

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2010

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2010

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	3
List of Principal Officials	4
FINANCIAL SECTION	5
Independent Auditor's Report	6
Management's Discussion and Analysis	8
BASIC FINANCIAL STATEMENTS	15
Statement of Net Assets	16
Statement of Activities	18
Governmental Funds	
Balance Sheet	20
Statement of Revenues, Expenditures and Changes in Fund Balances	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities	22
Proprietary Funds	
Statement of Net Assets	23
Statement of Revenues, Expenses and Changes in Net Assets	24
Statement of Cash Flows	26
NOTES TO FINANCIAL STATEMENTS	28
REQUIRED SUPPLEMENTARY INFORMATION	49
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	50
Enterprise Funds - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	53
COMPLIANCE SECTION	55
Schedule of Expenditures of Federal Awards and State Financial Assistance	56
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>	57
Management Letter- Statement of Findings	59
City of Hawthorne Response to Statement of Findings	63

INTRODUCTORY SECTION

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

September 30, 2010

Mayor	Matthew Surrency
Vice Mayor	Tommie Howard
City Commission	DeLoris Roberts
	William "Billy" Carlton
	Eleanor "Kit" Randall
Interim City Manager	Ellen Vause
City Clerk	LaKesha Hawkins-McGruder

Current Officials as of July 15, 2011

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 years ended September 30, 2010, and 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, 2010 and 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 July 15, 2011, 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 14, 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".

SEXTON & SCHNOLL
Certified Public Accountants
July 15, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

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 also include capital assets and long-term liabilities. All activities are reported on the accrual basis of accounting.
- The Statement of Activities focuses on 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 of 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, 2010 and 2009

	Governmental Activities	Business-type Activities	Total Government	
			2010	2009
Cash and cash equivalents	\$ 110,697	\$ 306,724	\$ 417,421	\$ 366,705
Other assets	1,215,183	881,516	2,096,699	969,052
Capital Assets	1,641,687	4,714,346	6,356,033	6,094,793
Total Assets	<u>2,967,567</u>	<u>5,902,586</u>	<u>8,870,153</u>	<u>7,430,550</u>
Current liabilities	854,360	1,114,956	1,696,316	978,851
Long term outstanding	45,941	3,381,354	3,070,487	2,762,445
Total Liabilities	<u>900,301</u>	<u>4,139,500</u>	<u>5,039,801</u>	<u>3,741,296</u>
Net assets:				
Invested in capital assets, Net of related debt	1,606,760	1,844,857	3,451,617	3,345,790
Restricted	1,237,778	333,228	1,571,006	212,363
Unrestricted	(777,272)	(414,999)	(1,192,271)	131,101
Total net assets	<u>\$ 2,067,266</u>	<u>\$ 1,763,086</u>	<u>\$ 3,830,352</u>	<u>\$ 3,689,254</u>

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

An additional 41% 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 is (\$ 1,192,311). Therefore there are no unrestricted net assets city-wide that may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net assets increased \$139,626 or 4% over the year, which was primarily the result of progress on construction of the Water Tower renovation project and its associated assets, which was funded through a grant from the State of Florida.

The following schedule provides a summary of the changes in net assets. The increase in Governmental Activities net assets is due primarily to reductions in expenses for police and fire departments, operations that were eliminated. Business-type Activities net assets decreased again in 2010 but to a lesser degree than in 2009. This was due to the increases in revenue from the water tower project. However, operating revenues decreased and operating expenses increased in all activities.

A condensed version of the Statement of Activities follows:

Change in Net Assets
For the fiscal year ended September 30, 2010 and 2009

	Governmental Activities	Business-type Activities	Total Government	
			2010	2009
Revenues:				
Program revenues				
Charges for services	\$ 23,827	\$ 663,677	\$ 687,504	\$ 889,378
Grants and contributions	33,377	465,532	498,909	329,182
General revenues				
Taxes	529,612	-	529,612	560,634
Tax increment	73,293	-	73,293	69,482
State shared revenues	210,445	-	210,445	107,846
Interest	4,792	2,110	6,902	3,633
Miscellaneous	33,023	32,588	65,611	52,777
Total revenues	<u>908,369</u>	<u>1,163,907</u>	<u>2,072,276</u>	<u>2,012,932</u>
Expenses:				
General government	408,777	-	408,777	502,775
Public safety	48,880	-	48,880	278,516
Transportation	177,433	-	177,433	156,237
Economic environment	12,600	-	12,600	97,556
Culture & recreation	106,668	-	106,668	67,144
Interest on long-term debt	4,972	131,457	136,429	128,073
Cemetery	-	7,020	7,020	-
Water	-	286,873	286,873	268,856
Garbage services	-	211,089	211,089	182,353
Sewer	-	592,924	592,924	540,112
Total expenses	<u>759,330</u>	<u>1,229,363</u>	<u>1,988,693</u>	<u>2,221,622</u>
Changes in net assets	149,039	(65,456)	83,583	(208,690)
Transfers	<u>(22,000)</u>	<u>22,000</u>	<u>-</u>	<u>-</u>
Beginning net assets	1,940,227	1,749,027	3,689,254	3,897,944
Beginning net assets, restated	<u>1,940,227</u>	<u>1,806,542</u>	<u>3,746,769</u>	<u>-</u>
Ending net assets	<u>\$ 2,067,266</u>	<u>\$ 1,763,086</u>	<u>\$ 3,830,352</u>	<u>\$ 3,689,254</u>

Governmental activities:

Taxes provided 58% of the revenues for Governmental Activities, while State Shared Revenues provided 23% and Charges for Services provided 3%. Most of the Governmental Activities resources are spent for General Government (54%), Transportation (23%) and Recreation (14%). There was an increase in net assets of \$149,039 as a result of governmental activities.

Business-type activities:

Business-type activities decreased the City's net assets by \$ 65,456. Key elements of this decrease are as follows:

- Declining services revenues (11%) from the prior year and an increase in operating expenditures (10%). All Business-type activities sustained net operating losses.

Capital Assets and Debt Administration

At September 30, 2010, the City had \$6.35 million invested in capital assets, equipment, park and recreation facilities, buildings, roads, bridges and water and sewer facilities. This amount represents a net decrease (additions, deductions, and depreciation) of \$60,935 from the previous year.

Capital Assets at September 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 232,048	\$ 185,947	\$ 114,300	\$ 114,300	\$346,348	\$ 300,247
Buildings	728,230	704,345	4,826,872	4,851,775	5,555,102	5,556,120
Improvements	1,549,205	1,469,090	3,893,246	3,874,457	5,442,451	5,362,337
Construction in progress	-	-	798,103	194,000	798,103	194,000
Equipment	265,368	437,358	43,278	39,455	308,646	344,015
Subtotal	2,774,851	2,796,740	9,675,799	9,073,987	12,450,650	11,756,719
Accumulated depreciation	(1,133,164)	(1,177,769)	(4,961,452)	(4,598,165)	(6,094,616)	(5,341,616)
Capital assets, net	<u>1,641,687</u>	<u>1,618,971</u>	<u>4,714,347</u>	<u>4,475,822</u>	<u>6,356,034</u>	<u>6,415,103</u>

Debt Outstanding

At year-end, the City had \$3.08 million in bonds and notes outstanding versus \$2.91 million last year, an increase of \$175,481. The City's loans payable in Business-type activities increased in conjunction with funding the work in progress on the Water Tower project.

Debt Outstanding at September 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Line of credit	\$ 62,151	\$ 62,151	-	-	\$62,151	\$ 62,151
USDA bonds	-	-	2,474,500	2,521,700	2,474,500	2,521,700
Loans Payable	66,988	87,762	479,585	236,302	546,573	324,064
Total bonds and notes	<u>\$129,109</u>	<u>\$149,913</u>	<u>\$2,954,085</u>	<u>\$2,758,002</u>	<u>\$3,083,194</u>	<u>\$2,907,915</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 revenues and transfers were \$245,859 more than was budgeted. Expenditures were \$47,534 more than the budget.

Proprietary revenues exceeded the budget by \$366,506 due to the unbudgeted revenue received from the State CDBG grant for the Water Tower project. Proprietary funds expenditures were \$433,861 more than was budgeted; unbudgeted depreciation expense comprised \$373,228 of this amount. Significant variances were noted in the operating expenses for all business-type activities.

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 2010 unemployment rate for Alachua County was 7.2%. The 2009 rate was 7.1 % and reflects the current economic conditions of the country. According to the U.S. Department of Labor, Bureau of Labor Statistics, the State of Florida's unemployment rate was 10.6% in June, 2011.

- The official population of the City in 2010 was 1,442 and is estimated to be approximately the same in 2011.
- The ad valorem tax millage rate for the City was 5.3194 mills in 2010.

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, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>2010 TOTAL</u>	<u>2009 TOTAL</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 16,319	\$ 85,002	\$ 101,321	366,705
Accounts receivable, net	170,097	52,511	222,608	106,589
Due from other funds	484,273	52,864	537,137	236,732
Due from other governmental units	39,245	28,350	67,595	93,077
Total Current Assets	<u>709,934</u>	<u>218,727</u>	<u>928,661</u>	<u>803,103</u>
Restricted assets:				
Cash	94,377	221,722	316,099	101,615
Total Restricted Assets	<u>94,377</u>	<u>221,722</u>	<u>316,099</u>	<u>101,615</u>
Non-current assets:				
Due from other funds	520,749	742,740	1,263,489	425,169
Bond costs, net	-	5,050	5,050	5,870
Prepaid Expenses	820	-	-	-
Capital assets, net	<u>1,641,687</u>	<u>4,714,347</u>	<u>6,356,034</u>	<u>6,094,793</u>
Total non-current assets	<u>2,163,256</u>	<u>5,462,137</u>	<u>7,624,573</u>	<u>6,525,832</u>
Total assets	<u>2,967,567</u>	<u>5,902,586</u>	<u>8,869,333</u>	<u>7,430,550</u>
LIABILITIES				
Current liabilities (payable from current assets):				
Accounts payable	20,935	57,068	78,003	87,707
Due to other funds	742,739	540,121	1,282,860	661,901
Due to other governmental units	-	-	-	2,420
Line of credit	62,151	-	62,151	62,151
Loans payable-current portion	21,047	41,599	62,646	37,315
Accrued wages	7,488	3,790	11,278	12,884
Total current liabilities (payable from current assets)	<u>854,360</u>	<u>642,578</u>	<u>1,496,938</u>	<u>864,378</u>
Current liabilities (payable from restricted assets):				
Accrued interest payable	-	10,479	10,479	10,479
Deposits	-	56,189	56,189	56,794
Bonds payable-current portion	-	48,900	48,900	47,200
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>115,568</u>	<u>115,568</u>	<u>114,473</u>

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>2010 TOTAL</u>	<u>2009 TOTAL</u>
Non-current liabilities:				
		-	-	
Loans payable	45,941	437,989	483,930	286,748
Revenues collected in advance	-	-	-	1,197
Due to other funds	-	517,765	517,765	-
Bonds payable	-	2,425,600	2,425,600	2,474,500
Total long-term liabilities	<u>45,941</u>	<u>3,381,354</u>	<u>3,427,295</u>	<u>2,762,445</u>
Total liabilities	<u>900,301</u>	<u>4,139,500</u>	<u>5,039,801</u>	<u>3,741,296</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,606,760	1,844,857	3,451,617	3,345,790
Restricted net assets	1,237,778	333,228	1,571,006	212,363
Unrestricted net assets	(777,272)	(414,999)	(1,192,271)	131,101
Total net assets	<u>\$ 2,067,266</u>	<u>\$ 1,763,086</u>	<u>\$ 3,830,352</u>	<u>\$ 3,689,254</u>

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES

September 30, 2010

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	2009
Governmental Activities								
General government	\$ 408,777	\$ -	\$ -	\$ -	(408,777)	\$ -	\$ (408,777)	(502,772)
Public safety	48,880	11,256	-	-	(37,624)	-	(37,624)	(156,381)
Transportation	177,433	-	-	-	(177,433)	-	(177,433)	(156,237)
Economic environment	12,600			-	(12,600)	-	(12,600)	62,278
Culture & recreation	106,668	10,664	33,377		(62,627)	-	(62,627)	15,561
Interest on long-term debt	4,972	-	-	-	(4,972)	-	(4,972)	(2,326)
Total governmental activities	<u>759,330</u>	<u>21,920</u>	<u>33,377</u>	<u>-</u>	<u>(704,033)</u>	<u>-</u>	<u>(704,033)</u>	<u>(739,877)</u>
Business Activities								
Cemetery	7,020	-	-	-	-	(7,020)	(7,020)	-
Water utility	286,874	172,159	-	465,532	-	350,817	350,817	(20,679)
Garbage services	211,089	205,414	-	-	-	(5,675)	(5,675)	32,098
Sewer utility	592,924	286,104	-	-	-	(306,820)	(306,820)	(111,107)
Interest on long-term debt	131,457	-	-	-	-	(131,457)	(131,457)	(125,750)
Total business activities	<u>1,229,364</u>	<u>663,677</u>	<u>-</u>	<u>465,532</u>	<u>-</u>	<u>(100,155)</u>	<u>(100,155)</u>	<u>(225,438)</u>
Total Government	<u>\$ 1,988,694</u>	<u>\$ 685,597</u>	<u>\$ 33,377</u>	<u>\$ 465,532</u>	<u>\$ (704,033)</u>	<u>\$ (100,155)</u>	<u>\$ (804,188)</u>	<u>\$ (965,315)</u>

CONTINUED

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES

September 30, 2010

	<u>Governmental</u>	<u>Business</u>	<u>Total</u>	<u>2009</u>
General Revenues				
Property taxes	270,160	-	270,160	280,817
Sales and use taxes	150,341	-	150,341	139,053
Franchise fees	44	-	44	63
Utility services tax	101,609	-	101,609	94,000
Communications surtax	36,038	-	36,038	46,704
Licenses and permits	1,906	-	1,906	7,698
State shared revenues	181,866	-	181,866	107,846
Tax increment	73,293	-	73,293	69,482
Interest	4,792	2,110	6,902	3,633
Miscellaneous	<u>33,023</u>	<u>32,590</u>	<u>65,613</u>	<u>7,329</u>
Total general revenue	<u>853,072</u>	<u>34,700</u>	<u>887,772</u>	<u>756,625</u>
Change in net assets	149,039	(65,455)	83,584	(208,690)
Transfers	(22,000)	22,000	-	-
Net assets, beginning of year	1,940,227	1,749,027	3,689,254	3,897,944
Net assets, beginning, restated	<u>1,940,227</u>	<u>1,806,541</u>	<u>3,746,768</u>	<u>-</u>
Net assets, end of year	<u>\$ 2,067,266</u>	<u>\$1,763,086</u>	<u>\$ 3,830,352</u>	<u>\$ 3,689,254</u>

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

GOVERNMENTAL FUND

BALANCE SHEET

September 30, 2010 and 2009

	2010	2009
ASSETS		
Cash	\$ 110,696	\$ 266,596
Accounts receivable	3,345	10,527
Due from other funds	1,005,022	425,169
Note receivable	166,752	-
Due from other governmental units	39,245	69,452
Prepaid expenses	820	-
Total assets	<u>1,325,880</u>	<u>771,744</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable and accrued liabilities	20,935	90,127
Due to other funds	742,739	201,359
Line of Credit	62,151	62,151
Accrued compensation	7,488	9,091
Total Liabilities	<u>833,313</u>	<u>362,728</u>

FUND BALANCES

Reserved:		
Library	455	455
Downtown development	127,580	87,672
Reserved Wild Spaces Public Spaces	104,721	-
Interfund receivable	1,005,022	425,169
Unreserved:	<u>(745,211)</u>	<u>(104,279)</u>
Total fund balances	<u>492,567</u>	<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.	1,641,687	1,618,971
Long-term liabilities are not due in the current period and therefore are not reported in the funds	(66,988)	(87,761)
Net assets of governmental activities	<u>\$ 2,067,266</u>	<u>\$ 1,940,227</u>

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, 2010 and 2009

	2010	2009
REVENUE		
Taxes	\$ 529,612	\$ 560,571
Intergovernmental revenue	283,738	177,328
Charges for services	23,827	148,740
Other revenue	71,192	231,439
Total Revenue	<u>908,369</u>	<u>1,118,078</u>
EXPENDITURES		
Current Expenditures		
General government	398,708	471,525
Public safety	30,608	234,116
Transportation	145,539	156,237
Economic environment	12,600	97,556
Culture/recreation	84,157	20,066
Capital outlay/disposals	131,207	143,397
Total expenditures	<u>802,819</u>	<u>1,122,897</u>
Surplus/(deficiency) of revenues over expenditures	<u>105,550</u>	<u>(4,819)</u>
OTHER FINANCING USES		
Interfund transfers out	<u>(22,000)</u>	<u>(1,800)</u>
Total other financing uses	<u>(22,000)</u>	<u>(1,800)</u>
Net changes in fund balances	83,550	(6,619)
Fund balances, beginning of year	<u>409,017</u>	<u>415,636</u>
Fund balances, end of year	<u><u>\$ 492,567</u></u>	<u><u>\$ 409,017</u></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, 2010

	<u>2010</u>	<u>2009</u>
Net change in fund balances - total governmental funds	\$ 83,550	\$ (6,619)
Amount reported for governmental activities in the statement of activities is 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	\$ 110,434	
Less current year depreciation	<u>(87,718)</u>	
	22,716	53,832
Debt proceeds are financing sources in the governmental funds, but 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.		
Net payments on long-term debt	<u>20,773</u>	<u>(35,486)</u>
Change in net assets of governmental activities	<u>\$ 127,039</u>	<u>\$ 11,727</u>

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2010**

	Business-Type Activities - Enterprise Funds					
ASSETS	Cemetery	Water	Solid Waste	Sewer	Totals	2009
Current assets						
Cash	\$ 53,515	\$ 31,487	\$ -	\$ -	\$ 85,002	\$ 100,109
Accounts receivable (net of allowance for uncollectible)	-	11,392	17,188	23,930	52,510	96,061
Due from other funds	-	560,085	95,995	139,526	795,606	236,732
Grants receivable	-	28,350	-	-	28,350	23,625
Restricted assets					-	
Cash	-	173,876	-	47,846	221,722	101,615
Fixed assets						
Land	-	-	-	114,299	114,299	114,300
Buildings	-	571,603	-	4,255,269	4,826,872	4,832,985
Improvements other than buildings	-	449,470	-	3,443,776	3,893,246	3,893,247
Equipment	-	5,765	-	37,513	43,278	39,455
Construction in progress	-	604,103	-	194,000	798,103	194,000
Allowance for depreciation	-	(797,093)	-	(4,164,359)	(4,961,452)	(4,598,165)
Other assets						
Bond costs	-	-	-	12,295	12,295	12,295
Accumulated amortization of bond costs	-	-	-	(7,245)	(7,245)	(6,425)
Total assets	<u>53,515</u>	<u>1,639,038</u>	<u>113,183</u>	<u>4,096,850</u>	<u>5,902,586</u>	<u>5,039,834</u>
LIABILITIES AND NET ASSETS						
Current liabilities						
Due to other funds	-	478,270	6,670	572,947	1,057,887	460,542
Accounts Payable	-	35,975	16,520	4,574	57,069	-
Current liabilities payable from Restricted funds					-	
Accrued interest payable	-	1,780	-	8,700	10,480	10,479
Deposits	-	56,189	-	-	56,189	56,794
Loan payable FDOT-current	-	16,872	-	-	16,872	16,872
Loan payable CRA-current	-	8,927	-	-	8,927	-
Loan payable NRWA-current	-	15,800	-	-	15,800	-
Serial bonds payable-current	-	9,500	-	-	9,500	24,000
Bonds payable FMHA-current	-	-	-	39,400	39,400	23,200
Accrued wages and compensation	-	1,417	-	2,373	3,790	3,793
Deferred revenue	-	-	-	-	-	1,197
Long-term liabilities						
Loan payable FDOT	-	202,466	-	-	202,466	219,430
Loan payable CRA	-	150,954	-	-	150,954	-
Loan payable NRWA	-	84,566	-	-	84,566	-
Serial bonds payable	-	336,400	-	1,104,000	1,440,400	1,464,900
Bonds payable FMHA	-	-	-	985,200	985,200	1,009,600
Total Liabilities	<u>-</u>	<u>1,399,116</u>	<u>23,190</u>	<u>2,717,194</u>	<u>4,139,500</u>	<u>3,290,807</u>
NET ASSETS						
Invested in capital assets, net of related debt	-	101,480	-	1,743,376	1,844,856	1,726,818
Restricted	-	173,876	-	159,351	333,227	124,236
Unrestricted	<u>53,515</u>	<u>(35,436)</u>	<u>89,993</u>	<u>(523,071)</u>	<u>(414,999)</u>	<u>(102,027)</u>
Total net assets	<u>53,515</u>	<u>239,922</u>	<u>89,993</u>	<u>1,379,656</u>	<u>1,763,086</u>	<u>1,749,027</u>
Total liabilities and net assets	<u>\$ 53,515</u>	<u>\$ 1,639,038</u>	<u>\$ 113,183</u>	<u>\$ 4,096,850</u>	<u>\$ 5,902,586</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, 2010**

	Business-Type Activities - Enterprise Funds					
	<u>Cemetery</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Sewer</u>	<u>Totals</u>	<u>2009</u>
OPERATING REVENUES						
Utility revenue						
Sales	\$ -	\$ 164,605	\$ 205,414	\$ 278,775	\$ 648,794	\$ 722,525
Reconnection fees	-	1,075	-	-	1,075	5,175
Installation fees	-	650	-	1,500	2,150	5,140
Late fees	-	5,829	-	5,829	11,658	15,495
Total utility revenue	<u>-</u>	<u>172,159</u>	<u>205,414</u>	<u>286,104</u>	<u>663,677</u>	<u>748,335</u>
Other revenue	<u>1,881</u>	<u>3,467</u>	<u>-</u>	<u>3,497</u>	<u>8,845</u>	<u>15,512</u>
Total operating revenues	<u>1,881</u>	<u>175,626</u>	<u>205,414</u>	<u>289,601</u>	<u>672,522</u>	<u>763,847</u>
OPERATING EXPENSES						
Personnel						
Regular salaries	-	43,620	-	52,673	96,293	86,726
Payroll tax	-	8,149	-	3,439	11,588	6,419
Retirement	-	2,082	-	2,814	4,896	4,179
Life and health insurance	-	3,708	-	5,782	9,490	31,012
Worker's compensation	-	2,042	-	2,051	4,093	7,158
Total Personnel Services	<u>-</u>	<u>59,601</u>	<u>-</u>	<u>66,759</u>	<u>126,360</u>	<u>135,494</u>
Depreciation and amortization	-	48,616	-	325,432	374,048	374,142
Accounting and auditing	-	625	625	625	1,875	4,000
Contractual services	-	61,527	193,560	60,912	315,999	321,769
Communication	-	2,446	-	3,629	6,075	637
Utility services	-	10,471	-	28,175	38,646	38,219
Insurance	-	1,677	-	1,677	3,354	7,158
Repairs and maintenance	7,020	40,412	49	50,258	97,739	64,501
Supplies	-	13,361	169	26,643	40,173	8,434
Publications & subscriptions	-	4,195	-	125	4,320	1,105
Other current charges and obligations	<u>-</u>	<u>43,942</u>	<u>16,686</u>	<u>28,689</u>	<u>89,317</u>	<u>36,407</u>
Total operating expenses	<u>7,020</u>	<u>227,272</u>	<u>211,089</u>	<u>526,165</u>	<u>971,546</u>	<u>819,965</u>
Total expenses	<u>7,020</u>	<u>286,873</u>	<u>211,089</u>	<u>592,924</u>	<u>1,097,906</u>	<u>955,459</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, 2010**

	Business-Type Activities - Enterprise Funds					
	<u>Cemetery</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Sewer</u>	<u>Totals</u>	<u>2009</u>
Operating loss	<u>(5,139)</u>	<u>(111,246)</u>	<u>(5,675)</u>	<u>(303,323)</u>	<u>(425,383)</u>	<u>(191,612)</u>
Non-operating revenues						
Federal waste water grant	-	-	-	-	-	52,750
State water tower grant	-	465,532	-	-	465,532	52,800
Interest on investments	1,140	970	-	-	2,110	1,902
Gain (loss) on disposal of assets	-	-	-	(340)	(340)	-
Rents and royalties	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,083</u>	<u>24,083</u>	<u>24,098</u>
Total non-operating revenues	<u>1,140</u>	<u>466,502</u>	<u>-</u>	<u>23,743</u>	<u>491,385</u>	<u>131,550</u>
Debt service - interest	-	(28,787)	-	(102,670)	(131,457)	(125,750)
Net non-operating revenue	<u>1,140</u>	<u>437,715</u>	<u>-</u>	<u>(78,927)</u>	<u>359,928</u>	<u>5,800</u>
Income (loss)						
before operating transfers	<u>(3,999)</u>	<u>326,469</u>	<u>(5,675)</u>	<u>(382,250)</u>	<u>(65,455)</u>	<u>(185,812)</u>
Operating transfers-in	-	11,000	-	11,000	22,000	1,800
Operating transfers-out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	(3,999)	337,469	(5,675)	(371,250)	(43,455)	(220,419)
Net assets, beginning of year	-	(97,547)	95,668	1,750,906	1,749,027	1,969,446
Net assets, beginning, restated	57,514	-	-	-	57,514	-
Net assets, end of year	<u>\$ 53,515</u>	<u>\$ 239,922</u>	<u>\$ 89,993</u>	<u>\$1,379,656</u>	<u>\$ 1,763,086</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, 2010

	Business-Type Activities - Enterprise Funds				Totals	2009
	Cemetery	Water	Solid Waste	Sewer		
Cash flows from operating activities						
Cash received from customers	\$ 1,881	\$ 186,654	\$ 216,538	\$ 335,822	\$ 740,895	\$ 460,207
Cash payments to employees	-	(43,620)	-	(52,673)	(96,293)	(86,726)
Cash payments for employee benefits	-	(16,863)	-	(15,474)	(32,337)	(47,124)
Cash paid to vendors	(7,020)	(159,093)	(216,538)	(144,781)	(527,432)	(251,954)
Net cash provided (used) by operating activities	<u>(5,139)</u>	<u>(32,922)</u>	<u>-</u>	<u>122,894</u>	<u>84,833</u>	<u>74,403</u>
Cash flows from capital and related financing activities						
Interest paid on bonds payable	-	(28,787)	-	(102,670)	(131,457)	(125,750)
Capital grant	-	465,532	-	-	465,532	105,550
Principal paid on notes payable	-	(33,717)	-	-	(33,717)	(16,782)
Principal paid on bonds payable	-	(9,000)	-	(38,200)	(47,200)	(45,700)
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>394,028</u>	<u>-</u>	<u>(140,870)</u>	<u>253,158</u>	<u>(82,682)</u>
Cash flows from non-capital financing activities						
Loan proceeds	-	277,000	-	-	277,000	-
Rents and royalties	-	-	-	24,084	24,084	24,098
Transfers in	-	11,000	-	11,000	22,000	1,800
Net cash provided by non-capital financing activities	<u>-</u>	<u>288,000</u>	<u>-</u>	<u>35,084</u>	<u>323,084</u>	<u>25,898</u>
Cash flows from investing activities						
Net Purchases of fixed assets	-	(610,322)	-	(5,378)	(615,700)	-
Interest Income	1,140	970	-	-	2,110	1,901
Net cash provided (used) for investing activities	<u>1,140</u>	<u>(609,352)</u>	<u>-</u>	<u>(5,378)</u>	<u>(613,590)</u>	<u>1,901</u>
Net increase (decrease) in cash and cash equivalents	(3,999)	39,754	-	11,730	47,485	19,510
Cash and cash equivalents, beginning of year	<u>57,514</u>	<u>165,609</u>	<u>-</u>	<u>36,116</u>	<u>259,239</u>	<u>182,204</u>
Cash and cash equivalents, end of year	<u>\$ 53,515</u>	<u>\$ 205,363</u>	<u>\$ -</u>	<u>\$ 47,846</u>	<u>\$ 306,724</u>	<u>\$ 201,725</u>

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

For the Fiscal year Ended September 30, 2010

	Business-Type Activities - Enterprise Funds					2009
	Cemetery	Water	Solid Waste	Sewer	Totals	
Reconciliation of operating income (loss) to net cash provided by operating activities						
Operating income (loss)	<u>(5,139)</u>	<u>(111,246)</u>	<u>(5,675)</u>	<u>(303,323)</u>	<u>(425,383)</u>	<u>(228,017)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	-	48,616	-	325,432	374,048	374,142
(Increase) decrease in assets:						
Accounts receivable, net	-	11,028	11,124	21,399	43,551	(22,721)
Due from other funds	-	(414,716)	(21,968)	(122,190)	(558,874)	(62,870)
Increase (decrease) in liabilities:						
Accounts payable	-	35,976	16,519	4,574		
Due to other funds	-	425,165	-	172,180	597,345	38,410
Customer deposits payable	-	605	-	-	605	1,490
Deferred revenue	-	-	-	1,197	1,197	(664)
Grants receivable	-	(28,350)	-	23,625	(4,725)	(23,625)
Accrued compensated absences	-	-	-	-	-	(1,742)
Total adjustments	<u>-</u>	<u>78,324</u>	<u>5,675</u>	<u>426,217</u>	<u>510,216</u>	<u>302,420</u>
Net cash provided (used) by operating activities	<u>\$ (5,139)</u>	<u>\$ (32,922)</u>	<u>\$ -</u>	<u>\$ 122,894</u>	<u>\$ 89,972</u>	<u>\$ 74,403</u>

See accompanying notes to financial statements.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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, 2010

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, 2010

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, 2010

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 Cemetery, Water, Solid Waste, 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:

- Water Fund
- Solid Waste Fund
- Sewer Fund

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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, 2010, the City's cash consisted solely of checking, savings 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, 2010, 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, 2010.

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. As of the balance sheet date, there were no such 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.

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

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

Capital Assets – continued

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 amount is estimated to be used in the following year.

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, 2010

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 economic 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.

	<u>2010</u>	<u>2009</u>
Cost of capital assets	\$ 2,774,841	\$ 2,796,470
Accumulated depreciation	<u>(1,133,160)</u>	<u>(1,177,769)</u>
Total governmental capital assets	<u><u>\$ 1,641,681</u></u>	<u><u>\$ 1,618,701</u></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, 2010, were:

	<u>2010</u>	<u>2009</u>
Note Payable M&S Bank	\$ 34,927	\$ 45,507
Interlocal Agreement- Alachua County	<u>32,061</u>	<u>42,254</u>
Total Notes Payable	<u><u>\$ 66,988</u></u>	<u><u>\$ 87,761</u></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

				2010	2009
	Total Governmental	Capital	Long-Term	Statement of	Statement of
	Fund	Related Items	Debt Transactions	Net Assets	Net Assets
ASSETS					
Cash	\$ 110,696	\$ -	\$ -	\$ 110,696	\$ 266,596
Accounts receivable	3,345	-	-	3,345	10,528
Due from other funds	1,005,022	-	-	1,005,022	425,169
Due from other governmental units	39,245	-	-	39,245	69,452
Note receivable	166,752	-	-	166,752	-
Prepaid expenses	820	-	-	820	-
Capital assets - net	-	1,641,687	-	1,641,687	1,618,971
Total assets	<u>1,325,880</u>	<u>1,641,687</u>	<u>-</u>	<u>2,967,567</u>	<u>2,390,716</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	20,935	-	-	20,935	87,707
Due to other funds	742,739	-	-	742,739	201,359
Due to other governmental units	-	-	-	-	2,420
Accrued compensated absences	7,488	-	-	7,488	9,091
Line of Credit	62,151	-	-	62,151	62,151
Notes payable- long term	-	-	66,988	66,988	87,761
Total Liabilities	<u>833,313</u>	<u>-</u>	<u>66,988</u>	<u>900,301</u>	<u>450,489</u>
Fund Balance - Net Assets	492,567	1,641,687	(66,988)	2,067,266	1,940,227
Total liabilities and fund balance/net assets	<u>\$ 1,325,880</u>	<u>\$ 1,641,687</u>	<u>\$ -</u>	<u>\$ 2,967,567</u>	<u>\$ 2,390,716</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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

The "net change in fund balances" for governmental funds of \$83,550 differs from the "change in net assets" for governmental activities \$127,039 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	\$ 110,434
Depreciation expense	<u>(87,718)</u>
Difference	<u><u>\$ 22,716</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>\$ 20,773</u></u>
------------------------------	-------------------------

CITY OF HAWTHORNE, FLORIDA

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

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

	Total Governmental Governmental Fund	Capital Related Items	Long-Term Debt Transactions	2010 Statement of Activities	2009 Statement of Activities
REVENUES					
Taxes	\$ 529,612	\$ -	\$ -	\$ 529,612	560,571
Intergovernmental	283,738	-	-	283,738	177,328
Charges for Services	23,827	-	-	23,827	158,309
Miscellaneous	71,192	-	-	71,192	221,870
Total revenues	908,369	-	-	908,369	1,118,078
EXPENDITURES					
Current Expenditures					
General government	393,736	15,041	-	408,777	513,020
Public safety	30,608	18,272	-	48,880	223,516
Transportation	145,539	31,894	-	177,433	156,237
Economic environment	12,600	-	-	12,600	97,556
Culture /recreation	84,157	22,511	-	106,668	114,222
Capital Outlay	110,434	(110,434)	-	-	-
Debt Service					
Principal	20,773	-	(20,773)	-	-
Interest	4,972	-	-	4,972	-
Total Expenditures	802,819	(22,716)	(20,773)	759,330	1,104,551
Excess of revenues over (under) expenditures	105,550	22,716	20,773	149,039	13,527
OTHER FINANCING SOURCES (USES)					
Transfers	(22,000)	-	-	(22,000)	(1,800)
Total other financing sources (uses)					
Net change in fund balance	83,550	22,716	20,773	127,039	11,727
Fund balance at beginning of year	409,017	1,618,971	(87,761)	1,940,227	1,928,500
Fund balance at end of year.	\$ 492,567	\$ 1,641,687	\$ (66,988)	2,067,266	\$ 1,940,227

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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 \$167,422.

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 2009-2010 fiscal year were levied in October 2009. 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.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010 and 2009, was as follows:

	<u>2009</u>			<u>2010</u>
	Beginning			Ending
	Balance	Additions	Deletions	Balance
Governmental Capital assets:				
Land	\$ 185,947	\$ 46,100	\$ -	\$ 232,047
Buildings	728,231	-	-	728,231
Improvements	1,469,090	80,114	-	1,549,204
Equipment and vehicles	413,471	8,983	(157,086)	265,368
Total capital assets	2,796,739	135,197	(157,086)	2,774,850
Less accumulated depreciation	(1,177,768)	(87,717)	132,326	(1,133,159)
Governmental Activities:				
capital assets, net	<u>\$ 1,618,971</u>	<u>\$ 47,480</u>	<u>\$ (24,760)</u>	<u>\$ 1,641,691</u>
Business-type Activities:				
Land	114,300	-	-	114,300
Buildings	4,832,984	-	-	4,832,984
Improvements other than buildings	3,893,247	-	-	3,893,247
Construction in progress	194,000	604,102	-	798,102
Equipment and vehicles	39,455	7,991	(10,282)	37,164
Total capital assets	9,073,986	612,093	(10,282)	9,675,797
Less accumulated depreciation	(4,598,165)	(373,228)	9,941	(4,961,452)
Business-type activities:				
capital assets, net	<u>\$ 4,475,821</u>	<u>\$ 238,865</u>	<u>\$ (341)</u>	<u>\$ 4,714,345</u>

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

Governmental activities:	<u>2010</u>
General government	15,040
Public safety	18,272
transportation	31,894
Culture / recreation	22,511
Total depreciation expense-governmental activities	<u>\$ 87,717</u>
Business-type activities:	
Water utility	48,616
Sewer utility	324,613
Total depreciation expense-business-type activities	<u>\$ 373,229</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 7. INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of inter-fund receivables and payables at September 30, 2010 and 2009.

Fund	2010 Interfund Receivables	2009 Interfund Receivables	2010 Interfund Payables	2009 Interfund Payables
General	\$ 817,511	\$ 425,169	\$ 742,740	\$ 201,359
Water	460,085	145,369	440,350	53,106
Solid waste	95,994	74,027	6,667	6,670
Sewer	139,526	8,945	431,347	392,375
	<u>\$ 1,513,116</u>	<u>\$ 653,510</u>	<u>\$ 1,621,104</u>	<u>\$ 653,510</u>

The balance of \$431,347 due to other funds from the 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 years ended September 30, 2010 and 2009 consisted of the following:

Fund	2010 Transfers in	2009 Transfers in	2010 Transfers out	2009 Transfers out
General	\$ -	\$ -	\$ 201,520	\$ 1,800
Water	37,920	1,800	-	-
Sewer	141,600	-	-	-
	<u>\$ 179,520</u>	<u>\$ 1,800</u>	<u>\$ 201,520</u>	<u>\$ 1,800</u>

Transfers from the General fund were made to fund debt service requirements of the Enterprise Funds.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 9. 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:

September 30	Principal	Interest	Total
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	12,000	17,878	29,878
2016 -2020	71,200	77,967	149,167
2021 - 2025	94,900	54,426	149,326
2026 - 2030	126,200	23,089	149,289
	<u>\$ 345,900</u>	<u>\$ 251,156</u>	<u>\$ 597,056</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 was 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:

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

B. Sewer Revenue Bonds Payable – Continued

September 30	Principal	Interest	Total
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	74,835
2015	29,600	45,225	74,825
2016 - 2020	171,900	202,370	374,270
2021 - 2025	219,200	154,900	374,100
2026 - 2030	279,900	94,325	374,225
2036 - 2040	203,900	20,720	224,600
	\$ 1,009,600	\$ 711,895	\$ 1,721,495

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
2011	15,000	50,355	65,355
2012	16,000	49,680	65,680
2013	17,000	48,960	65,960
2014	18,000	48,195	66,195
2015	18,000	47,385	65,385
2016 - 2020	105,000	223,875	328,875
2021 - 2025	131,000	198,000	329,000
2026 - 2030	164,000	165,690	329,690
2031 - 2035	203,000	125,370	328,370
2036 - 2040	253,000	75,465	328,465
2041 - 2043	179,000	16,245	195,245
	\$ 1,119,000	\$ 1,049,220	\$ 2,168,220

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

D. Promissory Note - Florida Department of Transportation

In November, 2007, the City executed a promissory note to 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
2011	16,872
2012	16,872
2013	16,872
2014	16,872
2015	16,872
2016-2020	84,360
2021-2022	33,744
	\$219,336

E. Promissory Note – National Rural Water Association

In November, 2009, the City executed a promissory note to the National Rural Water Association in the amount of \$100,000. The note carries 3% interest and is payable over ten years in annual installments of \$11,587. The loan was made to complete the Water Tower project and its leverage requirements in compliance with the Grant agreement with the State of Florida. Payments commenced December 1, 2009. Future debt service of this note is as follows:

September 30	Principal	Interest	Total
2011	8,927	2,660	11,587
2012	9,198	2,389	11,587
2013	9,478	2,109	11,587
2014	9,766	1,821	11,587
2015	10,063	1,524	11,587
2016-2019	46,062	5,370	51,432
	\$ 93,494	\$ 15,873	\$ 109,367

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

F. Promissory Note – City of Hawthorne Community Reinvestment Association

In December, 2009, the City entered into an Interlocal Agreement in the amount of \$177,000. The agreement carries 3% interest and is payable over ten years in annual installments of \$20,510. The agreement was made in order to complete the Water Tower project and its leverage requirements in compliance with the Grant agreement with the State of Florida. Future debt service of this agreement is as follows:

September 30	Principal	Interest	Total
2011	15,722	4,787	20,509
2012	16,200	4,309	20,509
2013	16,692	3,816	20,508
2014	17,200	3,308	20,508
2015	17,724	2,785	20,509
2016-2019	83,214	5,510	88,724
	<u>\$ 166,752</u>	<u>\$ 24,515</u>	<u>\$ 191,267</u>

The following is a schedule of changes in proprietary fund long-term debt for the year ended September 30, 2010:

	Balance September 30 2009	Additions	Retirements	Balance September 30 2010	Due Within One Year
FDOT note payable	236,213		(16,872)	219,341	16,872
NRWA note payable	0	100,000	(6,506)	93,494	8,927
CRA Interlocal	0	177,000	(10,248)	166,752	15,722
Water revenue bonds	354,900		(9,000)	345,900	9,500
Sewer revenue bonds	<u>2,166,800</u>		<u>(38,200)</u>	<u>2,128,600</u>	<u>39,400</u>
	<u>\$ 2,757,913</u>	<u>\$ 277,000</u>	<u>\$ (80,826)</u>	<u>\$ 2,954,087</u>	<u>\$ 90,421</u>

Debt service payments made from the governmental fund have been recorded as an intercompany receivable.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 10. 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
2011	10,467	704	11,171
2012	10,697	474	11,171
2013	<u>10,896</u>	<u>275</u>	<u>11,171</u>
Total Payments	<u>\$32,060</u>	<u>\$1,417</u>	<u>\$33,513</u>

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, 2010, the loan had an outstanding balance of \$34,927. The following is a schedule of debt service requirements:

September 30	Principal	Interest	Total Payments
2011	10,462	1,454	11,916
2012	10,462	1,454	11,916
2013	10,462	1,454	11,916
2014	<u>3,541</u>	<u>183</u>	<u>3,724</u>
Total	<u>\$ 34,927</u>	<u>\$ 4,545</u>	<u>\$39,472</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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, 2010 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, 2010:

	Balance September 30 2009	Additions	Retirements	Balance September 30 2010	Due Within One Year
Line of Credit	62,151	-	-	62,151	-
Note Payable	42,254	-	(10,191)	32,060	11,171
Loan Payable	41,104	-	(6,177)	34,927	11,916
	<u>\$ 145,509</u>	<u>\$ -</u>	<u>\$ (16,368)</u>	<u>\$ 129,138</u>	<u>\$ 23,087</u>

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

NOTE 11. 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.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 12. INCOME FROM LEASED PROPERTY- Continued

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	
2011	22,780
2012	24,677
2013	24,677
2014	24,677
2015	24,677
All Future years	182,547
	<u>\$304,035</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, 2010, the City contributed \$14,646 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 timely 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.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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.

NOTE 16. 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. Additional work was undertaken in the current year on this project with expected completion to be in 2011.

NOTE 17. 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. No additional work was undertaken on this project in the current year.

NOTE 18. PRIOR YEAR NET ASSETS

The City's Enterprise net assets have been restated to include cash assets that were not recorded in the City's accounting record at September 30, 2009. These accounts consist of checking and certificates of deposits and are restricted to the operation of the Cemetery.

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, 2010

	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
REVENUES			
Taxes			
Ad valorem taxes	\$ 265,700	\$ 270,160	\$ 4,460
Fire assessments	-	4,093	4,093
Sales and use tax - local option gas tax	100,000	121,761	21,761
Franchise fees	60	44	(16)
Utility service taxes	-		
Electricity	68,000	89,629	21,629
Telecommunications	44,000	36,038	(7,962)
Water	10,000	11,980	1,980
Total taxes	487,760	533,705	45,945
Licenses and permits			
Professional and occupational	3,000	55	(2,945)
Permits	230	325	95
Zoning fees	500	875	375
Annexation fees	1,000	-	(1,000)
Special exception permits	500	500	-
Temporary use permits	200	-	(200)
Site plan fees	1,200	150	(1,050)
Total licenses and permits	6,630	1,905	(4,725)
Intergovernmental revenue			
State revenue sharing	50,000	50,351	351
Traffic signal & lighting	9,500	9,755	255
Alcoholic beverage licenses	600	902	302
Local government half-cent sales tax	60,000	69,073	9,073
State parks and recreation	18,000	80,364	62,364
Grants			
Economic environment			
Hawthorne Redevelopment Trust	-	73,293	73,293
Recreation Park Grant	-	33,377	33,377
Total intergovernmental revenue	138,100	317,115	179,015
Charges for Services			
Water Late Fees	14,000	-	(14,000)
Recreation fees	14,000	10,664	(3,336)
Total charges for services	28,000	10,664	(3,336)

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, 2010

	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
Fines and forfeitures			
Fine revenue/sheriff	-	6,097	6,097
Code enforcement fines	3,000	1,068	(1,932)
Total fines and forfeitures	3,000	7,165	4,165
Miscellaneous			
Interest	-	4,792	4,792
Other miscellaneous	13,020	33,023	20,003
Total miscellaneous	13,020	37,815	24,795
Total Revenues	676,510	908,369	245,859
EXPENDITURES			
General government			
Legislative			
Personnel services	29,100	27,774	1,326
Operating expenses	8,000	3,665	4,335
Total legislative	37,100	31,439	5,661
Financial and administrative			
Personnel services	220,500	191,021	29,479
Operating expenses	74,720	141,275	(66,555)
Debt Service	6,918	4,972	1,946
Total financial and administrative	302,138	337,268	(35,130)
Legal counsel			
Operating expenses	30,000	30,000	-
Total general government	369,238	398,707	(29,469)
Public safety			
Law enforcement	-	-	-
Personnel services	-	-	-
Operating expenses	-	895	(895)
Total law enforcement	-	895	(895)
Fire services			
Personnel services	-	-	-
Operating expenses	4,500	8,146	(3,646)
Debt service	11,172	-	11,172
Total fire control	15,672	8,146	7,526

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, 2010

	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
Protective inspections	5,000	11,844	(6,844)
Operating expenses	150	9,722	(9,572)
Total protective inspections	5,150	21,566	(16,416)
 Total Public Safety	 20,822	 30,607	 (9,785)
Transportation			
Roads and streets			
Personnel services	62,000	51,304	10,696
Operating expenses	90,600	94,235	(3,635)
Capital outlay	3,000	-	3,000
Total transportation	155,600	145,539	10,061
Economic Environment			
Downtown redevelopment			
Operating expenses	9,000	12,600	(3,600)
CRA match	47,000	48,434	(1,434)
Total economic environment	56,000	61,034	(5,034)
Culture / Recreation			
Parks and recreation			
Personnel services	27,250	24,441	2,809
Operating expenses	43,600	59,716	(16,116)
Total culture / recreation	70,850	84,157	(13,307)
 Total expenditures	 672,510	 720,044	 (47,534)
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	7,000	-	(7,000)
Interfund transfers out	(6,000)	(22,000)	(16,000)
Total other financing sources (uses)	1,000	(22,000)	(23,000)
 Net change in fund balances	 5,000	 166,325	 161,325
Reconciling Items			
Adjustment for capital assets		(22,718)	
Long term liabilities		(20,773)	
CRA Cash transfer		48,434	
Depreciation Expense	-	(87,718)	(87,718)
Total Reconciling Items		(82,775)	
 Fund balance at beginning of year	 409,017	 409,017	 -
Fund balance at end of year	\$ 414,017	\$ 492,567	\$ 78,550

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, 2010

	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
REVENUES			
Water Fund			
Sales of water	\$ 177,000	\$ 164,605	\$ (12,395)
Grant income	-	465,532	465,532
Disconnect / reconnect fees	5,800	1,725	(4,075)
Customer late fees	-	5,829	5,829
Meter and line installations	3,000	-	(3,000)
Impact fees	7,000	3,467	(3,533)
Miscellaneous revenue	1,000	-	(1,000)
Interest income	700	970	270
Total water revenues	<u>194,500</u>	<u>642,128</u>	<u>447,628</u>
Sewer Fund			
Grant income	35,000	-	(35,000)
Sales of sewer services	330,000	278,775	(51,225)
Customer late fees	-	5,829	5,829
Line installations	3,000	1,500	(1,500)
Impact fees	5,000	3,497	(1,503)
Miscellaneous revenue	-	(340)	(340)
Interest income	1,000	-	(1,000)
Land leases	23,900	24,083	183
Total sewer revenues	<u>397,900</u>	<u>313,344</u>	<u>(84,556)</u>
Sanitation Fund			
Sanitation income	204,000	205,413	1,413
Miscellaneous revenue	1,000	-	(1,000)
Total sanitation revenues	<u>205,000</u>	<u>205,413</u>	<u>413</u>
Cemetery Fund			
Interest income	-	1,140	1,140
Miscellaneous revenue	-	1,881	1,881
Total cemetery revenues	<u>-</u>	<u>3,021</u>	<u>3,021</u>
Total proprietary revenues	<u>797,400</u>	<u>1,163,906</u>	<u>366,506</u>
EXPENDITURES			
Water Fund			
Personnel services	72,200	59,601	12,599
Operating expenses	101,300	227,273	(125,973)
Loan Interest	27,000	28,786	(1,786)
Total water expenditures	<u>200,500</u>	<u>315,660</u>	<u>(115,160)</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, 2010

	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Final Budget Positive / (Negative)</u>
Sewer Fund			
Personnel services	69,500	66,760	2,740
Operating expenses	177,000	526,165	(349,165)
Loan Interest	133,500	102,670	30,830
Capital outlay	10,000	-	10,000
Total sewer expenditures	<u>390,000</u>	<u>695,595</u>	<u>(305,595)</u>
Sanitation Fund			
Operating expenses	205,000	211,086	(6,086)
Total sanitation expenditures	<u>205,000</u>	<u>211,086</u>	<u>(6,086)</u>
Cemetery Fund			
Operating expenses	-	7,020	(7,020)
Total cemetery expenditures	<u>-</u>	<u>7,020</u>	<u>(7,020)</u>
 Total expenditures	 <u>795,500</u>	 <u>1,229,361</u>	 <u>(433,861)</u>
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	6,000	22,000	16,000
Interfund transfers out	(7,000)	-	7,000
Total other financing sources (uses)	<u>(1,000)</u>	<u>22,000</u>	<u>23,000</u>
Net change in fund balances	900	(43,455)	(44,355)
Fund balance at beginning of year	1,749,027	1,749,027	-
Fund balance, restated	1,749,027	1,806,541	57,514
Fund balance at end of year	<u>\$ 1,749,927</u>	<u>\$ 1,763,086</u>	<u>\$ 13,159</u>

COMPLIANCE SECTION

CITY OF HAWTHORNE, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
For the Fiscal Year Ended September 30, 2010

GRANTOR PROGRAM TITLE	CFDA # CSFA #	Contract Number	Award Amount	Received in Prior Years	Fund Balance 10/1/2009	2010		Fund Balance 9/30/2010
						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		08DB-3R-03-						
Community Development Block Grant	14.228	11-02-N15	650,000	52,800	597,200	465,532	465,532	131,668
Total Federal Awards			<u>\$ 650,000</u>	<u>\$ 52,800</u>	<u>\$ 597,200</u>	<u>\$ 465,532</u>	<u>\$ 465,532</u>	<u>\$ 131,668</u>
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	246,750	253,250	-	-	253,250
State of Florida Department of Environmental Protection								
Florida Recreation Development	37.017	A9184	33,903	29,929	-	3,974	3,974	-
Assistance Program	37.017	A9185	63,568	33,869	-	29,403	29,403	-
Total State financial assistance			<u>597,471</u>	<u>310,548</u>	<u>253,250</u>	<u>33,377</u>	<u>33,377</u>	<u>253,250</u>
Total federal awards and state financial assistance			<u><u>\$ 1,247,471</u></u>	<u><u>\$ 363,348</u></u>	<u><u>\$ 850,450</u></u>	<u><u>\$ 498,909</u></u>	<u><u>\$ 498,909</u></u>	<u><u>\$ 384,918</u></u>

**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, 2010, which collectively comprise the City of Hawthorne, Florida's basic financial statements and have issued our report thereon dated June 15, 2011. 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 our 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 be designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. 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 mis-statement, we performed tests of its compliance with certain provisions of law, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying *schedule of findings and responses*.

The City of Hawthorne, Florida's response to the findings identified in our audit is described in the accompanying *schedule of findings and responses*. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity and federal awarding agencies or pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Sexton & Schnoll", written in a cursive style.

Sexton & Schnoll
Certified Public Accountants
July 15, 2011

Schedule of Findings and Responses

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 (the City) as of and for the year ended September 30, 2010 and have issued our report thereon dated July 15, 2011, which was unqualified.

We have issued our Independent Auditor's Report and 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*, dated July 15, 2011. Disclosures in these reports, if any, should be considered in conjunction with this management letter.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards* issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida and require that the following be addressed in this letter:

Current Year Findings:

In general, the City does not have adequate internal control procedures over its financial accounting function. Ineffective oversight and control systems contributed to misstatements in the financial statements as evidenced by the following:

1. The City's Enterprise Funds do not generate revenue in excess of operating funds such that they are able to meet the Bond Obligations. According to the Covenants, the city is required to enact rate ordinances and revise them from time to time in order to provide gross revenues sufficient to pay 100% of the cost of the operation and maintenance of the system in addition to the reserve requirement listed in Item #2.
2. The City did not meet the Bond reserve requirements as of September 30, 2010. Bond Covenants require that the City maintain a reserve requirement that is the lesser of 10% of the bond proceeds or 125% of the average annual debt service for the series. For the year ending September, 2010, the reserve requirement was \$213,737 and restricted cash was 188,131, a deficit of \$25,606.
3. The City's approved budget did not include transfers from the General Fund to the Enterprise Funds in order to meet its bond principal and interest payment obligations for this year. A total of \$179,200 was transferred from the General Fund for this purpose.
4. The City did not have sufficient cash restricted for future uses as required by the County's Wild Spaces, Public Places initiative.
5. The City's chosen accounting software requires a high degree of oversight and accounting expertise. It makes timely review of financial reports, bank reconciliations, budgetary reviews and consistent transaction recording difficult for staff. There must be timely review by those charged with the City's governance in order to ensure that misstatements to the financial records are corrected.

6. 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 staff skills necessary to accurately record transactions often required by fund accounting and the complexity of transaction recording to the various funds of the City.

7. The City had unrecorded cash assets restricted to the operation of the Cemetery in the amount of \$53,515. These assets were material to the financial statements as a whole and were unrecorded for a number of years. This resulted in a restatement of the prior year's net assets.

8. The City has also allowed the use of its taxpayer identification number to be used by an association for the purpose of obtaining a depository account in a local bank. Such use of the City's taxpayer number must be discontinued.

9. As is often the case among small towns with limited resources, the City does not recognize accounts receivable and revenue when it is earned as required by generally accepted accounting principles. Government and grant receivables for the prior year were recorded to revenue when received and current year receivables were not recorded.

10. The City incorrectly recorded revenue from utility billing late fees in the general fund. All enterprise fund revenues must be recorded to the fund that generates the revenue. In addition, the city recorded grant revenue in a material amount to the general fund that belonged in the enterprise fund.

11. Certain notes payable were incorrectly recorded in the General Fund and should have been recorded in an enterprise fund since the purpose of the loans was for the completion of the water tower project. The City also records various principal payments on notes and agreements to expense. Principal payments are a reduction in the liability balance and not an expense to the city. Recording loan principal payments to expenses overstates the total city expense budget and makes reviews of budget to actual operating results difficult.

12. These types of accounting errors indicate that there are not sufficient controls over the review of financial information that are needed to prevent over-expenditure of the budget and continued declines in the City's financial position. Therefore, we recommend that the City retain consultation with a qualified accounting firm.

13. We further recommend that the City's financial accounting records segregate the activities of the Hawthorne Community Redevelopment Agency, a component unit, from the general activities within the governmental funds.

Prior 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. There are not sufficient financial controls in place to prevent the City from inadvertently over-expending resources to avoid declines in net assets. While this is not uncommon among small towns, 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.

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

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. This report was filed in May, 2011.

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 (\$197,006) in its Enterprise Funds at September 30, 2010. There were not legally available resources in the Governmental 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 continues to experience a deteriorating financial condition. It is management's responsibility to monitor the entity's financial position, 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*:

Inter-fund receivables and payables increased significantly as of September 30, 2010.

The Enterprise Funds showed a loss of \$425,383 from operations before Interfund transfers and other non-operating revenues.

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. The Enterprise funds should generate sufficient revenue in excess of operating expenses in order to cover the debt service for its bond financing. Finances should then be closely monitored during the current and subsequent years to ensure that these objectives are met. Monthly and timely review of appropriate financial information by those charged with governance will be required.

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, 2010, as provided in the audit requirements for USDA-Rural Development borrowers.

- Generally accepted auditing procedures were performed in this audit
- Financial statements have been prepared on a comparative basis
- Internal control was evaluated and is discussed in the prior sections of this audit report
- Accounting records and physical control over assets were adequate
- The accounting records of the City have been adjusted to agree with the audited financial statements
- The City's funds are in an institution insured by the Federal government and an authorized depository of Florida public funds, but the city's account balances exceed the federal insurance depository limits
- 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. As of September 30, 2010, the city did not have sufficient restricted cash to comply with its Bond Covenants.

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 wish to thank Ellen Vause, Interim City Manager and staff for the assistance and courtesy afforded us.



Sexton & Schnoll
Certified Public Accountants
July 15, 2010

**City of Hawthorne, Florida
Response to Audit Findings
FY 2009-2010**

Current Year Findings:

In general, the City does not have adequate internal control procedures over its financial accounting function. Ineffective oversight and control systems contributed to misstatements in the financial statements as evidenced by the following:

1. The City's Enterprise Funds do not generate revenue in excess of operating funds such that they are able to meet the Bond Obligations. According to the Covenants, the city is required to enact rate ordinances and revise them from time to time in order to provide gross revenues sufficient to pay 100% of the cost of the operation and maintenance of the system in addition to the reserve requirement listed in Item #2.

City Response: During an in house review by City Staff in early 2011 of the Enterprise funds it was determined that there were insufficient revenues from rates to provide gross revenue to pay 100% of the cost of the operation and maintenance of the system, a surcharge on the water bill was recommended and enacted by ordinance until September 2011. In addition an official rate study is being done by the Florida Rural Water Association to recommend sufficient rate changes to produce the revenue to cover 100% of the cost of the operation and maintenance of the system.

2. The City did not meet the Bond reserve requirements as of September 30, 2010. Bond Covenants require that the City maintain a reserve requirement that is the lesser of 10% of the bond proceeds or 125% of the average annual debt service for the series. For the year ending September, 2010, the reserve requirement was \$213,737 and restricted cash was 188,131, a deficit of \$25,606.

City Response: The rate study currently being done by the Florida Rural Water Association will take into account the reserve funds required and calculate it into the recommended fee structure for the City to adopt. To meet the reserve requirements the City will have to adjust the current rates as recommended by the study.

3. The City's approved budget did not include transfers from the General Fund to the Enterprise Funds in order to meet its bond principal and interest payment obligations for this year. A total of \$179,200 was transferred from the General Fund for this purpose.

City Response: The April 15th 2011 amended budget more clearly defines the Enterprise Funds bond principal and interest payment obligations for the FY2010-2011 budget. Starting with FY2011-2012 the City will have separate banking accounts for the General Fund and Enterprise funds. Transfers between funds will be sufficiently budgeted and tracked.

4. The City did not have sufficient cash restricted for future uses as required by the County's Wild Spaces, Public Places initiative.

City Response: During the FY2010-2011 the City has started rebuilding the restricted cash fund as required by the County's Wild Spaces, Public Places initiative. The restricted cash will be rebuilt in a separate bank account, in a separate bank from the General Funds to more clearly track the City's responsibility for the initiative.

5. The City's chosen accounting software requires a high degree of oversight and accounting expertise. It makes timely review of financial reports, bank reconciliations, budgetary reviews and consistent transaction recording difficult for staff. There must be timely review by those charged with the City's governance in order to ensure that misstatements to the financial records are corrected.

City Response: The City has purchased and installed a new accounting software package that has been set up by a professional accounting firm retained by the City. This software and accounting system is more readily understandable and easier to maintain. Professional accounting oversight will be done on a continuing basis to ensure that misstatements to the financial records are corrected in a timely manner.

6. 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 staff skills necessary to accurately record transactions often required by fund accounting and the complexity of transaction recording to the various funds of the City.

City Response: Starting with the FY2010-2011 a professional accounting firm has been retained by the City to accurately record transactions required by fund accounting and to provide oversight to the staff with regard to the financial statements.

7. The City had unrecorded cash assets restricted to the operation of the Cemetery in the amount of \$53,515. These assets were material to the financial statements as a whole and were unrecorded for a number of years. This resulted in a restatement of the prior year's net assets.

City Response: The Cemetery Association will be supplying quarterly reports to the City to ensure that the restricted cash assets are booked in a timely manner.

8. The City has also allowed the use of its taxpayer identification number to be used by an association for the purpose of obtaining a depository account in a local bank. Such use of the City's taxpayer number must be discontinued.

City Response: Use of the City's tax payer identification number will be restricted to use by the City only. All accounts that were previously used by others have been closed.

9. As is often the case among small towns with limited resources, the City does not recognize accounts receivable and revenue when it is earned as required by generally accepted accounting principles. Government and grant receivables for the prior year were recorded to revenue when received and current year receivables were not recorded.

City Response: Starting with the FY2010-2011 a professional accounting firm has been retained to assist the City with oversight in its accounting practices. Those transactions are now properly booked according to generally acceptable accounting principles.

10. The City incorrectly recorded revenue from utility billing late fees in the general fund. All enterprise fund revenues must be recorded to the fund that generates the revenue. In addition, the city recorded grant revenue in a material amount to the general fund that belonged in the enterprise fund.

City Response: Starting with the FY2010-2011 a professional accounting firm has been retained by the City to assist the staff with oversight in its accounting practices. Those transactions are now properly booked according to generally acceptable accounting principles.

11. Certain notes payable were incorrectly recorded in the General Fund and should have been recorded in an enterprise fund since the purpose of the loans was for the completion of the water tower project. The City also records various principal payments on notes and agreements to expense. Principal payments are a reduction in the liability balance and not an expense to the city. Recording loan principal payments to expenses overstates the total city expense budget and makes reviews of budget to actual operating results difficult.

City Response: Starting with the FY2010-2011 a professional accounting firm has been retained by the City to assist the staff with oversight in its accounting practices. Those transactions are now properly booked according to generally acceptable accounting principles.

12. These types of accounting errors indicate that there are not sufficient controls over the review of financial information that are needed to prevent over-expenditure of the budget and continued declines in the City's financial position. Therefore, we recommend that the City retain consultation with a qualified accounting firm.

City Response: The City has amended its Charter to require monthly financial reports to the Commission. With the hiring of a professional accounting firm Staff will be able to accurately report the financial information to the Commission to prevent over expenditure of the budget and recognize any change in the City's financial position.

13. We further recommend that the City's financial accounting records segregate the activities of the CRA from the general activities within the governmental funds.

City Response: The City's CRA activities have been segregated from the general activities within the governmental funds. Clear and concise accounting controls are in place to ensure accurate information in those activities.

Prior 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.

City Response: Additional banking relationships have been developed to diversify deposits to meet the insurance limits of the FDIC. Staff review of the cash balances in all accounts will be monitored to ensure that limits are not exceeded.

2. There are not sufficient financial controls in place to prevent the City from inadvertently over-expending resources to avoid declines in net assets. While this is not uncommon among small towns, 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.

City Response: FY2010-2011 has brought significant changes to financial controls to ensure that the City does not inadvertently over spend its budgeted resources. As noted in the above responses the City has hired a professional accounting firm, implemented new software accounting systems and restructured its budget format to be more easily understood and followed. With the implemented changes the City will be able to recognize any change in its financial position.

City Response prepared by:

Ellen Vause

Interim City Manager

July 22, 2011