Due Within One Year</u>
Loans payable	\$ 50,999	\$ -	\$ (16,799)	\$ 34,200	\$ 17,240
Notes payable	53,829	-	-	53,829	-
	<u>\$ 104,828</u>	<u>\$ -</u>	<u>\$ (16,799)</u>	<u>\$ 88,029</u>	<u>\$ 17,240</u>

#### **NOTE 12. NOTE PAYABLE - GENERAL FUND**

On July 20, 2002, the City entered into a line of credit agreement with Merchants and Southern Bank for a maximum loan of \$125,000. As of September 30, 2006, the City had drawn \$20,255 on this loan. The interest on the loan is variable, with an initial rate of 8.25%. This note is accounted for in the General Fund and is classified as a current liability of that fund.

#### **NOTE 13. INCOME FROM LEASED PROPERTY**

The parcel of land acquired by the City for its sewer plant site is larger than the City presently needs for its sewer plant operations. Therefore, the City has allowed two commercial entities to build radio towers on the site in exchange for monthly rentals of the land.

The first lease is for a period of ten years expiring February 14, 2005, with two renewal options for ten years each. It provides for \$400 per month for the first five years, with a 4% increase every five years, and provision to the City of seven digital pagers at no charge, to be replaced every ten years while the lease is in effect. Effective January, 2002, monthly rent was increased from \$400 to \$416.

The second lease is for a period of five years expiring March 31, 2006, with three more renewal options for five years each. It provides for \$900 per month, with a 12.5% increase with each

lease renewal, and three Motorola portable phones given to the City with up to five hundred minutes of free use per month. Effective April, 2001, monthly rent was increased from \$900 to \$1,013, and again, April, 2006. Monthly rent was increased to \$1,139.

The lessee of the second lease is permitting a third party to share its radio tower. The City holds a contract with that third party whereby the City received a one-time payment of \$1,500 plus \$325 per month for as long as the third party continues its use of the radio tower.

The City also has entered into a lease on its Scout building for a period of five years expiring February 6, 2005, with two one-year renewal options. The lease requires the Gateway Girl Scout Council to maintain and insure the property. No rent is charged by the City to the Girl Scouts for the use of this building.

Assuming continuous of these leases, future minimum income is as follows:

Year Ending September 30,	
<u>2007</u>	<u>\$ 22,561</u>

#### **NOTE 14. LEASE COMMITMENT**

The City presently has an operating lease agreement with non-cancelable provisions for a photocopy machine with GE Capital. Under the terms of this lease, the City is obligated to pay sixty monthly payments of \$137.

The City's rental expense for the year ended September 30, 2006, was \$1,644. As of September 30, 2006, its future operating lease commitments are as follows:

Year Ending September 30,	
<u>2007</u>	<u>\$ 822</u>

#### **NOTE 15. DEFERRED COMPENSATION PLAN**

Effective January, 2000, the City began making contributions to a deferred compensation plan for employees who had been employed for at least six months. The plan is intended to provide retirement income and other deferred benefits to the City's employees in accordance with the provisions of Section 457 of the Internal Revenue Code of 1986.

The City contributes 6% of the regular employee's base compensation and 10% of the compensation of the City Manager to the plan; in addition to amounts elected by the employees to be deferred from their current compensation. For the year ended September 30, 2006, the City contributed \$15,260 to the plan.

The City utilizes ICMA Retirement Corporation (RC) as its plan administrator. All contributions, whether from the City as employer or the City as agent for the employees, are remitted by the City to the ICMA Retirement Trust (the Trust) for commingled investment with the retirement contributions of other government employers. It is the responsibility of RC to maintain the plan in compliance with the requirements for eligible deferred compensation plans under Section 457



of the Internal Revenue Code, and to act as investment adviser to the Trust. It is the City's responsibility to furnish on a timely basis information needed by RC to fulfill its duties as plan administrator, and to remit the plan contributions on a timely basis to the Trust.

Taxes and fees related to the Trust's activity are paid directly out of the Plan's assets. No part of the corpus or income of the Trust may be reverted to the employer or be used for or diverted to any purpose other than the exclusive benefit of the participating employees or their beneficiaries.

#### **NOTE 16. CONTINGENT LIABILITIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State and Federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

#### **NOTE 17. RISK MANAGEMENT**

The City is exposed to various risks of loss related to theft of, damage to and destruction of assets; and injury or death on the job of all employees. These risks are primarily covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial or workers' compensation insurance coverage for the past three years. There has been no reduction in insurance coverage from the previous year.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HAWTHORNE, FLORIDA**

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended September 30, 2006

	<b>Budgeted Amounts Original and Final</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>			
<b>Taxes</b>			
Ad valorem taxes			
Current ad valorem taxes	\$ 161,679	\$ 162,800	\$ 1,121
Delinquent ad valorem taxes	2,500	1,124	(1,376)
Hawthorne redevelopment funds	30,000	35,184	5,184
Sales and use taxes			
Local option gas tax/alternative fuel	80,437	74,682	(5,755)
Franchise fees			
CATV	-	43	43
Utility service taxes			
Electricity	64,215	69,390	5,175
Telecommunications	40,045	48,196	8,151
Water	9,675	10,486	811
<b>Total taxes</b>	<b>388,551</b>	<b>401,905</b>	<b>13,354</b>
<b>Licenses and permits</b>			
Professional and occupational	3,840	3,185	(655)
Old Tyme Park permits	480	208	(272)
Building permits	264	200	(64)
Other licenses and permits			
Rezoning fees	-	7,875	7,875
Annexation fees	-	5,400	5,400
Temporary Plat Fees	1,200	1,300	100
Variance Fee	-	200	200
Special temp use permits	225	300	75
Site plan review fees	300	3,865	3,565
<b>Total licenses and permits</b>	<b>6,309</b>	<b>22,533</b>	<b>16,224</b>
<b>Intergovernmental revenue</b>			
State shared revenues			
General government			
State revenue sharing	52,342	57,962	5,620
Alcoholic beverage licenses	600	683	83
Local government half-cent sales tax	78,752	86,587	7,835
Grants from other local units			
Economic environment			
SHIP Alachua County	58,000	80	(57,920)
<b>Total intergovernmental revenue</b>	<b>189,694</b>	<b>145,312</b>	<b>(44,382)</b>

(continued)

**CITY OF HAWTHORNE, FLORIDA**

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended September 30, 2006

	<u>Budgeted Amounts Original and Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Charges for services</b>			
<b>Transportation</b>			
Other transportation services	<u>\$ 10,000</u>	<u>\$ 9,463</u>	<u>\$ (537)</u>
<b>Fines and forfeitures</b>			
<b>Court cases</b>			
Fine revenue Sheriff	20,000	21,537	1,537
Code enforcement fines	<u>1,200</u>	<u>4,480</u>	<u>3,280</u>
<b>Total fines and forfeitures</b>	<u>21,200</u>	<u>26,017</u>	<u>4,817</u>
<b>Miscellaneous</b>			
Interest earnings			
Interest on investments	1,200	2,449	1,249
Special Assessment-Fire	52,061	52,005	(56)
Other miscellaneous	<u>5,300</u>	<u>5,687</u>	<u>387</u>
<b>Total miscellaneous</b>	<u>58,561</u>	<u>60,141</u>	<u>1,580</u>
<b>Total revenues</b>	<u>674,315</u>	<u>665,371</u>	<u>(8,944)</u>
<b>EXPENDITURES</b>			
<b>General Government</b>			
<b>Legislative</b>			
Personal services	20,700	20,700	-
Operating expenses	<u>800</u>	<u>19,504</u>	<u>(18,704)</u>
<b>Total legislative</b>	<u>21,500</u>	<u>40,204</u>	<u>(18,704)</u>
<b>Financial and administrative</b>			
Personal services	160,080	165,739	(5,659)
Operating expenses	115,800	113,554	2,246
Capital outlay	<u>-</u>	<u>4,219</u>	<u>(4,219)</u>
<b>Total financial and administrative</b>	<u>275,880</u>	<u>283,512</u>	<u>(7,632)</u>

(continued)

**CITY OF HAWTHORNE, FLORIDA**

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended September 30, 2006

	<b>Budgeted Amounts Original and Final</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Legal counsel</b>			
Operating expenses	\$ 21,000	\$ 33,763	\$ (12,763)
<b>Total general government</b>	<u>318,380</u>	<u>357,479</u>	<u>(39,099)</u>
<b>Fire control</b>			
Operating expenses	<u>105,970</u>	<u>97,894</u>	<u>8,076</u>
<b>Protective inspections</b>			
Operating expenses	<u>5,280</u>	<u>5,104</u>	<u>176</u>
<b>Transportation</b>			
Roads and streets			
Personal services	50,744	47,651	3,093
Operating expenses	117,300	108,758	8,542
Debt service	23,000	19,119	3,881
<b>Total transportation</b>	<u>191,044</u>	<u>175,528</u>	<u>15,516</u>
<b>Culture/recreation</b>			
Parks and recreation			
Operating expenses	<u>72,090</u>	<u>55,808</u>	<u>16,282</u>
<b>Total expenditures</b>	<u>692,764</u>	<u>691,813</u>	<u>951</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers in	32,848	32,848	-
Interfund transfers out	(4,800)	(7,200)	(2,400)
<b>Total other financing sources (uses)</b>	<u>28,048</u>	<u>25,648</u>	<u>(2,400)</u>
<b>Net change in fund balances</b>	<b>9,599</b>	<b>(794)</b>	<b>(10,393)</b>
<b>Fund balance at beginning of year</b>	<b>689,092</b>	<b>689,092</b>	<b>-</b>
<b>Fund balance at end of year</b>	<u><u>\$ 698,691</u></u>	<u><u>\$ 688,298</u></u>	<u><u>\$ (10,393)</u></u>

See notes to financial statements.

## COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the City Commission  
City of Hawthorne, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of City of Hawthorne, Florida, (City) as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Hawthorne, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

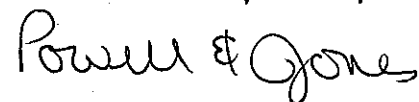
However, we noted certain matters that we reported to management of the City of Hawthorne, Florida, in a separate letter dated December 15, 2006 on pages 42-43.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Hawthorne, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the City of Hawthorne, Florida, in a separate letter dated December 15, 2006 on pages 42-43.

This report is intended solely for the information and use of management and the City Commission, the Auditor General of the State of Florida, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**POWELL & JONES**  
December 15, 2006

## **MANAGEMENT LETTER**

Honorable Mayor and  
City Commission  
City of Hawthorne, Florida

In planning and performing our audit of the financial statements of the City of Hawthorne, Florida, for the year ended September 30, 2006, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiencies. In addition to furnishing information required by Chapter 10.550, *Rules of the Auditor General*, and other compliance matters, the remaining sections of this report letter discuss these findings.

### **ALL PRIOR YEAR FINDINGS**

All other prior year findings were substantially corrected during the current year.

### **CURRENT YEAR FINDINGS**

**Bank Deposits** – From our tests of selected receipts in the current year, we found two instances where related bank deposits were made in excess of seven days from being received. To increase internal control over cash receipts, we recommend that deposits be made daily if possible, and always by the end of each work week.

**Cash Disbursements** - From our test of selected cash disbursements in the current year, we found three instances where no support documentation could be found. To increase internal control of cash disbursements, we recommend that original support documentation be retained in the records.

Also from our test of selected cash disbursements in the current year, we found that there often was no written evidence of approval on the support documentation. To increase internal control over cash disbursements, we recommend that all original support documentation be reviewed and signed or initialed upon being approved for payment.

### **USDA RURAL DEVELOPMENT DEPARTMENT OF AGRICULTURE REQUIREMENTS**

We are providing the following additional information relative to our examination of the financial statements of the City of Hawthorne, Florida, for the year ended September 30, 2006, as provided in the audit requirements for USDA borrowers.

1. Generally accepted auditing procedures were performed in this audit.
2. Internal controls were evaluated and are discussed in the prior sections of this audit report.
3. Accounting records and physical control over assets were adequate, except as discussed in prior sections of this audit report.
4. The accounting records of the City have been adjusted to agree with the audited financial statements.



5. The City's funds are in institutions insured by the Federal Government.
6. A summary of the City's insurance coverage is appended to the annual Form RD 442-2, filed for the City.
7. The City is exempt from Federal Income Tax.
8. We found nothing to indicate that financial compliance with the loan agreements had not occurred, except as discussed in prior sections of this audit report.

#### **AUDITOR GENERAL COMPLIANCE MATTERS**

**Annual Local Government Financial Report** - The Financial Report filed with the Department of Financial Services pursuant to Sections 218.32(1)(a), *Florida Statutes*, is in agreement with the accompanying financial statements of the City of Hawthorne, Florida, for the fiscal year ended September 30, 2006.

**Investment of Public Funds** - The City complied with Section 218.415, *Florida Statutes*, regarding the investment of public funds during the fiscal year.

**Financial Emergency Status** - Nothing came to our attention that caused us to believe that the City had met any of the conditions described in Section 218.503(1), *Florida Statutes*, that might result in a financial emergency.

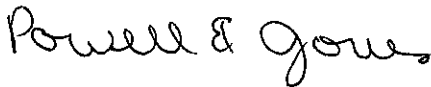
**Financial Condition Assessment** - As required by the *Rules of the Auditor General* (Sections 10.554(g)(6)c. and 10.556), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information they provided.

Our audit did not disclose any further items that would be required to be reported under the *Rules of the Auditor General*, Chapter 10.554(l)(f).

#### **CONCLUSION**

We have reviewed each of our specific findings with appropriate officials or employees and have provided them with documentation as requested. We very much enjoyed the challenges and experiences associated with our audit of the City.

We appreciate the helpful assistance and courtesy afforded us by all City employees and look forward to working with you in the future.



**POWELL & JONES**  
Certified Public Accountants  
December 15, 2006