

**CITY OF HAWTHORNE, FLORIDA**

**ANNUAL FINANCIAL REPORT**

**September 30, 2008**

**CITY OF HAWTHORNE, FLORIDA**

**ANNUAL FINANCIAL REPORT  
September 30, 2008**

**TABLE OF CONTENTS**

	<b>PAGE NO.</b>
<b>INTRODUCTORY SECTION</b>	
List of Principal Officials	4
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report	6 - 7
Management's Discussion and Analysis	8 - 12
<b>Basic Financial Statements</b>	
Statement of Net Assets	14 - 15
Statement of Activities	16 - 17
Governmental Funds	
Balance Sheet	18
Statement of Revenues, Expenditures and Changes in Fund Balances	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Fund to the Statement of Activities	20
Proprietary Funds	
Statement of Net Assets	21
Statement of Revenues, Expenses and Changes in Net Assets	22 - 24
Statement of Cash Flows	25
Notes to Financial Statements	26 - 42
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
General Fund – Statement of Revenues, Expenditures, and Changes In Fund Balance – Budget and Actual	44 - 47
<b>COMPLIANCE SECTION</b>	
Schedule of Expenditures of Federal Awards and State Financial Assistance	49
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 <i>Government Auditing Standards</i>	50 - 51
Management Letter	52 - 54

## INTRODUCTORY SECTION

**CITY OF HAWTHORNE, FLORIDA**

**LIST OF PRINCIPAL OFFICIALS**

September 30, 2008

**MAYOR**

**Deloris Roberts**

**VICE MAYOR**

**John Martin**

**CITY COMMISSION**

**Eleanor Randall**

**Patricia Bouie**

**Michael E. Rutledge, Sr.**

**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, 2008, 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, 2008, 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 February 2, 2009, 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 8 through 12, is also not a required part of the basic financial statements of the City of Hawthorne, Florida, 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of expenditures of federal awards and state financial assistance listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Hawthorne, Florida. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Powell & Jones", written in dark ink.

**POWELL & JONES**  
Certified Public Accountants  
February 2, 2009

## **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 police, 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 has one major governmental fund, the General Fund. 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, 2008 and 2007

	Governmental Activities	Business-type Activities	Total Government	
			2008	2007
Cash and cash equivalents	\$ 165,845	\$ 182,204	\$ 348,049	\$ 634,256
Other assets	510,900	251,871	762,771	746,408
Capital assets	1,565,139	4,849,964	6,415,103	6,341,625
Total assets	2,241,884	5,284,039	7,525,923	7,722,289
Other current liabilities	271,104	159,671	430,775	838,076
Long term outstanding	42,280	3,154,924	3,197,204	2,620,336
Total liabilities	313,384	3,314,595	3,627,979	3,458,412
Net assets:				
Invested in capital assets, net				
of related debt	1,565,139	1,641,399	3,206,538	3,310,020
Restricted	30,328	145,480	175,808	218,402
Unrestricted	333,033	182,565	515,598	735,444
Total net assets	\$ 1,928,500	\$ 1,969,444	\$ 3,897,944	\$ 4,263,866

82% 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 \$515,598 may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net assets decreased \$365,933 or 9% over the year, which was primarily the result of expenditures which exceeded revenues in the general fund and 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, 2008 and 2007

	Governmental Activities	Business-type Activities	Total Government	
			2008	2007
<b>Revenues:</b>				
Program revenues				
Charges for services	\$ 109,204	\$ 746,889	\$ 856,093	\$ 811,495
Grants and contributions	71,965	205,400	277,365	240,537
General revenues				
Taxes	518,466	-	518,466	489,729
Franchise fees	72	-	72	57
Licenses	9,853	-	9,853	13,892
Tax increment	66,307	-	66,307	46,708
State shared revenues	133,189	-	133,189	147,888
Interest	1,353	2,166	3,519	8,558
Miscellaneous	59,709	3,077	62,786	11,876
Total revenues	<u>970,118</u>	<u>957,532</u>	<u>1,927,650</u>	<u>1,770,740</u>
<b>Expenses:</b>				
General government	403,832	-	403,832	388,205
Public safety	512,702	-	512,702	193,208
Transportation	242,998	-	242,998	207,150
Economic environment	86,334	-	86,334	196,042
Culture/recreation	54,889	-	54,889	37,165
Interest on long-term debt	1,967	127,726	129,693	132,946
Water	-	162,663	162,663	138,825
Garbage services	-	176,729	176,729	188,803
Sewer	-	523,743	523,743	523,087
Total expenses	<u>1,302,722</u>	<u>990,861</u>	<u>2,293,583</u>	<u>2,005,431</u>
Changes in net assets	(332,604)	(33,329)	(365,933)	(234,691)
Transfers	(6,000)	6,000	-	-
Beginning net assets	2,267,104	1,996,773	4,263,877	4,458,648
Prior period adjustment	-	-	-	39,920
Ending net assets	<u>\$ 1,928,500</u>	<u>\$ 1,969,444</u>	<u>\$ 3,897,944</u>	<u>\$ 4,263,877</u>

**Governmental activities:**

Taxes provided 53% of the revenues for Governmental Activities, while State Shared Revenues provided 14% and Charges for Services provided 11%. Most of the Governmental Activities resources are spent for General Government (31%), Public Safety (39%), and Transportation (19%). There was a decrease in net assets of (\$338,604) as a result of governmental activities.

**Business-type activities:**

Business-type activities decreased the City's net assets by (\$33,329). Key elements of this decrease are as follows:

- Charges for services increased by 4% or \$30,041. This is a result of increase in collection of sewer and water fees.
- Expenses increased 1%, or \$10,226, as a result of increase in repairs.

## 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 and transfers out were \$369,151 more than was budgeted. However, the general fund's revenues and transfers in were \$54,321 more than was budgeted, resulting in a net variance of \$(314,830).

## Capital Assets and Debt Administration

### Capital Assets

At September 30, 2008, the City had \$6.42 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 increase (additions, deductions, and depreciation) of \$73,478 from last year.

### Capital Assets at September 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Totals	
	2007	2008	2007	2008	2007	2008
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
Improvements	1,469,090	1,469,090	3,640,162	3,893,247	5,109,252	5,362,337
Construction in progress	-	-	-	194,000	-	194,000
Equipment	255,711	304,560	41,461	39,455	297,172	344,015
Subtotal	2,615,093	2,663,942	8,647,698	9,092,777	11,262,791	11,756,719
Accumulated depreciation	(1,025,184)	(1,098,803)	(3,895,982)	(4,242,813)	(4,921,166)	(5,341,616)
Capital assets, net	<u>\$ 1,589,909</u>	<u>\$ 1,565,139</u>	<u>\$ 4,751,716</u>	<u>\$ 4,849,964</u>	<u>\$ 6,341,625</u>	<u>\$ 6,415,103</u>

### Debt Outstanding

At year-end, the City had \$2.92 million in bonds and notes outstanding versus \$2.68 million last year, an increase of \$243,487.

### Debt Outstanding at September 30, 2008

	Governmental Activities		Business-type Activities		Totals	
	2007	2008	2007	2008	2007	2008
Line of credit	\$ -	\$ 50,000	\$ -	\$ -	\$ -	\$ 50,000
USDA bonds	-	-	2,609,300	2,566,200	2,609,300	2,566,200
Loan payable	68,773	52,275	-	253,085	68,773	305,360
Total bonds and notes	<u>\$ 68,773</u>	<u>\$ 102,275</u>	<u>\$ 2,609,300</u>	<u>\$ 2,819,285</u>	<u>\$ 2,678,073</u>	<u>\$ 2,921,560</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 4.5%. This is slightly higher than the prior year.
- The official population for the City in 2008 was 1,450 and is estimated to be approximately the same in 2009.
- The ad valorem tax millage rate for the City was 5.4 mills in 2008.

### **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.



## **BASIC FINANCIAL STATEMENTS**

## CITY OF HAWTHORNE, FLORIDA

STATEMENT OF NET ASSETS  
September 30, 2008

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 165,845	\$ 36,724	\$ 202,569
Accounts receivable-net	2,466	72,141	74,607
Due from other funds	-	173,860	173,860
Due from other governmental units	113,284	-	113,284
Total current assets	281,595	282,725	564,320
Restricted assets:			
Cash	-	145,480	145,480
Total restricted assets	-	145,480	145,480
Non-current assets:			
Due from other funds	395,150	-	395,150
Bond costs, net	-	5,870	5,870
Capital assets, net	1,565,139	4,849,964	6,415,103
Total non-current assets	1,960,289	4,855,834	6,816,123
Total assets	2,241,884	5,284,039	7,525,923
<b>LIABILITIES</b>			
Current liabilities (payable from current assets)			
Accounts payable	52,287	-	52,287
Due to other funds	146,877	26,983	173,860
Due to other government units	2,068	-	2,068
Line of credit	50,000	-	50,000
Loan payable current portion	9,995	16,872	26,867
Accrued compensated absences	9,877	5,533	15,410
Total current liabilities (payable from current assets)	271,104	49,388	320,492
Current liabilities (payable from restricted assets):			
Accrued interest payable	-	10,479	10,479
Deposits	-	55,304	55,304
Bonds payable-current portion	-	44,500	44,500
Total current liabilities (payable from restricted assets)	-	110,283	110,283

(continued)

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF NET ASSETS  
September 30, 2008

	Governmental Activities	Business-type Activities	Total
Non-current liabilities:			
Due to other funds	\$ -	\$ 395,150	\$ 395,150
Loan payable	42,280	236,213	278,493
Revenues collected in advance	-	1,861	1,861
Bonds payable	-	2,521,700	2,521,700
Total long-term liabilities	42,280	3,154,924	3,197,204
Total liabilities	313,384	3,314,595	3,627,979
NET ASSETS			
Invested in capital assets, net of related debt	1,565,139	1,641,399	3,206,538
Restricted	30,328	145,480	175,808
Unrestricted	333,033	182,565	515,598
Total net assets	\$ 1,928,500	\$ 1,969,444	\$ 3,897,944

See notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended September 30, 2008

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
<b>Governmental Activities</b>						
General Government	\$ 403,832	\$ -	\$ -	\$ -	\$ (403,832)	\$ -
Public Safety	512,702	83,331	-	-	(429,371)	-
Transportation	242,998	9,196	-	-	(233,802)	-
Economic Environment	86,334	-	71,965	-	(14,369)	-
Culture/recreation	54,889	16,677	-	-	(38,212)	-
Interest on long-term debt	1,967	-	-	-	(1,967)	-
<b>Total governmental activities</b>	<b>1,302,722</b>	<b>109,204</b>	<b>71,965</b>	<b>-</b>	<b>(1,121,553)</b>	<b>-</b>
<b>Business-type activities</b>						
Water utility	162,663	161,472	11,400	-	-	10,209
Garbage services	176,729	191,717	-	-	-	14,988
Sewer utility	523,743	393,700	-	194,000	-	63,957
Interest on long-term debt	127,726	-	-	-	-	(127,726)
<b>Total business-type activities</b>	<b>990,861</b>	<b>746,889</b>	<b>11,400</b>	<b>194,000</b>	<b>-</b>	<b>(38,572)</b>
<b>Total government</b>	<b>\$ 2,293,583</b>	<b>\$ 856,093</b>	<b>\$ 83,365</b>	<b>\$ 194,000</b>	<b>(1,121,553)</b>	<b>(1,160,125)</b>
<b>General revenues</b>						
Property taxes					281,786	-
Sales and use taxes					113,323	-
Franchise fees					72	-
Utility services tax					79,745	-
Communications surtax					43,612	-
Licenses and permits					9,853	-
State shared revenues					133,189	-
Tax increment					66,307	-
Interest					1,353	2,166
Miscellaneous					59,709	3,077
<b>Total general revenues</b>					<b>788,949</b>	<b>5,243</b>
						<b>794,192</b>

(continued)

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 2008

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>  <u>Total</u>
Change in net assets Transfers					\$ (332,604)	\$ (33,329) \$ (365,933)
Net assets - beginning					(6,000)	6,000 -
net assets - ending					2,267,104	1,996,773 4,263,877
					<u>\$ 1,928,500</u>	<u>\$ 1,969,444</u> <u>\$ 3,897,944</u>

See notes to financial statements.

## CITY OF HAWTHORNE, FLORIDA

GOVERNMENTAL FUND  
BALANCE SHEET

September 30, 2008

	General Fund
<b>ASSETS</b>	
Cash	\$ 165,845
Accounts receivable	2,466
Due from other funds	395,150
Due from other governmental units	113,284
Total assets	<u>\$ 676,745</u>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	52,287
Due to other funds	146,877
Due to other governmental units	2,068
Line of credit	50,000
Accrued compensated absences	9,877
Total liabilities	<u>261,109</u>
<b>FUND BALANCES</b>	
Reserved:	
Library	455
Downtown development	29,873
Interfund receivable	395,150
Unreserved	(9,842)
Total fund balances	<u>415,636</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	1,565,139
Long-term liabilities are not due in the current period and, therefore, are not reported in the funds	(52,275)
Net assets of governmental activities	<u>\$ 1,928,500</u>

See notes to financial statements.

## CITY OF HAWTHORNE, FLORIDA

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

For the Fiscal Year Ended September 30, 2008

	General Fund
REVENUES	
Taxes	\$ 584,845
Licenses and permits	9,853
Intergovernmental revenue	205,154
Charges for services	25,873
Fines and forfeitures	34,010
Miscellaneous	110,383
Total revenues	<u>970,118</u>
EXPENDITURES	
Current Expenditures	
General government	401,311
Public safety	503,188
Transportation	197,874
Economic environment	69,874
Culture/recreation	54,889
Capital Outlay	
Public safety	42,150
Transportation	6,699
Debt Service	
Public safety	1,396
Transportation	17,068
Total expenditures	<u>1,294,449</u>
Deficiency of revenues under expenditures	<u>(324,331)</u>
OTHER FINANCING SOURCES (USES)	
Interfund transfers out	(6,000)
Total other financing sources (uses)	<u>(6,000)</u>
Net changes in fund balances	(330,331)
Fund balances at beginning of year	745,967
Fund balances at end of year	<u><u>\$ 415,636</u></u>

See notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

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

For the Fiscal Year Ended September 30, 2008

Net change in fund balances - total governmental funds \$ (330,331)

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	\$ 48,849
Less current year depreciation	<u>(73,619)</u>

(24,770)

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>16,497</u>
-------------------------	---------------

Change in net assets of governmental activities	<u><u>\$ (338,604)</u></u>
---	----------------------------

See notes to financial statements



## CITY OF HAWTHORNE, FLORIDA

PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS

September 30, 2008

	Business-Type Activities - Enterprise Funds			
	Water	Solid Waste	Sewer	Totals
<b>ASSETS</b>				
Current assets				
Cash	\$ 4,216	\$ -	\$ 32,508	\$ 36,724
Accounts receivable (net of allowance for uncollectables)	14,429	21,643	36,069	72,141
Due from other funds	131,932	41,928	-	173,860
Restricted assets				
Cash	145,480	-	-	145,480
Fixed assets				
Land	-	-	114,300	114,300
Buildings	596,506	-	4,255,269	4,851,775
Improvements other than buildings	449,471	-	3,443,776	3,893,247
Equipment	4,126	-	35,329	39,455
Construction in progress	-	-	194,000	194,000
Allowance for depreciation	(728,373)	-	(3,514,440)	(4,242,813)
Other assets				
Bond costs	-	-	12,295	12,295
Accumulated amortization of bond cost	-	-	(6,425)	(6,425)
Total assets	<u>617,787</u>	<u>63,571</u>	<u>4,602,681</u>	<u>5,284,039</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Current liabilities				
Due to other funds	668	-	26,315	26,983
Current liabilities payable from restricted assets				
Accrued interest payable	1,779	-	8,700	10,479
Deposits	55,304	-	-	55,304
Loan payable FDOT current	16,872	-	-	16,872
Serial bonds payable current	8,500	-	14,000	22,500
Bonds payable FMHA current	-	-	22,000	22,000
Deferred revenue				
Revenue collected in advance	1,861	-	-	1,861
Other liabilities				
Due to other funds	-	-	395,150	395,150
Accrued compensated absences	1,516	-	4,017	5,533
Long-term liabilities				
Loan payable FDOT	236,213	-	-	236,213
Serial bonds payable	354,900	-	1,134,000	1,488,900
Bonds payable FMHA	-	-	1,032,800	1,032,800
Total liabilities	<u>677,613</u>	<u>-</u>	<u>2,636,982</u>	<u>3,314,595</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	(294,755)	-	1,936,154	1,641,399
Restricted for debt service	145,480	-	-	145,480
Unrestricted	89,449	63,571	29,545	182,565
Total net assets	<u>(59,826)</u>	<u>63,571</u>	<u>1,965,699</u>	<u>1,969,444</u>
Total liabilities and net assets	<u>\$ 617,787</u>	<u>\$ 63,571</u>	<u>\$ 4,602,681</u>	<u>\$ 5,284,039</u>

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, 2008

	Business-Type Activities - Enterprise Funds			
	Water	Solid Waste	Sewer	Totals
Operating Revenues				
Physical environment				
Water utility revenue				
Installation fees	\$ 3,885	\$ -	\$ -	\$ 3,885
Impact fees	17,550	-	-	17,550
Water sales	127,797	-	-	127,797
Reconnect fees	4,900	-	-	4,900
Water late fees	7,340	-	-	7,340
Total water utility revenue	161,472	-	-	161,472
Garbage/solid waste revenue				
Operating income	-	191,717	-	191,717
Other income	-	-	-	-
Total garbage/solid waste revenue	-	191,717	-	191,717
Sewer utility revenues				
Sewer receipts	-	-	327,349	327,349
Installations	-	-	6,000	6,000
Impact fees	-	-	30,450	30,450
Sewer late fees	-	-	7,340	7,340
Total sewer utility revenues	-	-	371,139	371,139
Total physical environment	161,472	191,717	371,139	724,328
Other miscellaneous	2,216	861	-	3,077
Total operating revenues	163,688	192,578	371,139	727,405
Operating Expenses				
Water utility services				
Personal services				
Regular salaries	42,516	-	-	42,516
FICA	3,053	-	-	3,053
Retirement	2,273	-	-	2,273
Life and health insurance	8,147	-	-	8,147
Worker's compensation	3,923	-	-	3,923
Total personal services	59,912	-	-	59,912
Operating expenses				
Depreciation	23,068	-	-	23,068
Accounting and auditing	2,000	-	-	2,000
Other contractual services	11,239	-	-	11,239
Communication	570	-	-	570
Transportation	500	-	-	500
Utility services	10,445	-	-	10,445
Insurance	5,868	-	-	5,868
Repair and maintenance	34,502	-	-	34,502
Operating supplies	1,900	-	-	1,900
Books, publications, subscriptions	1,333	-	-	1,333
Tests	10,794	-	-	10,794

(continued)

CITY OF HAWTHORNE, FLORIDA  
PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended September 30, 2008

	Business-Type Activities - Enterprise Funds			
	Water	Solid Waste	Sewer	Totals
Other current charges and obligations	532	-	-	532
Total operating expenses	102,751	-	-	102,751
Total water utility services	162,663	-	-	162,663
Garbage and solid waste services				
Operating expenses				
Other contractual services	\$ -	\$ 175,929	\$ -	\$ 175,929
Office supplies	-	800	-	800
Total garbage and solid waste services	-	176,729	-	176,729
Sewer services				
Personal services				
Regular salaries	-	-	36,687	36,687
FICA	-	-	2,878	2,878
Retirement	-	-	2,240	2,240
Life and health insurance	-	-	6,624	6,624
Worker's compensation	-	-	3,923	3,923
Total personal services	-	-	52,352	52,352
Operating expenses				
Depreciation	-	-	325,769	325,769
Accounting and auditing	-	-	2,000	2,000
Other contractual services	-	-	3,655	3,655
Communications services	-	-	1,059	1,059
Transportation	-	-	300	300
Utility services	-	-	26,643	26,643
Insurance	-	-	4,703	4,703
Repair and maintenance	-	-	15,195	15,195
Other current charges and obligations	-	-	1,788	1,788
Office supplies	-	-	50	50
Operating supplies	-	-	3,706	3,706
Gas and oil	-	-	4,527	4,527
Water services	-	-	2,194	2,194
Residual contract	-	-	49,606	49,606
Amortization	-	-	443	443
Diesel plant generator	-	-	10,031	10,031
Tests	-	-	19,722	19,722
Total operating expenses	-	-	471,391	471,391
Total sewer services	-	-	523,743	523,743
Total operating expenses	162,663	176,729	523,743	863,135
Operating income (loss)	1,025	15,849	(152,604)	(135,730)

(continued)

CITY OF HAWTHORNE, FLORIDA  
PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended September 30, 2008

	Business-Type Activities - Enterprise Funds			
	Water	Solid Waste	Sewer	Totals
Nonoperating Revenues (Expenses)				
Federal grant				
Physical environment				
Waste water grant	\$ -	\$ -	\$ 194,000	\$ 194,000
State grant				
Physical environment				
Water treatment grant	11,400	-	-	11,400
Interest earnings				
Interest on investments	377	-	1,789	2,166
Rents and royalties				
Gator Tower	-	-	4,992	4,992
American Tower	-	-	13,669	13,669
FPL	-	-	3,900	3,900
Total rents and royalties	-	-	22,561	22,561
Water utility services				
Debt service				
Interest	(21,781)	-	-	(21,781)
Sewer services				
Debt service				
Interest	-	-	(105,945)	(105,945)
Total nonoperating revenues (expenses)	(10,004)	-	112,405	102,401
Income (loss) before operating transfers	(8,979)	15,849	(40,199)	(33,329)
Operating transfers				
Interfund transfers	6,000	-	-	6,000
Change in net assets	(2,979)	15,849	(40,199)	(27,329)
Net assets beginning of year	(56,847)	47,722	2,005,898	1,996,773
Net assets end of year	\$ (59,826)	\$ 63,571	\$ 1,965,699	\$ 1,969,444

See notes to financial statements.

## CITY OF HAWTHORNE, FLORIDA

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS

For the Fiscal Year Ended September 30, 2008

	Business-Type Activities - Enterprise Funds			
	Water	Solid Waste	Sewer	Totals
Cash flows from operating activities				
Cash received from customers	\$ 152,662	\$ 176,729	\$ 292,400	\$ 621,791
Cash payments to employees	(42,013)	-	(36,117)	(78,130)
Cash payments for employee benefits	(17,396)	-	(15,665)	(33,061)
Cash paid to vendors	(79,683)	(176,729)	(145,179)	(401,591)
Net cash provided by operating activities	13,570	-	95,439	109,009
Cash flows from capital and related financing activities				
Interest paid on bonds payable	(21,820)	-	(106,085)	(127,905)
Capital grant	11,400	-	194,000	205,400
Principal paid on bonds payable	(8,000)	-	(35,100)	(43,100)
Net cash provided by (used for) capital and related financing activities	(18,420)	-	52,815	34,395
Cash flows from noncapital financing activities				
Loan proceeds	253,085	-	-	253,085
Rents and royalties	-	-	22,561	22,561
Transfers	6,000	-	-	6,000
Net cash provided by noncapital financing activities	259,085	-	22,561	281,646
Cash flows from investing activities				
Purchase of fixed assets	(253,085)	-	(194,000)	(447,085)
Interest	377	-	1,789	2,166
Net cash used for investing activities	(252,708)	-	(192,211)	(444,919)
Net increase (decrease) in cash and cash equivalents	1,527	-	(21,396)	(19,869)
Cash and cash equivalents, beginning of year	148,169	-	53,904	202,073
Cash and cash equivalents, end of year	149,696	-	32,508	182,204
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	1,025	15,849	(152,604)	(135,730)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	23,068	-	326,212	349,280
(Increase) decrease in assets:				
Accounts receivable, net	3,176	4,765	7,942	15,883
Due from other funds	(13,798)	(20,614)	-	(34,412)
Increase (decrease) in liabilities:				
Due to other funds	1	-	(86,681)	(86,680)
Customer deposits payable	(405)	-	-	(405)
Accrued compensated absences	503	-	570	1,073
Total adjustments	12,545	(15,849)	248,043	244,739
Net cash provided by operating activities	\$ 13,570	\$ -	\$ 95,439	\$ 109,009

See notes to financial statements.

CITY OF HAWTHORNE, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2008

**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. As provided by GASB 34, the City has elected not to report retroactive infrastructure improvements in its financial statements due to the fact that its annual revenues are less than ten million. The City has implemented all other applicable provisions of this Statement.

**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 governmental 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 60 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 operating 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, 2008, 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, 2008, 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, 2008.
- 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 "due to/from other funds."

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 net assets of the City are classified as restricted assets on the statement of net assets because their use is limited either by law through constitutional provisions or enabling legislation; or by restrictions imposed externally by creditors, grantors, contributions, or laws or regulations of other governments. In a fund with both restricted and unrestricted assets, qualified expenses are considered to be paid first from restricted net assets and then from unrestricted net assets.
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 generally recorded at historical cost. Roads and bridges constructed prior to October 1, 1981 are generally not reported.

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:

<u>Assets</u>	<u>Years</u>
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. **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 \$415,636 differs from "net assets" of governmental activities \$1,928,500 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	\$ 2,663,942
Accumulated depreciation	(1,098,803)
Total	<u>\$ 1,565,139</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, 2008, were:

Loan payable	<u>\$ (52,275)</u>
--------------	--------------------

# 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 Fund	Capital Related Items	Long-Term Debt Transactions	Statement of Net Assets
<b>ASSETS</b>				
Cash and cash equivalents	\$ 165,845	\$ -	\$ -	\$ 165,845
Accounts receivable	2,466	-	-	2,466
Due from other funds	395,150	-	-	395,150
Due from other governmental units	113,284	-	-	113,284
Capital assets - net	-	1,565,139	-	1,565,139
Total assets	<u>\$ 676,745</u>	<u>\$ 1,565,139</u>	<u>\$ -</u>	<u>\$ 2,241,884</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 52,287	\$ -	\$ -	\$ 52,287
Due to other funds	146,877	-	-	146,877
Due to other governmental units	2,068	-	-	2,068
Accrued compensated absences	9,877	-	-	9,877
Line of credit	50,000	-	-	50,000
Loan payable	-	-	-	-
Total liabilities	<u>\$ 261,109</u>	<u>\$ -</u>	<u>\$ 52,275</u>	<u>\$ 313,384</u>
Fund balances/net assets	<u>415,636</u>	<u>1,565,139</u>	<u>(52,275)</u>	<u>1,928,500</u>
Total liabilities and fund balance/net assets	<u>\$ 676,745</u>	<u>\$ 1,565,139</u>	<u>\$ -</u>	<u>\$ 2,241,884</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 (\$330,331) differs from the "change in net assets" for governmental activities (\$338,604) 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 are 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	\$ 48,849
Depreciation expense	(73,619)
Difference	<u>\$ (24,770)</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>\$ 16,497</u>
------------------------------	------------------

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 Fund	Capital Related Items	Long-Term Debt Transactions	Statement of Activities
<b>REVENUES</b>				
Taxes	\$ 584,845	\$ -	\$ -	\$ 584,845
Licenses and permits	9,853	-	-	9,853
Intergovernmental	205,154	-	-	205,154
Charges for services	25,873	-	-	25,873
Fines and forfeitures	34,010	-	-	34,010
Miscellaneous	110,383	-	-	110,383
Total revenues	<u>970,118</u>	<u>-</u>	<u>-</u>	<u>970,118</u>
<b>EXPENDITURES</b>				
Current Expenditures				
General government	401,311	2,521	-	403,832
Public safety	503,188	9,514	-	512,702
Transportation	197,874	45,124	-	242,998
Economic environment	69,874	16,460	-	86,334
Culture/recreation	54,889	-	-	54,889
Capital Outlay				
Public Safety	42,150	(42,150)	-	-
Transportation	6,699	(6,699)	-	-
Debt Service				
Principal	16,497	-	(16,497)	-
Interest	1,967	-	-	1,967
Total Expenditures	<u>1,294,449</u>	<u>24,770</u>	<u>(16,497)</u>	<u>1,302,722</u>
Excess of revenues over (under) expenditures	<u>(324,331)</u>	<u>(24,770)</u>	<u>16,497</u>	<u>(332,604)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(6,000)	-	-	(6,000)
Total other financing sources (uses)	<u>(6,000)</u>	<u>-</u>	<u>-</u>	<u>(6,000)</u>
Net change in fund balance	<u>(330,331)</u>	<u>(24,770)</u>	<u>16,497</u>	<u>(338,604)</u>
Fund balance at beginning of year	745,967	1,589,909	(68,772)	2,267,104
Fund balance at end of year	<u>\$ 415,636</u>	<u>\$ 1,565,139</u>	<u>\$ (52,275)</u>	<u>\$ 1,928,500</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 2007-2008 fiscal year were levied in October 2007. 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, 2008, 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	1,469,090	-	-	1,469,090
Equipment and vehicles	255,711	48,849	-	304,560
Total capital assets	2,615,093	48,849	-	2,663,942
Less accumulated depreciation	(1,025,184)	(73,619)	-	(1,098,803)
Governmental activities: capital assets, net.	<u>\$ 1,589,909</u>	<u>\$ (24,770)</u>	<u>\$ -</u>	<u>\$ 1,565,139</u>
<b>Business-type Activities:</b>				
Land	\$ 114,300	\$ -	\$ -	\$ 114,300
Buildings	4,851,775	-	-	4,851,775
Improvements other than buildings	3,640,162	253,085	-	3,893,247
Construction in progress	-	194,000	-	194,000
Equipment	41,461	-	(2,006)	39,455
Total capital assets	8,647,698	447,085	(2,006)	9,092,777
Less accumulated depreciation	(3,895,982)	(348,837)	2,006	(4,242,813)
Business-type activities, capital assets, net.	<u>\$ 4,751,716</u>	<u>\$ 98,248</u>	<u>\$ -</u>	<u>\$ 4,849,964</u>

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

<b>Governmental activities:</b>	
General government	\$ 2,521
Public safety	9,514
Transportation	45,124
Culture/recreation	16,460
Total depreciation expense - governmental activities	<u>\$ 73,619</u>
<b>Business-type activities:</b>	
Water utility	\$ 23,068
Sewer utility	325,769
Total depreciation expense - business-type activities	<u>\$ 348,837</u>



**NOTE 7. INTERFUND RECEIVABLES/PAYABLES**

The following is a schedule of interfund receivables and payables at September 30, 2008.

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 395,150	\$ 146,877
Water	131,932	668
Solid waste	41,928	-
Sewer	-	421,465
	<u>\$ 569,010</u>	<u>\$ 569,010</u>

The balance of \$395,150 due to General Fund from Sewer Fund is not scheduled to be collected in the subsequent year and is classified as a long-term receivable.

**NOTE 8. INTERFUND TRANSFERS**

Interfund transfers for the year ended September 30, 2008, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 6,000
Water	6,000	-
	<u>\$ 6,000</u>	<u>\$ 6,000</u>

Transfers were made to reimburse expenses incurred.

**NOTE 9. RECEIVABLE AND PAYABLE BALANCES****Receivables**

Receivables at September 30, 2008, were as follows:

	<u>Accounts</u>	<u>Due from Other Governmental Units</u>	<u>Total Receivables</u>
Governmental activities:			
General	\$ 2,466	\$ 113,284	\$ 115,750
Business-type activities:			
Enterprise	72,141	-	72,141
	<u>\$ 74,607</u>	<u>\$ 113,284</u>	<u>\$ 187,891</u>

**Payables**

Payables at September 30, 2008, were as follows:

	<u>Vendors</u>
Governmental activities:	
General	<u>\$ 52,287</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:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 8,500	\$ 21,350	\$ 29,850
2010	9,000	20,850	29,850
2011	9,500	20,322	29,822
2012	10,100	19,763	29,863
2013	10,700	19,170	29,870
2014-2018	63,600	85,658	149,258
2019-2023	84,600	64,660	149,260
2024-2028	112,600	36,707	149,307
2029-2030	54,800	4,876	59,676
	<u>\$ 363,400</u>	<u>\$ 293,356</u>	<u>\$ 656,756</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:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 22,000	\$ 52,740	\$ 74,740
2010	23,200	51,640	74,840
2011	24,400	50,480	74,880
2012	25,600	49,260	74,860
2013	26,900	47,980	74,880
2014-2018	155,900	218,350	374,250
2019-2023	198,900	175,285	374,185
2024-2028	253,800	120,345	374,145
2029-2033	324,100	50,195	374,295
	<u>\$ 1,054,800</u>	<u>\$ 816,275</u>	<u>\$ 1,871,075</u>

**C. 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>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 14,000	\$ 51,660	\$ 65,660
2010	15,000	51,030	66,030
2011	15,000	50,355	65,355
2012	16,000	49,680	65,680
2013	17,000	48,960	65,960
2014-2018	96,000	232,695	328,695
2019-2023	120,000	209,025	329,025
2024-2028	150,000	179,505	329,505
2029-2033	187,000	142,560	329,560
2034-2038	231,000	96,750	327,750
2039-2043	287,000	39,690	326,690
	<u>\$ 1,148,000</u>	<u>\$ 1,151,910</u>	<u>\$ 2,299,910</u>

**D. Promissory Note – Florida Department of Transportation**

In November, 2007, the City entered into a promissory note with the Florida Department of Transportation in the amount of \$253,085. The note carries no interest and is payable over fifteen years in annual installments of \$16,872. The loan was made to reimburse the Department for costs associated with City utility relocations on a state highway project. Payments will commence October 15, 2008.

Future debt service of this note is as follows:

	<u>September 30</u>
2009	\$ 16,872
2010	16,872
2011	16,872
2012	16,872
2013	16,872
2014-2018	84,360
2019-2024	84,360
	<u>\$ 253,080</u>

The following is a schedule of changes in proprietary fund long-term debt for the year ended September 30, 2008:

	<u>Balance September 30 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30 2008</u>	<u>Due Within One Year</u>
FDOT note payable	\$ -	\$ 253,085	\$ -	\$ 253,085	\$ 16,872
Water revenue bonds	371,400	-	(8,000)	363,400	8,500
Sewer revenue bonds	2,237,900	-	(35,100)	2,202,800	36,000
	<u>\$ 2,609,300</u>	<u>\$ 253,085</u>	<u>\$ (43,100)</u>	<u>\$ 2,819,285</u>	<u>\$ 61,372</u>

All debt service payments were made from the applicable Enterprise Fund.

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

Year Ending September 30,	
2009	\$ 11,171
2010	11,171
2011	11,171
2012	11,171
2013	11,171
Total payments	55,855
Less interest	(3,580)
	<u>\$ 52,275</u>

**Line of Credit - Merchants and Southern Bank**

On September 24, 2008, the City obtained a one-year line-of-credit promissory note from Merchants and Southern Bank for the maximum amount of \$125,000. The loan is currently subject to repayment in full on October 1, 2009, including interest at 4.5%. This loan was unsecured. At September 30, 2008 the balance outstanding was \$50,000.

The following is a schedule of changes in general long-term debt for the year ended September 30, 2008:

	Balance September 30, 2007	Additions	Retirements	Balance September 30, 2008	Due Within One Year
Line of credit	\$ -	\$ 50,000	\$ -	\$ 50,000	\$ 50,000
Loans payable	16,497	-	(16,497)	-	-
Notes payable	52,275	-	-	52,275	9,995
	<u>\$ 68,772</u>	<u>\$ 50,000</u>	<u>\$ (16,497)</u>	<u>\$ 102,275</u>	<u>\$ 59,995</u>

All debt service payments were budgeted and paid from General Fund revenues.

## NOTE 12. 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, 2015, with a renewal option for an additional ten years. It provides for \$416 per month, 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.

The second lease is for a period of five years expiring March 31, 2011, with two more renewal options for five years each. It provides for \$1,139 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.

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.

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

<u>Year Ending September 30,</u>	
2009	\$ 18,660
2010	18,794
2011	19,857
2012	20,569
2013	20,569
2014-2018	89,206
2019-2021	41,806
	<u>\$ 229,461</u>

## NOTE 13. DEFERRED COMPENSATION PLAN

Effective January, 2000, the City adopted 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, 2008, the City contributed \$17,854 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 14. 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 15. 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.

#### **NOTE 17. CDBG GRANT – WATER TANK/WELL TREATMENT PLANT**

The City has been awarded a Community Development Block Grant, #08DB-3R-03-11-02-N15, from the Department of Community Affairs in the amount of \$650,000 to replace the City's water tank and install a new water well. The City contracted with an engineering firm to perform engineering services for this project and began preliminary engineering services in the current year.

#### **NOTE 18. FDEP GRANT – WASTEWATER TREATMENT PLANT**

The City has also been awarded a grant from Florida Department of Environmental Protection (FDEP) in the amount of \$500,000 to construct a wastewater treatment plant. The City contracted with an engineering firm to perform engineering services for this project and began construction activities in the current 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, 2008

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
<b>Taxes</b>			
Ad valorem taxes			
Current ad valorem taxes	\$ 294,952	\$ 274,246	\$ (20,706)
Delinquent ad valorem taxes	2,500	7,540	5,040
Hawthorne redevelopment funds	48,000	66,307	18,307
Sales and use taxes			
Local option gas tax/alternative fuel	80,000	113,323	33,323
Franchise fees			
CATV	-	72	72
Utility service taxes			
Electricity	67,000	69,427	2,427
Telecommunications	44,000	43,612	(388)
Water	10,000	10,318	318
Total taxes	<u>546,452</u>	<u>584,845</u>	<u>38,393</u>
<b>Licenses and permits</b>			
Professional and occupational	3,000	3,124	124
Old Tyme Park permits	100	29	(71)
Building permits	500	250	(250)
Other licenses and permits			
Rezoning fees	8,500	500	(8,000)
Annexation fees	5,000	1,050	(3,950)
Special exception permits	500	500	-
Comprehensive plan permits	2,225	3,300	1,075
Site plan review fees	4,000	1,100	(2,900)
Total licenses and permits	<u>23,825</u>	<u>9,853</u>	<u>(13,972)</u>
<b>Intergovernmental revenue</b>			
<b>State shared revenues</b>			
<b>General government</b>			
State revenue sharing	54,000	52,829	(1,171)
Alcoholic beverage licenses	600	609	9
Local government half-cent sales tax	94,000	79,751	(14,249)

(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, 2008

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Grants from other local units			
Economic environment			
SHIP Alachua County	\$ 58,000	\$ 71,965	\$ 13,965
Total intergovernmental revenue	<u>206,600</u>	<u>205,154</u>	<u>(1,446)</u>
Charges for services			
Transportation			
Other transportation services	3,500	9,196	5,696
Culture/recreation			
Recreation fees	-	16,677	16,677
Total charges for services	<u>3,500</u>	<u>25,873</u>	<u>22,373</u>
Fines and forfeitures			
Court cases			
Fine revenue	70,000	27,990	(42,010)
Code enforcement fines	5,000	6,020	1,020
Total fines and forfeitures	<u>75,000</u>	<u>34,010</u>	<u>(40,990)</u>
Miscellaneous			
Interest earnings			
Interest on investments	1,300	1,353	53
Special Assessment-Fire	54,000	49,321	(4,679)
Donations/contributions			
Police	-	42,150	42,150
Fire	-	100	100
Roads and streets	-	356	356
Other miscellaneous	5,120	17,103	11,983
Total miscellaneous	<u>60,420</u>	<u>110,383</u>	<u>49,963</u>
Total revenues	<u>915,797</u>	<u>970,118</u>	<u>54,321</u>
EXPENDITURES			
General Government			
Legislative			
Personal services	27,600	27,720	(120)
Operating expenses	800	34,103	(33,303)
Total legislative	<u>28,400</u>	<u>61,823</u>	<u>(33,423)</u>
Financial and administrative			
Personal services	200,600	196,574	4,026
Operating expenses	96,100	99,024	(2,924)
Capital outlay	14,000	-	14,000
Total financial and administrative	<u>310,700</u>	<u>295,598</u>	<u>15,102</u>
Legal counsel			
Operating expenses	37,000	43,890	(6,890)
Total general government	<u>376,100</u>	<u>401,311</u>	<u>(25,211)</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, 2008

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Public Safety			
Law enforcement			
Personal services	\$ 150,500	\$ 84,197	\$ 66,303
Operating expenses	49,500	120,658	(71,158)
Capital outlay	-	42,150	(42,150)
Total law enforcement	<u>200,000</u>	<u>247,005</u>	<u>(47,005)</u>
Fire control			
Personal services	-	202,888	(202,888)
Operating expenses	77,898	89,272	(11,374)
Debt service	11,400	1,396	10,004
Total fire control	<u>89,298</u>	<u>293,556</u>	<u>\$ (204,258)</u>
Protective inspections			
Operating expenses	6,000	6,173	(173)
Total public safety	<u>295,298</u>	<u>546,734</u>	<u>(251,436)</u>
Transportation			
Roads and streets			
Personal services	63,400	55,229	8,171
Operating expenses	91,100	142,645	(51,545)
Capital outlay	23,000	6,699	16,301
Debt service	-	17,068	(17,068)
Total transportation	<u>177,500</u>	<u>221,641</u>	<u>(44,141)</u>
Economic Environment			
Downtown redevelopment			
Operating expenses	48,000	2,959	45,041
Housing and urban development			
Operating expenses	58,000	66,915	(8,915)
Total economic environment	<u>106,000</u>	<u>69,874</u>	<u>36,126</u>
Culture/Recreation			
Parks and recreation			
Personal services	18,000	23,910	(5,910)
Operating expenses	9,900	30,979	(21,079)
Capital outlay	3,000	-	3,000
Total culture/recreation	<u>30,900</u>	<u>54,889</u>	<u>(23,989)</u>
Total expenditures	<u>985,798</u>	<u>1,294,449</u>	<u>(308,651)</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, 2008

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	\$ 59,900	\$ -	\$ (59,900)
Interfund transfers out	(5,400)	(6,000)	(600)
Total other financing sources (uses)	<u>54,500</u>	<u>(6,000)</u>	<u>(60,500)</u>
Net change in fund balances	(15,501)	(330,331)	(314,830)
Fund balance at beginning of year	745,967	745,967	-
Fund balance at end of year	<u>\$ 730,466</u>	<u>\$ 415,636</u>	<u>\$ (314,830)</u>

See notes to financial statements.

## COMPLIANCE SECTION

CITY OF HAWTHORNE, FLORIDA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

For the Fiscal Year Ended September 30, 2008

GRANTOR PROGRAM TITLE	CFDA # CSFA #	Contract Number	Award Amount	Received in Prior Years	Fund Balance 10-01-07	2008		Fund Balance 09-30-08
						Revenue Received or Receivable	Expenditures	
Federal Awards								
Non-major Programs								
US Department of Housing and Urban Development								
Passed through the Florida Department of Community Affairs								
Community Development Block Grant	14.258	08DB-3R-03-11- 02-N15	\$ 650,000	\$ -	\$ -	\$ 11,400	\$ 11,400	\$ -
Total federal awards			650,000	-	-	11,400	11,400	-
State Financial Assistance								
Non-major Programs								
State of Florida Department of Environmental Protection								
Statewide Surface Water Restoration and Waste Water Projects Grant	37.039	LP6724	500,000	-	-	194,000	194,000	-
Total state financial assistance			500,000	-	-	194,000	194,000	-
Total federal awards and state financial assistance			\$ 1,150,000	\$ -	\$ -	\$ 205,400	\$ 205,400	\$ -

**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 Mayor and Members  
of the City Commission  
City of Hawthorne, Florida

We have audited the basic financial statements of the City of Hawthorne, Florida, as of and for the year ended September 30, 2008, and have issued our report thereon dated February 2, 2009. 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 – Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph, and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the following deficiency to be a significant deficiency in internal control:

**Financial Statement Preparation**

A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures. While your auditor can assist with the preparation of your financial statements and related footnotes, the financial statements are the responsibility of management. A control deficiency exists when the City does not have the expertise necessary to prevent, detect, and correct misstatements. A control deficiency exists in instances where the City is not capable of drafting the financial statements and all required footnote disclosures in accordance with generally accepted accounting principles. Possessing suitable skill, knowledge, or experience to oversee services an auditor provides in assisting with financial statement presentation requires a lower level of technical knowledge than the competence required to prepare the financial statements and disclosures.

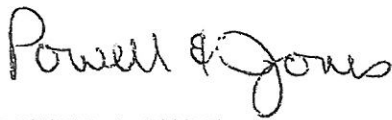
A material weakness is a significant deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 grant agreements, 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 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 February 2, 2009 on pages 52 - 53.

This report is intended solely for the information and use of the City Commission, management, the Auditor General of the State of Florida, and the appropriate grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Powell & Jones".

**POWELL & JONES**  
Certified Public Accountants  
February 2, 2009

## MANAGEMENT LETTER

To the Mayor and  
Members of the 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, 2008, 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.

### PRIOR YEAR FINDINGS

Cash Disbursements -- From our test of selected cash disbursements in the prior and current years, we found that there was generally no written evidence of approval on paid invoices or other 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.

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

### CURRENT YEAR FINDINGS

Credit Cards -- During our review of credit card transactions, we found several instances of charges made on the City's credit cards where original sales documentation was not retained and filed with the credit card monthly statements. We also found instances where sales tax was paid on purchases.

To fully document the propriety of expenses charged to the City's credit cards, we recommend that original sales slips be retained to support all charges made. We also recommend that the City's sales tax exemption certificate be utilized for credit card purchases when feasible.

### AUDITOR GENERAL AND OTHER COMPLIANCE MATTERS

Annual Local Government Financial Report - The Financial Report filed with the Department of Financial Services pursuant to Section 218.32(1)(a), *Florida Statutes*, is in agreement with the accompanying financial statements of the City of Hawthorne, for the fiscal year ended September 30, 2008.

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 -- The City had an unreserved negative fund balance of (\$9,842) in its General Fund at September 30, 2008. There were legally available resources in the Enterprise Funds to cover this deficit balance. This circumstance caused us to believe that the City had not met any of the conditions described in Section 218.503(1)(e), *Florida Statutes*, that might result in a financial emergency.



Financial Condition Assessment - As required by the *Rules of the Auditor General* (Sections 10.554(7)(c) and 10.556(7)), we applied financial condition assessment procedures. We have assessed that the City is experiencing a deteriorating financial condition. 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.

Deteriorating Financial Conditions - From our audit procedures, we found the following conditions which together comprise "deteriorating financial conditions" as defined by Section 218.503, *Florida Statutes*:

Expenditures and transfers in General Fund exceeded revenues by \$330,337, resulting in an ending unreserved deficit fund balance of (\$9,842).

The Enterprise Funds showed a net loss of (\$27,329), reducing its unrestricted cash reserves to \$81,882, which represented only eight weeks of Enterprise Fund cash disbursements.

To correct these deteriorating financial conditions we recommend that the City implement strict measures during the current year and next budget cycle to assure that revenues are sufficient to fund expenditures and replenish needed fiscal reserves in both the General Fund and Enterprise funds. Finances should then be closely monitored during the current and subsequent years to ensure that these objectives are met.

Failure to correct these conditions could cause the City in the future to continue to meet a statutory condition that could result in a financial emergency.

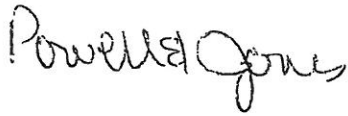
Our audit did not disclose any further items that would be required to be reported under the *Rules of the Auditor General*, Chapter 10.554.

Rural Economic and Community Development 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, 2008, as provided in the audit requirements for USDA-Rural Development borrowers.

1. Generally accepted auditing procedures were performed in this audit.
2. Internal control was evaluated and is discussed in the prior sections of this audit report.
3. Accounting records and physical control over assets were adequate.
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 and are authorized depositories of Florida public funds.
6. A summary of the City's Insurance coverage is shown in the annual report to USDA-Rural Development.
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.

## 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 this year's 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.

A handwritten signature in cursive script that reads "Powell & Jones".

**POWELL & JONES**  
Certified Public Accountants  
February 2, 2009