

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2009

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2009

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INTRODUCTORY SECTION

**CITY OF HAWTHORNE, FLORIDA
LIST OF PRINCIPAL OFFICIALS**

September 30, 2009

Mayor	Eleanor "Kit" Randall
Vice Mayor	William Carlton
City Commission	DeLoris Roberts
	Harry Carter
	Matthew Surrency
Interim City Manager	Linda Rice Chapman
City Clerk	LaKesha Hawkins-McGruder

FINANCIAL SECTION



Sexton & Schnoll

CERTIFIED PUBLIC ACCOUNTANTS

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, 2009, 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, 2009, 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.

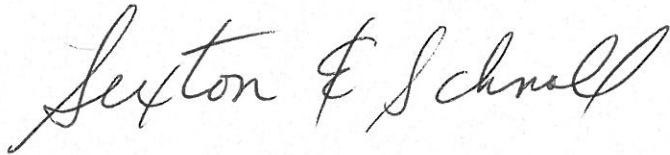
In accordance with *Government Auditing Standards*, we have also issued a report dated April 30, 2010, on our consideration of the City of Hawthorne's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and 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 that reads "Sexton & Schnoll". The signature is written in dark ink and is positioned above the printed name of the firm.

SEXTON & SCHNOLL
Certified Public Accountants
April 30, 2010

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. Governmental activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long been reported capital assets and long-term liabilities. 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, 2009 and 2008

	Governmental Activities	Business-type Activities	Total Government	
			2009	2008
Cash and cash equivalents	\$ 266,596	\$ 100,109	\$ 366,705	\$ 348,049
Other assets	505,149	463,903	969,052	762,771
Capital Assets	1,618,971	4,475,822	6,094,793	6,415,103
Total Assets	<u>2,390,717</u>	<u>5,039,834</u>	<u>7,430,551</u>	<u>7,525,923</u>
Other current liabilities	383,171	595,680	978,851	430,775
Long term outstanding	67,318	2,695,127	2,762,445	3,197,204
Total Liabilities	<u>450,489</u>	<u>3,290,807</u>	<u>3,741,296</u>	<u>3,627,979</u>
Net assets:				
Invested in capital assets, net of related debt	1,618,972	1,726,818	3,345,790	3,206,538
Restricted	88,127	124,236	212,363	175,808
Unrestricted	233,128	(102,027)	131,101	515,598
Total net assets	<u>\$ 1,940,227</u>	<u>\$ 1,749,027</u>	<u>\$ 3,689,254</u>	<u>\$ 3,897,944</u>

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 6% 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 \$131,101 may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net assets decreased \$208,690 or 5.3% over the year, which was primarily the result of expenditures which exceeded revenues in the proprietary funds and depreciation expense.

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, 2009 and 2008

	Governmental Activities	Business-type Activities	Total Government	
			2009	2008
Revenues:				
Program revenues				
Charges for services	\$ 141,043	\$ 748,335	\$ 889,378	\$ 856,093
Grants and contributions	223,632	105,550	329,182	277,365
General revenues				
Taxes	560,571	-	560,571	518,466
Franchise fees	63	-	63	72
Licenses and permits	7,697	-	7,697	9,853
Tax increment	69,482	-	69,482	66,307
State shared revenues	107,846	-	107,846	133,189
Interest	1,731	1,902	3,633	3,519
Miscellaneous	6,013	39,067	45,080	62,786
Total revenues	<u>1,118,078</u>	<u>894,854</u>	<u>2,012,932</u>	<u>1,927,650</u>
Expenses:				
General government	502,775	-	502,775	403,832
Public safety	278,516	-	278,516	512,702
Transportation	156,237	-	156,237	242,998
Economic environment	97,556	-	97,556	86,334
Culture & recreation	67,144	-	67,144	54,889
Interest on long-term debt	2,323	125,750	128,073	129,693
Water	-	268,856	268,856	162,663
Garbage services	-	182,353	182,353	176,729
Sewer	-	540,112	540,112	523,743
Total expenses	<u>1,104,551</u>	<u>1,117,071</u>	<u>2,221,622</u>	<u>2,293,583</u>
Changes in net assets	13,527	(222,217)	(208,690)	(365,933)
Transfers	(1,800)	1,800	-	-
Beginning net assets	<u>1,928,500</u>	<u>1,969,444</u>	<u>3,897,944</u>	<u>4,263,877</u>
Ending net assets	<u>\$ 1,940,227</u>	<u>\$ 1,749,027</u>	<u>\$ 3,689,254</u>	<u>\$ 3,897,944</u>

Governmental activities:

Taxes provided 50% of the revenues for Governmental Activities, while State Shared Revenues provided 10% and Charges for Services provided 12%. Most of the Governmental Activities resources are spent for General Government (46%), Public Safety (25%), and Transportation (14%). There was an increase in net assets of \$13,527 as a result of governmental activities.

Business-type activities:

Business-type activities decreased the City's net assets by \$222,217. Key elements of this decrease are as follows:

- Water expenses increased 65%, or \$106,193, as a result of the expenses for removal of the water tower and other repairs.

Capital Assets and Debt Administration

At September 30, 2009, the City had \$6.09 million invested in capital assets, including police and fire equipment, park and recreation facilities, buildings, roads, bridges and water and sewer facilities. This amount represents a net decrease (additions, deductions, and depreciation) of \$320,310 from last year.

Capital Assets at September 30, 2009 and 2008

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	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	3,874,457	3,893,247	5,343,547	5,362,337
Construction in progress		-	194,000	194,000	194,000	194,000
Equipment	437,358	304,560	39,455	39,455	476,813	344,015
Subtotal	2,796,740	2,663,942	9,073,987	9,092,777	11,870,727	11,756,719
Accumulated depreciation	(1,177,769)	(1,098,803)	(4,598,165)	(4,242,813)	(5,775,934)	(5,341,616)
Capital assets, net	<u>\$1,618,971</u>	<u>\$1,565,139</u>	<u>\$4,475,822</u>	<u>\$4,849,964</u>	<u>\$6,094,793</u>	<u>\$6,415,103</u>

Debt Outstanding

At year-end, the City had \$2.56 million in bonds and notes outstanding versus \$2.92 million last year, a decrease of \$359,545.

Debt Outstanding at September 30, 2009

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Line of credit	\$ 62,151	\$ 50,000	-	-	\$ 62,151	\$ 50,000
USDA bonds	-	-	2,175,800	2,566,200	2,175,800	2,566,200
Loans Payable	87,762	52,275	236,302	253,085	324,064	305,360
Total bonds and notes	<u>\$149,913</u>	<u>\$102,275</u>	<u>\$2,412,102</u>	<u>\$2,819,285</u>	<u>\$2,562,015</u>	<u>\$2,921,560</u>

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

Budgetary Highlights

At the end of the year, the general fund's expenditures and transfers out were \$17,691 less than was budgeted, due in part to the discontinuation of police and fire services. The general fund's revenues and transfers were \$8,737 more than was budgeted.

Proprietary funds expenditures were \$149,274 more than was budgeted, not including depreciation expense. Significant variances include the unbudgeted expense for the removal of the water tower (\$28,875), water treatment plant grant expenses (\$48,375) and bond loan interest (\$27,275). Personnel services were also slightly higher than budgeted (\$18,894). Proprietary revenues exceeded the budget by \$173,198.

A comparison of the City's actual results to the adopted budget is contained in Required Supplementary Information.

OTHER FINANCIAL INFORMATION

Economic Factors and Rates

- The current unemployment rate for Alachua County was 7.1%. This is higher than the prior year rate of 4.5% and reflects the current economic conditions of the country.
- The official population of the City in 2009 was 1415 and is estimated to be approximately the same in 2010.
- The ad valorem tax millage rate for the City was 5.319 mills in 2009.

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, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>TOTAL</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 266,596	\$ 100,109	\$ 366,705
Accounts receivable, net	10,528	96,061	106,589
Due from other funds	-	236,732	236,732
Due from other governmental units	69,452	23,625	93,077
Total Current Assets	<u>346,576</u>	<u>456,527</u>	<u>803,103</u>
Restricted assets:			
Cash	-	101,615	101,615
Total Restricted Assets	<u>-</u>	<u>101,615</u>	<u>101,615</u>
Non-current assets:			
Due from other funds	425,169	-	425,169
Bond costs, net	-	5,870	5,870
Capital assets, net	1,618,971	4,475,822	6,094,793
Total non-current assets	<u>2,044,140</u>	<u>4,481,692</u>	<u>6,525,832</u>
Total assets	<u>2,390,716</u>	<u>5,039,834</u>	<u>7,430,550</u>
LIABILITIES			
Current liabilities (payable from current assets):			
Accounts payable	87,707	-	87,707
Due to other funds	201,359	460,542	661,901
Due to other governmental units	2,420	-	2,420
Line of credit	62,151	-	62,151
Loans payable-current portion	20,443	16,872	37,315
Accrued compensated absences	9,091	3,793	12,884
Total current liabilities (payable from current assets)	<u>383,171</u>	<u>481,207</u>	<u>864,378</u>
Current liabilities (payable from restricted assets):			
Accrued interest payable	-	10,479	10,479
Deposits	-	56,794	56,794
Bonds payable-current portion	-	47,200	47,200
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>114,473</u>	<u>114,473</u>

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>TOTAL</u>
Non-current liabilities:			
Due to other funds			
Loans payable	67,318	219,430	286,748
Revenues collected in advance	-	1,197	1,197
Bonds payable	-	2,474,500	2,474,500
Total long-term liabilities	<u>67,318</u>	<u>2,695,127</u>	<u>2,762,445</u>
 Total liabilities	 <u>450,489</u>	 <u>3,290,807</u>	 <u>3,741,296</u>
 NET ASSETS			
Invested in capital assets, net of related debt	1,618,972	1,726,818	3,345,790
Unrestricted net assets	233,128	(102,027)	131,101
Restricted net assets	88,127	124,236	212,363
Total net assets	<u>\$ 1,940,227</u>	<u>\$ 1,749,027</u>	<u>\$ 3,689,254</u>

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES

September 30, 2009

Functions / Programs	Expenses	Program			Net Revenue (Expense) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Activities	Total
Governmental Activities							
General government	\$ 502,772	\$ -	\$ -	\$ -	(502,772)	\$ -	\$ (502,772)
Public safety	278,516	122,135	-	-	(156,381)	-	(156,381)
Transportation	156,237	-	-	-	(156,237)	-	(156,237)
Economic environment	97,556	-	159,834	-	62,278	-	62,278
Culture & recreation	67,144	18,908	-	63,797	15,561	-	15,561
Interest on long-term debt	2,326	-	-	-	(2,326)	-	(2,326)
Total governmental activities	1,104,551	141,043	159,834	63,797	(739,877)	-	(739,877)
Business Activities							
Water utility	268,856	195,377	-	52,800	-	(20,679)	(20,679)
Garbage services	182,355	214,453	-	-	-	32,098	32,098
Sewer utility	540,113	376,256	52,750	-	-	(111,107)	(111,107)
Interest on long-term debt	125,750	-	-	-	-	(125,750)	(125,750)
Total business activities	1,117,074	786,086	52,750	52,800	-	(225,438)	(225,438)
Total Government	\$ 2,221,625	\$ 927,129	\$ 212,584	\$ 116,597	\$ (739,877)	\$ (225,438)	\$ (965,315)

CONTINUED

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES

September 30, 2009

General Revenues			
Property taxes	280,817	-	280,817
Sales and use taxes	139,053	-	139,053
Franchise fees	63	-	63
Utility services tax	94,000	-	94,000
Communications surtax	46,704	-	46,704
Licenses and permits	7,698	-	7,698
State shared revenues	107,846	-	107,846
Tax increment	69,482	-	69,482
Interest	1,730	1,903	3,633
Miscellaneous	6,011	1,318	7,329
Total general revenue	<u>753,404</u>	<u>3,221</u>	<u>756,625</u>
Change in net assets	13,527	(222,217)	(208,690)
Transfer	(1,800)	1,800	-
Net assets, beginning of year	1,928,500	1,969,444	3,897,944
Net asset, end of year	<u>\$ 1,940,227</u>	<u>\$ 1,749,027</u>	<u>\$ 3,689,254</u>

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

GOVERNMENTAL FUND

BALANCE SHEET

September 30, 2009

	General Fund
ASSETS	
Cash	\$ 266,596
Accounts receivable	10,527
Due from other funds	425,169
Due from other governmental units	69,452
Total assets	<u>771,745</u>

LIABILITIES AND FUND BALANCES

LIABILITIES	
Accounts payable and accrued liabilities	87,707
Due to other funds	201,359
Due to other governmental units	2,420
Line of Credit	62,151
Accrued compensated absences	9,091
Total Liabilities	<u>362,728</u>

FUND BALANCES

Reserved:	
Library	455
Downtown development	87,672
Interfund receivable	425,169
Unreserved:	(104,279)
Total fund balances	<u>409,017</u>

Amount 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	1,618,971
Long-term liabilities are not due in the current period and therefore are not reported in the funds	(87,761)

Net assets of governmental activities	<u>\$ 1,940,227</u>
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See accompanying 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, 2009

	<u>General Fund</u>
REVENUE	
Taxes	\$ 560,571
Licenses and permits	7,697
Intergovernmental revenue	177,328
Charges for services	141,043
Other Revenue	231,439
Total Revenue	<u>1,118,078</u>
EXPENDITURES	
Current Expenditures	
General government	471,525
Public safety	234,116
Transportation	156,237
Economic environment	97,556
Culture/recreation	20,066
Capital Outlay	143,397
Total expenditures	<u>1,122,897</u>
Deficiency of revenues under expenditures	<u>(4,819)</u>
OTHER FINANCING SOURCES (USES)	
Interfund transfers out	<u>(1,800)</u>
Total other financing sources (uses)	<u>(1,800)</u>
Net changes in fund balances	(6,619)
Fund balances, beginning of year	<u>415,636</u>
Fund balances, end of year	<u>\$ 409,017</u>

See accompanying 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, 2009

Net change in fund balances - total governmental funds \$ (6,619)

Amount 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

Expenditures for capital assets	\$ 143,397	
Less current year depreciation	<u>(89,565)</u>	
		53,832

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.

Long-term borrowings net of payments	<u>(35,486)</u>
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Change in net assets of governmental activities	<u><u>\$ 11,727</u></u>
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See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2009

ASSETS	Business-Type Activities - Enterprise Funds			
	Water	Solid Waste	Sewer	Totals
Current assets				
Cash	\$ 63,993	\$ -	\$ 36,116	\$ 100,109
Accounts receivable (net of allowance for uncollectible)	22,420	28,312	45,329	96,061
Due from other funds	145,369	74,027	17,336	236,732
Grants receivable			23,625	23,625
Restricted assets				
Cash	101,615	-	-	101,615
Fixed assets				
Land	-	-	114,300	114,300
Buildings	577,716	-	4,255,269	4,832,985
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	(757,959)	-	(3,840,206)	(4,598,165)
Other assets				
Bond costs	-	-	12,295	12,295
Accumulated amortization of bond costs	-	-	(6,425)	(6,425)
Total assets	<u>606,751</u>	<u>102,339</u>	<u>4,330,744</u>	<u>5,039,834</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Due to other funds	53,105	6,670	400,767	460,542
Current liabilities payable from restricted funds				
Accrued interest payable	1,779	-	8,700	10,479
Deposits	56,794	-	-	56,794
Loan payable FDOT-current	16,872	-	-	16,872
Serial bonds payable-current	9,000	-	15,000	24,000
Bonds payable FMHA-current	-	-	23,200	23,200
Accrued wages and compensation	1,421	-	2,372	3,793
Deferred revenue	-	-	1,197	1,197
Long-term liabilities				
Loan payable FDOT-current	219,430	-	-	219,430
Serial bonds payable	345,900	-	1,119,000	1,464,900
Bonds payable FMHA	-	-	1,009,600	1,009,600
Total Liabilities	<u>704,301</u>	<u>6,670</u>	<u>2,579,836</u>	<u>3,290,807</u>
NET ASSETS				
Invested in capital assets, net of related debt	(308,847)	-	2,035,665	1,726,818
Restricted for debt service	101,615	-	22,621	124,236
Unrestricted	<u>109,685</u>	<u>95,668</u>	<u>(307,380)</u>	<u>(102,027)</u>
Total net assets	<u>(97,549)</u>	<u>95,668</u>	<u>1,750,906</u>	<u>1,749,027</u>
Total liabilities and net assets	<u>\$ 606,752</u>	<u>\$ 102,338</u>	<u>\$ 4,330,744</u>	<u>\$ 5,039,834</u>

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Fiscal year Ended September 30, 2009

	Business-Type Activities - Enterprise Funds			
	<u>Water</u>	<u>Solid Waste</u>	<u>Sewer</u>	<u>Totals</u>
OPERATING REVENUES				
Utility revenue				
Installation fees	\$ 2,140	\$ -	\$ 3,000	\$ 5,140
Sales	175,115	214,400	333,010	722,525
Reconnect fees	5,175	-	-	5,175
Late fees	7,747	-	7,748	15,495
Total utility revenue	<u>190,177</u>	<u>214,400</u>	<u>343,758</u>	<u>748,335</u>
Other revenue	<u>7,060</u>	<u>52</u>	<u>8,400</u>	<u>15,512</u>
Total operating revenues	<u>197,237</u>	<u>214,452</u>	<u>352,158</u>	<u>763,847</u>
OPERATING EXPENSES				
Personnel				
Regular salaries	43,214	-	43,512	86,726
Payroll tax	3,103	-	3,316	6,419
Retirement	2,088	-	2,091	4,179
Life and health insurance	16,407	-	14,605	31,012
Worker's compensation	3,579	-	3,579	7,158
Total Personnel Services	<u>68,391</u>	<u>-</u>	<u>67,103</u>	<u>135,494</u>
Depreciation	48,376	-	325,766	374,142
Accounting and auditing	2,000	-	2,000	4,000
Contractual services	62,612	181,857	77,300	321,769
Communication	637	-	-	637
Transportation	-	-	1,170	1,170
Utility services	9,674	-	28,545	38,219
Insurance	3,579	-	3,579	7,158
Repairs and maintenance	49,036	-	15,465	64,501
Supplies	2,002	498	5,934	8,434
Publications & subscription	1,105	-	-	1,105
Tests	17,514	-	11,300	28,814
Other current charges and obligations	4,473	-	1,950	6,423
Total operating expenses	<u>201,008</u>	<u>182,355</u>	<u>473,009</u>	<u>856,372</u>
Total expenses	<u>269,399</u>	<u>182,355</u>	<u>540,112</u>	<u>991,866</u>

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Fiscal year Ended September 30, 2009**

	Business-Type Activities - Enterprise Funds			
	<u>Water</u>	<u>Solid Waste</u>	<u>Sewer</u>	<u>Totals</u>
Operating income (loss)	<u>(72,162)</u>	<u>32,097</u>	<u>(187,954)</u>	<u>(228,019)</u>
Non-operating revenues				
Federal waste water grant	-	-	52,750	52,750
State water treatment grant	52,800	-	-	52,800
Interest on investments	1,189	-	713	1,902
Rents and royalties	-	-	-	-
Gator Tower	-	-	15,947	15,947
American Tower	-	-	4,576	4,576
FPL	-	-	3,575	3,575
Total non-operating revenues	<u>53,989</u>	<u>-</u>	<u>77,561</u>	<u>131,550</u>
Debt service - interest	(21,350)	-	(104,400)	(125,750)
Total non-operating revenue	<u>32,639</u>	<u>-</u>	<u>(26,839)</u>	<u>5,800</u>
Income (loss) before operating transfers	<u>(39,523)</u>	<u>32,097</u>	<u>(214,793)</u>	<u>(222,219)</u>
Operating transfers-interfund	<u>1,800</u>	<u>-</u>	<u>-</u>	<u>1,800</u>
Change in net assets	(37,723)	32,097	(214,793)	(220,419)
Net assets, beginning of year	(59,826)	63,571	1,965,699	1,969,444
Net assets, end of year	<u>\$ (97,550)</u>	<u>\$ 95,668</u>	<u>\$ 1,750,906</u>	<u>\$ 1,749,027</u>

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal year Ended September 30, 2009**

	Business-Type Activities - Enterprise Funds			
	Water	Solid Waste	Sewer	Totals
Cash flows from operating activities				
Cash received from customers	\$ 179,856	\$ -	\$ 280,351	\$ 460,207
Cash payments to employees	(43,214)	-	(43,512)	(86,726)
Cash payments for employee benefits	(25,177)	-	(21,947)	(47,124)
Cash paid to vendors	(104,709)	-	(147,245)	(251,954)
Net cash provided by operating activities	<u>6,756</u>	<u>-</u>	<u>67,647</u>	<u>74,403</u>
Cash flows from capital and related financing activities				
Interest paid on bonds payable	(21,350)	-	(104,400)	(125,750)
Capital grant	52,800	-	52,750	105,550
Principal paid on note payable	(16,782)	-	-	(16,782)
Principal paid on bonds payable	(8,500)	-	(37,200)	(45,700)
Net cash provided by (used for) capital and related financing activities	<u>6,168</u>	<u>-</u>	<u>(88,850)</u>	<u>(82,682)</u>
Cash flows from non-capital financing activities				
Loan proceeds	-	-	-	-
Rents and royalties	-	-	24,098	24,098
Transfers	1,800	-	-	1,800
Net cash provided by non-capital financing activities	<u>1,800</u>	<u>-</u>	<u>24,098</u>	<u>25,898</u>
Cash flows from investing activities				
Purchase of fixed assets	-	-	-	-
interest	1,188	-	713	1,901
Net cash used for investing activities	<u>1,188</u>	<u>-</u>	<u>713</u>	<u>1,901</u>
Net increase (decrease) in cash and cash equivalents	15,912	-	3,608	19,520
Cash and cash equivalents, beginning of year	<u>149,696</u>	<u>-</u>	<u>32,508</u>	<u>182,204</u>
Cash and cash equivalents, end of year	<u><u>165,609</u></u>	<u><u>-</u></u>	<u><u>36,116</u></u>	<u><u>201,725</u></u>

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal year Ended September 30, 2009**

	Business-Type Activities - Enterprise Funds			Totals
	Water	Solid Waste	Sewer	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	(72,160)	32,097	(187,954)	(228,017)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	48,376	-	325,766	374,142
(Increase) decrease in assets:				
Accounts receivable, net	(7,992)	(6,670)	(8,059)	(22,721)
Due from other funds	(13,437)	(32,097)	(17,336)	(62,870)
Increase (decrease) in liabilities:				
Due to other funds	52,438	6,670	(20,698)	38,410
Customer deposits payable	1,490	-	-	1,490
Deferred revenue	(1,861)		1,197	(664)
Grants receivable	-	-	(23,625)	(23,625)
Accrued compensated absences	(98)	-	(1,644)	(1,742)
Total adjustments	78,916	(32,097)	255,601	302,420
Net cash provided by operating activities	\$ 6,756	\$ -	\$ 67,647	\$ 74,403

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

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 dollars. 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, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

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 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

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 inter-fund 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 non-exchange transactions are recognized in accordance with the relevant standards.

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 expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as another 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 expenditures.

As a general rule the effect of inter-fund 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.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

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 non-major 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 excludes 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.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

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 another 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 prepares its books and records in accordance with relevant standards.

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. Non-operating revenues, such as subsidies, taxes, and investment earnings, result from non-exchange transactions or ancillary activities.

Amounts paid to acquire capital assets are capitalized as assets in the fund financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the fund financial statements, rather than as other financing sources. 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 – The relevant standards set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures, expenses of the fund category and the governmental and enterprise combined) for the determination of major funds. The City has applied the relevant standards for major fund determination.

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.

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

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

Non-current Governmental Assets/Liabilities: The relevant standards require 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

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.

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, 2009, the City's cash consisted solely of checking accounts and money market accounts; it has no other cash equivalents.

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, 2009, there were no amounts outstanding for more than 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, 2009.

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.

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 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.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets, bridges, rights-of-way, 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>
Buildings and improvements	10-50
Machinery and equipment	5-12
Streets and related infrastructure	20-40

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.

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.

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.

Proprietary Activity Accounting and Financial Reporting - The City prepares its books and records in accordance with relevant standards.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

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 differs from "net assets" of governmental activities 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 is reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 2,796,470
Accumulated depreciation	<u>(1,177,769)</u>
Total	<u>\$ 1,618,971</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, 2009, were:

Note Payable - M&S Bank	\$ 45,507
Interlocal Agreement-Alachua County	<u>42,254</u>
Loans payable	<u>\$ 87,761</u>

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CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

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

The "net change in fund balances" for governmental funds (\$6,619) differs from the "change in net assets" for governmental activities \$11,727 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	\$ 143,397
Depreciation expense	<u>(89,565)</u>
Difference	<u><u>\$ 53,832</u></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 expenditures 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><u>\$ 19,514</u></u>
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INSERT SPREADSHEET Note 2B

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

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 relevant standards. 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 exceeded federal depository insurance by \$218,320.

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 such 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 2008-2009 fiscal year were levied in October 2008. All taxes are due and payable on November 1 or as soon as the assessment 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, taxes receivable at fiscal year end were in an immaterial amount.

INSERT SPREADSHEET- CAPITAL ASSETS HERE

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE 7. INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of inter-fund receivables and payables at September 30, 2009.

Fund	Interfund Receivables	Interfund Payables
General	\$ 425,169	\$ 201,359
Water	145,369	53,106
Solid waste	74,027	6,670
Sewer	8,945	392,375
	<u>\$ 653,510</u>	<u>\$ 653,510</u>

The balance of \$392,375 due to other funds 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, 2009, consisted of the following:

Fund	Transfers in	Transfers out
General	\$ -	\$ 1,800
Water	1,800	-
	<u>\$ 1,800</u>	<u>\$ 1,800</u>

Transfers were made to reimburse expenses incurred.

NOTE 9. RECEIVABLE AND PAYABLE BALANCES

Receivables at September 30, 2009, were as follows:

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE 9. RECEIVABLE AND PAYABLE BALANCES- Continued

	Accounts	Due from Other Governmental Units	Total Receivables
Governmental activities	\$ 10,527	\$ 69,452	\$ 79,979
Business-type activities	95,449	23,625	119,074
	<u>\$ 105,976</u>	<u>\$ 93,077</u>	<u>\$ 199,053</u>

Payables at September 30, 2009, were as follows:

	Vendors
Governmental activities:	
General	<u>\$ 86,629</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, is as follows:

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

A. Water Revenue Bonds Payable - Continued

September 30	Principal	Interest	Total
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	11,300	18,541	29,841
2015 - 2019	67,300	81,921	149,221
2020 - 2024	89,600	59,599	149,199
2026 - 2029	119,200	30,092	149,292
2030 - 2033	28,200	1,657	29,857
	<u>\$ 354,900</u>	<u>\$ 271,915</u>	<u>\$ 626,815</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, which has been achieved. Future debt service and reserve requirements of the Sewer Revenue Bonds, including interest are as follows:

September 30	Principal	Interest	Total
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	28,200	46,635	64,835
2015 - 2019	163,700	210,55	374,255
2020 - 2024	208,800	165,340	374,140
2026 - 2029	266,600	107,655	374,255
2030 - 2033	265,400	33,990	299,390
	<u>\$ 1,032,800</u>	<u>\$ 763,535</u>	<u>\$ 1,796,335</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

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:

September 30	Principal	Interest	Total
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	18,000	48,749	66,749
2015 - 2019	100,000	231,143	331,143
2020 - 2024	125,000	206,393	331,393
2025 - 2029	157,000	175,522	332,522
2030 - 2034	195,000	136,912	331,912
2035 - 2039	242,000	89,123	331,123
2040 - 2043	234,000	28,989	262,989
	<u>\$ 1,134,000</u>	<u>\$ 1,116,856</u>	<u>\$ 2,250,856</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 commenced October 15, 2008. Future debt service of this note is as follows:

	September 30
2010	16,872
2011	16,872
2012	16,872
2013	16,872
2014	16,872
2015 - 2019	84,363
2020 - 2024	67,490
	<u>\$236,213</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

The following is a schedule of changes in proprietary fund long-term debt for the year ended September 30, 2009:

	Balance September 30 2008	Additions	Retirements	Balance September 30 2009	Due Within One Year
FDOT note payable	253,085		(16,872)	236,213	16,872
Water revenue bonds	363,400		(8,500)	354,900	9,000
Sewer revenue bonds	2,202,800		(36,000)	2,166,800	38,200
	<u>\$ 2,819,285</u>		<u>\$ (61,372)</u>	<u>\$2,757,913</u>	<u>\$ 64,072</u>

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

NOTE 11. LONG-TERM DEBT - GOVERNMENTAL ACTIVITIES

Note Payable – Inter-local 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% per annum.

A summary of minimum debt requirements are as follows:

September 30	Principal	Interest	Total Payments
2010	10,241	930	11,171
2011	10,467	704	11,171
2012	10,697	474	11,171
2013	10,932	239	11,171
Total Payments	<u>\$42,337</u>	<u>\$2,346</u>	<u>\$44,684</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

Note Payable – Merchants and Southern Bank

On November 3, 2008, the city obtained a term loan in the amount of \$55,000 that was for the purpose of financing a fire truck under the following terms and conditions: Sixty monthly principal payments plus interest at a variable rate equal to the Prime interest index of the Wall Street Journal. As of September 30, 2009, the loan had an outstanding balance of \$45,507. The following is a schedule of debt service requirements:

September 30	Principal	Interest	Total Payments
2010	10,462	1,454	11,916
2011	10,462	1,454	11,916
2012	10,462	1,454	11,916
2013	10,462	1,454	11,916
2014	3,659	183	3,842
Total	<u>\$ 45,507</u>	<u>\$ 5,999</u>	<u>\$51,506</u>

Line of Credit - Merchants and Southern Bank

On September 24, 2008, the City obtained a one-year line-of-credit from Merchants and Southern Bank for the maximum amount of \$125,000. The revolving line has a demand feature and requires interest payments monthly at a variable rate equal to the Prime interest index of the Wall Street Journal. The note was modified in October, 2008 and the maximum line amount was reduced to \$70,000 in order for the city to obtain the term loan as described above. At September 30, 2009 the balance outstanding on the line of credit was \$62,151.

The following is a schedule of changes in general long-term debt for the year ended September 30, 2009:

	Balance September 30 2008	Additions	Retirements	Balance September 30 2009	Due Within One Year
Line of Credit	50,000	67,151	(55,000)	62,151	-
Note Payable	52,275	-	(11,171)	41,104	11,171
Loan Payable	-	55,000	(9,493)	45,507	11,917
	<u>\$ 102,275</u>	<u>\$ 122,151</u>	<u>\$ (75,664)</u>	<u>\$ 148,762</u>	<u>\$ 23,088</u>

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

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

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 \$432 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 mobile 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:

Year Ending September 30	
2010	\$22,780
2011	22,780
2012	24,677
2013	24,677
2014	24,677
2015-2019	130,011
2020-2024	71,373
2025	5,840
	<u>\$ 327,023</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.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

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, 2009, the City contributed \$10,889 to the plan.

NOTE 13. DEFERRED COMPENSATION PLAN - Continued

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

NOTE 17. CDBG GRANT - WATER TANK TREATMENT PLANT

In 2007, the City was 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 prior year. No additional work was undertaken in the current year on this project.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE 18. FDEP GRANT - WASTEWATER TREATMENT PLANT

In 2006, the City was 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 services for this project and began construction activities in the prior year. The grant was amended in July, 2009 to extend the completion date to September 30, 2011.

NOTE 19. SUBSEQUENT EVENT

In December, 2009, the City requested and was granted a modification of the Promissory Note to the State of Florida, Department of Transportation which extended the October, 2009 payment. The new note allows the city to make four quarterly payments of \$4,218.08 on the 15th of March, June, September and December each year. No other terms or conditions of the note were modified.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HAWTHORNE, FLORIDA

GENERAL FUND

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

For the Fiscal Year Ended September 30, 2009

	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
REVENUES			
Taxes			
Current ad valorem taxes	\$ 268,300	\$ 259,319	\$ (8,981)
Delinquent ad valorem taxes	2,500	21,497	18,997
Fire assessments	150,000	112,567	(37,433)
Sales and use tax - local option gas tax	139,000	139,053	53
Franchise fees - CATV	-	63	63
Utility service taxes			
Electricity	68,000	79,927	11,927
Telecommunications	44,000	46,704	2,704
Water	10,000	14,073	4,073
Total taxes	<u>681,800</u>	<u>673,203</u>	<u>(8,597)</u>
Licenses and permits			
Professional and occupational	3,000	3,048	48
Old Tyme Park permits	100	50	(50)
Building permits	500	300	(200)
Other licenses and permits			
Rezoning fees	8,500	525	(7,975)
Annexation fees	5,000	-	(5,000)
Preliminary plat fees	2,000	-	(2,000)
Special exception permits	500	300	(200)
Temporary use permits	225	-	(225)
Site plan review fees	4,000	3,475	(525)
Total licenses and permits	<u>23,825</u>	<u>7,698</u>	<u>(16,127)</u>
Intergovernmental revenue			
State revenue sharing	50,416	46,539	(3,877)
Gas tax	10,000	-	(10,000)
Traffic signal reimbursements	3,500	9,646	6,146
Alcoholic beverage licenses	500	584	84
Local government half-cent sales tax	82,179	69,482	(12,697)
State parks and recreation	-	51,077	51,077
Grants			
Economic environment			
SHIP Alachua County	58,000	94,035	36,035
Hawthorne Redevelopment Trust	70,000	65,799	(4,201)
Recreation Park Grant	-	63,798	63,798
Total intergovernmental revenue	<u>274,595</u>	<u>400,960</u>	<u>126,365</u>
Charges for Services			
Recreation fees	38,000	18,966	(19,034)
Total charges for services	<u>38,000</u>	<u>18,966</u>	<u>(19,034)</u>

CITY OF HAWTHORNE, FLORIDA

GENERAL FUND

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

For the Fiscal Year Ended September 30, 2009

	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
Fines and forfeitures			
Fine revenue/sheriff	70,000	9,569	(60,431)
Code enforcement fines	12,000	-	(12,000)
Total fines and forfeitures	82,000	9,569	(72,431)
Miscellaneous			
Interest on investments	4,000	1,730	(2,270)
Other miscellaneous	5,120	5,952	832
Total miscellaneous	9,120	7,682	(1,438)
Total Revenues	1,109,340	1,118,078	8,738
EXPENDITURES			
General government			
Legislative			
Personnel services	25,800	24,800	1,000
Operating expenses	10,800	4,020	6,780
Total legislative	36,600	28,820	7,780
Financial and administrative			
Personal services	176,000	194,767	(18,767)
Operating expenses	249,800	242,672	7,128
Capital outlay	3,000	-	3,000
Total financial and administrative	291,800	437,439	(145,639)
Legal counsel			
Operating expenses	39,000	36,524	2,476
Total general government	367,400	502,783	(135,383)
Public safety			
Law enforcement			
Personal services	124,000	46,976	77,024
Operating expenses	94,500	29,145	65,355
Total law enforcement	218,500	76,121	142,379
Fire control			
Personal services	200,000	123,154	76,846
Operating expenses	48,000	71,655	(23,655)
Debt service	11,400	20,663	(9,263)
Total fire control	259,400	215,472	43,928

CITY OF HAWTHORNE, FLORIDA

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

For the Fiscal Year Ended September 30, 2009

	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Final Budget Positive / (Negative)</u>
Protective inspections			
Operating expenses	12,000	7,586	4,414
Total public safety	<u>489,900</u>	<u>299,179</u>	<u>190,721</u>
Transportation			
Roads and streets			
Personal services	51,400	56,078	(4,678)
Operating expenses	90,300	100,158	(9,858)
Capital outlay	5,000	-	5,000
Total transportation	<u>146,700</u>	<u>156,236</u>	<u>(9,536)</u>
Economic Environment			
Downtown redevelopment			
operating expenses	70,000	8,000	62,000
Housing and urban development			
operating expenses	58,000	89,556	(31,556)
Total economic environment	<u>128,000</u>	<u>97,556</u>	<u>30,444</u>
Culture / Recreation			
Parks and recreation			
Personal services	27,250	30,248	(2,998)
Operating expenses	28,900	36,895	(7,995)
Total culture / recreation	<u>56,150</u>	<u>67,143</u>	<u>(10,993)</u>
Total expenditures	<u>1,188,150</u>	<u>1,122,897</u>	<u>65,253</u>
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	59,900	-	(59,900)
Interfund transfers out	(5,400)	(1,800)	3,600
Total other financing sources (uses)	<u>54,500</u>	<u>(1,800)</u>	<u>(56,300)</u>
Net change in fund balances	(24,310)	(6,619)	17,691
Fund balance at beginning of year	415,636	415,636	-
Fund balance at end of year	<u>\$ 391,326</u>	<u>\$ 409,017</u>	<u>\$ 17,691</u>

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

For the Fiscal Year Ended September 30, 2009

	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
REVENUES			
Water Fund			
Sales of water	\$ 130,000	\$ 175,115	\$ 45,115
Grant income	-	52,800	52,800
Disconnect / reconnect fees	3,500	5,175	1,675
Customer late fees	6,000	7,747	1,747
Meter and line installations	4,000	2,140	(1,860)
Impact fees	-	-	-
Miscellaneous revenue	100	7,061	6,961
Interest income	700	1,189	489
Total water revenues	<u>144,300</u>	<u>251,227</u>	<u>106,927</u>
Sewer Fund			
Grant income	-	52,750	52,750
Sales of sewer services	340,000	333,012	(6,988)
Customer late fees	6,000	7,748	1,748
Line installations	3,000	3,000	-
Impact fees	-	-	-
Miscellaneous revenue	-	8,400	8,400
Interest income	1,000	713	(287)
Land leases	21,900	24,098	2,198
Total sewer revenues	<u>371,900</u>	<u>429,721</u>	<u>57,821</u>
Sanitation Fund			
Sanitation income	205,000	214,400	9,400
Miscellaneous revenue	1,000	52	(948)
Total sanitation revenues	<u>206,000</u>	<u>214,452</u>	<u>8,452</u>
Total proprietary revenues	<u>722,200</u>	<u>895,400</u>	<u>173,200</u>
EXPENDITURES			
Water Fund			
Personnel services	57,400	68,391	(10,991)
Operating expenses	65,500	201,008	(135,508)
Loan Interest	22,500	21,350	1,150
Total water expenditures	<u>145,400</u>	<u>290,749</u>	<u>(145,349)</u>

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

For the Fiscal Year Ended September 30, 2009

	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Final Budget Positive / (Negative)</u>
Sewer Fund			
Personnel services	59,200	67,103	(7,903)
Operating expenses	159,850	467,875	(308,025)
Loan Interest	77,125	104,400	(27,275)
Capital outlay	15,000	5,132	9,868
Total sewer expenditures	<u>311,175</u>	<u>644,510</u>	<u>(333,335)</u>
Sanitation Fund			
Operating expenses	186,000	182,355	3,645
Total sanitation expenditures	<u>186,000</u>	<u>182,355</u>	<u>3,645</u>
Total expenditures	<u>642,575</u>	<u>1,117,613</u>	<u>(475,038)</u>
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	5,400	1,800	(3,600)
Interfund transfers out	(67,000)	-	67,000
Total other financing sources (uses)	<u>(61,600)</u>	<u>1,800</u>	<u>63,400</u>
Net change in fund balances	18,025	(220,417)	(238,442)
Fund balance at beginning of year	1,969,444	1,969,444	-
Fund balance at end of year	<u>\$ 1,987,469</u>	<u>\$ 1,749,027</u>	<u>\$ (238,442)</u>

COMPLIANCE SECTION

CITY OF HAWTHORNE, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
For the Fiscal Year Ended September 30, 2009

GRANTOR PROGRAM TITLE	CFDA # CSFA #	Contract Number	Award Amount	Received in Prior Years	2009		
					Revenue Received or Receivable	Expenditures	Fund Balance 9/30/2009
Federal Awards Non-major Programs							
US Department of Housing and Urban Development Passed through the Florida Department of Community Affairs Community Development Block Grant	14258	08DB-3R-03- 11-02-N15	\$ 650,000	\$ 11,400	\$ 52,800	\$ 52,800	\$ -
Total Federal Awards			650,000	11,400	52,800	52,800	-
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	52,750	52,750	-
State of Florida Department of Environmental Protection Florida Recreation Development Assistance Program	37.017 37.017	A9184 A9185	33,903 63,568	- -	29,929 33,869	29,929 33,869	- -
Total State financial assistance			597,471	194,000	116,548	116,548	-
Total federal awards and state financial assistance			\$ 1,247,471	\$ 205,400	\$ 169,348	\$ 169,348	\$ -

**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 governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Hawthorne, Florida, as of and for the year ended September 30, 2009, which collectively comprise the City of Hawthorne, Florida's basic financial statements and have issued our report thereon dated April 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Hawthorne, Florida's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

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 identified the following deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above:

There are not sufficient financial controls in place to prevent the City from inadvertently over-expending resources such that there is a continuing decline in net assets. While this is not uncommon among small towns with limited resources, better financial policies and procedures for the review of financial reports in addition to strict adherence to the adopted budget will assist in preventing further declines.

The City also does not have sufficient controls in place to prevent theft of cash and other assets. A better system of dual control over these assets will reduce the likelihood of losses due to the theft of city resources.

The City's chosen accounting software requires a high degree of oversight, accounting expertise and ongoing account reconciliation to ensure that misstatements to the financial statements are corrected in a timely manner.

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, significant deficiencies or material weaknesses. We identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies:

As is often the case with small towns, the City's staff does not have the accounting expertise to draft the financial statements including footnote disclosures nor does it have the required skill necessary to prevent, detect and correct misstatements to the financial reports.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 April 30, 2010 on pages 57 – 59.

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 parties.



Sexton & Schnoll
Certified Public Accountants
April 30, 2010

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, 2009, 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

All prior year findings related to sales documentation, retaining sales slips and other documentation to support credit card charges and expenditures have been substantially corrected during the current year.

CURRENT YEAR FINDINGS

1. The City maintains all of its cash in M & S bank. However as of September 30, 2009, the balances exceeded the FDIC insurance limit of \$250,000. We recommend the development of a policy to diversify these deposits.
2. In general, control over assets is insufficient. Blank check stock, petty cash, utility billing cash should be locked at all times. The City should endeavor to put appropriate policy and procedures in place to ensure a dual-control environment.
3. The financial records of the city contained 2 errors of a material amount: unrecorded acquisitions and disposals capital assets of \$520,734; unrecorded accounts payable of \$86,628.

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, 2009.

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 (\$104,279) in its General Fund at September 30, 2009. There were not legally available resources in the Enterprise Funds to cover this deficit balance. This circumstance caused us to believe that the City had met at least one 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 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 the General Fund exceeded revenues by \$6,619, resulting in an ending unreserved deficit fund balance of (\$104,279).

The Enterprise Funds showed a net loss of (\$220,419), reducing its unrestricted cash reserves to \$100,109, which represented only four 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.

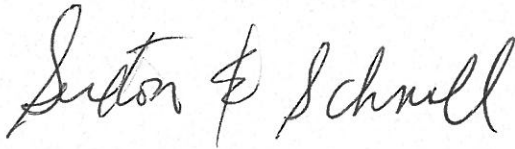
Our audit did not disclose any further items that would be required to be reported under the *Rules of the Auditor General*, Chapter 10.554.

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, 2009, as provided in the audit requirements for USDA-Rural Development borrowers.

- Generally accepted auditing procedures were performed in this audit
- Internal control was evaluated and is discussed in the prior sections of this audit report.
- Accounting records and physical control over assets were not adequate.
- The accounting records of the City have been adjusted to agree with the audited financial statements.
- The City's funds are in institutions insured by the Federal government and are authorized depositories of Florida public funds.
- A summary of the City's insurance coverage is shown in the annual report to USDA-Rural Development.
- The City is exempt from Federal Income Tax.
- 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 Ed Smyth, City Manager, and all City employees.



Sexton & Schnoll
Certified Public Accountants
April 30, 2010