

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2012

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2012

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	52
COMPLIANCE SECTION	54
Schedule of Expenditures of Federal Awards and State Financial Assistance	55
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>	56
Management Letter- Statement of Findings	58
City of Hawthorne Response to Statement of Findings	61

INTRODUCTORY SECTION

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

September 30, 2012

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

Current Officials as of May 15, 2013

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, 2012, and 2011 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, 2012 and 2011 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 May 15, 2013, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hawthorne, Florida's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.



SEXTON & SCHNOLL
Certified Public Accountants
May 15, 2013

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, 2012 and 2011

	Governmental Activities	Business-type Activities	Total Government	
			2012	2011
Cash and cash equivalents	\$ 391,552	\$ 355,553	\$ 747,105	\$ 532,701
Other assets	704,564	241,984	946,548	957,692
Capital Assets	6,552,427	4,248,637	10,801,064	10,690,670
Total Assets	<u>7,684,543</u>	<u>4,846,174</u>	<u>12,494,717</u>	<u>12,181,063</u>
Current liabilities	255,707	744,176	999,883	1,025,275
Long term outstanding	197	2,712,016	2,712,213	2,782,255
Total Liabilities	<u>255,904</u>	<u>3,456,192</u>	<u>3,712,096</u>	<u>3,807,530</u>
Net assets:				
Invested in capital assets,				
Net of related debt	6,552,427	1,536,321	8,089,048	7,823,147
Restricted	481,102	213,004	694,106	769,759
Unrestricted	359,112	(359,641)	(529)	(219,373)
Total net assets	<u>\$ 7,392,641</u>	<u>\$ 1,389,984</u>	<u>\$ 8,782,625</u>	<u>\$ 8,373,533</u>

89% 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 7% 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 (\$529). Therefore there are no significant 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 \$409,000 or 5% over the year, which was primarily the result of the acquisition of the Lindsey Phillips Park that was donated by the Florida Department of Transportation.

The following schedule provides a summary of the changes in net assets.

Governmental Activities net assets increased primarily due to strict budget management of expenses. Most general revenues decreased when compared to the previous year. The City has diversified its revenue through the sale of timber that is located on the Little Orange Creek property.

Business-type Activities net assets decreased again in 2012 with continued operating losses. Charges for services increased and operating expenses decreased from the previous year. However the City's Enterprise operations are still sustaining operating losses that, in addition to its bond debt service continues to cause a declining overall financial position. A condensed version of the Statement of Activities follows:

**Change in Net Assets
For the Fiscal Years Ended September 30, 2012 and 2011**

	Governmental Activities	Business-type Activities	Total Government	
			2012	2011
Revenues:				
Program revenues				
Charges for services	\$ 65,698	\$ 785,903	\$ 851,601	\$ 780,629
Grants and contributions	476,100	3,000	479,100	4,771,779
General revenues				
Taxes	584,057		584,057	593,801
Tax increment	64,786		64,786	69,489
State shared revenues	47,772		47,772	75,223
Interest	4,309	1,724	6,033	8,075
Miscellaneous	206,285	22,045	228,330	118,819
Total revenues	<u>1,449,007</u>	<u>812,672</u>	<u>2,261,679</u>	<u>6,417,815</u>
Expenses:				
General government	423,038	-	423,038	408,512
Public safety	901	-	901	33,400
Transportation	150,159	-	150,159	197,870
Economic environment	130,088	-	130,088	37,519
Culture & recreation	105,436	-	105,436	103,534
Interest on long-term debt	2,628	126,987	129,615	131,550
Cemetery	-	6,486	6,486	10,118
Water	-	140,463	140,463	180,045
Garbage services	-	197,284	197,284	205,359
Sewer	-	569,117	569,117	566,727
Total expenses	<u>812,250</u>	<u>1,040,337</u>	<u>1,852,587</u>	<u>1,874,634</u>
Changes in net assets	636,757	(227,665)	409,092	4,543,181
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning net assets	<u>6,755,884</u>	<u>1,617,649</u>	<u>8,373,533</u>	<u>3,830,353</u>
Ending net assets	<u>\$ 7,392,641</u>	<u>\$ 1,389,984</u>	<u>\$ 8,782,625</u>	<u>\$ 8,373,534</u>

Governmental Activities:

The city received a grant from the the Florida Department of Transportation of park land and buildings that accounted for 21 % of its total revenue.

Taxes provided 40% of the revenues for Governmental Activities, while State shared revenues provided 3% and Charges for Services provided 4%. Most of the Governmental Activities resources are spent for General Government (28%), Transportation (10%) and Recreation (7%). There was an increase in net assets of \$639,937 as a result of Governmental Activities.

Business-type Activities:

Business-type Activities decreased the City's net assets by \$227,665. Key elements of this decrease are a decline in non-operating revenues (72%), specifically grant funding, when compared to the previous year. Three of the four Business-type Activities sustained net operating losses but to a lesser degree than the previous year.

Capital Assets and Debt Administration

At September 30, 2012, the City had \$17.8 million invested in capital assets, equipment, park and recreation facilities, buildings, roads, bridges and water and sewer facilities. Net capital assets represent an increase (additions, deletions and depreciation) of \$110,000 (1%) from the previous year.

Capital Assets at September 30, 2012 and 2011

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 4,645,050	\$ 4,390,950	\$ 114,299	\$ 114,299	\$ 4,759,349	\$ 4,505,249
Buildings	1,136,579	1,136,579	5,266,182	4,802,188	6,402,761	5,938,767
Improvements	1,841,357	1,549,205	4,283,810	4,732,458	6,125,167	6,281,663
Construction in progress	-	-	269,700	269,700	269,700	269,700
Equipment	197,880	197,443	52,598	43,278	250,478	240,721
Subtotal	7,820,866	7,274,177	9,986,590	9,961,923	17,807,456	17,236,100
Accumulated depreciation	(1,268,439)	(1,186,039)	(5,737,954)	(5,359,391)	(7,006,393)	(6,545,430)
Capital assets, net	<u>\$ 6,552,427</u>	<u>\$ 6,088,138</u>	<u>\$ 4,248,636</u>	<u>\$ 4,602,532</u>	<u>\$ 10,801,063</u>	<u>\$ 10,690,670</u>

Debt Outstanding

At year end, the City had \$2.88 million in bonds and notes outstanding versus \$2.95 million last year. The City's loans payable decreased in conjunction with principal loan repayments.

Debt Outstanding at September 30, 2012 and 2011

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Line of credit	\$ 48,551	\$ 62,151	\$ -	\$ -	\$ 48,551	\$ 62,151
USDA bonds	-	-	2,373,900	2,425,600	2,373,900	2,425,600
Loans Payable	12,994	25,444	445,123	438,088	458,117	463,532
Total bonds and notes	<u>\$ 61,545</u>	<u>\$ 87,595</u>	<u>\$ 2,819,023</u>	<u>\$ 2,863,688</u>	<u>\$ 2,880,568</u>	<u>\$ 2,951,283</u>

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

Budgetary Highlights

The City of Hawthorne adopted its final budget for the fiscal year 2011-2012 on September 20, 2011. At the end of the year, the General Fund's revenues and transfers were \$705,068 more than what was budgeted. Expenditures were \$6,057 less than the budget due to strict monitoring of expenditures. The revenue increase was primarily the result of the unbudgeted acquisition of the Lindsey Phillips Park. Had this event not occurred, General Fund actual revenues would have exceeded the budget by \$228,000.

Other unbudgeted variances in revenue include the sale of timber from the Little Orange Creek Nature Preserve.

Proprietary revenues were under budget by \$845,000. This was the result of timing differences in the initiation of the CDBG sewer plant renovations. Proprietary funds expenditures were \$517,000 under budget also as a result of the CDBG project and unbudgeted depreciation expense which comprised \$378,000 of this amount.

OTHER FINANCIAL INFORMATION

Economic Factors and Rates

- As of September 30, 2012, the unemployment rate for Alachua County was 6.5%. The 2011 rate was 8.0% and this reflects the 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 8.4%. The National unemployment rate was 7.8%.
- In October, 2011 the City's largest employer, Georgia Pacific, ceased operations at the Hawthorne plywood mill citing slow home construction. 400 employees from Alachua and Putnam Counties were affected. Since that date, the Company has been doing a significant amount of renovation to the facility and the City opes that this will eventually improve employment in the area.
- There are three new large developments in the planning stages in the area: A large scale industrial park, a 650-home retirement community and a CSX railroad site.
- Local real estate professionals have stated that the real-estate market is improving in the area.
- The official population of the City in 2012 was 1,442 and is estimated to be approximately the same in 2013.
- The ad valorem tax millage rate for the City was 5.3194 mills in 2012.

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, 2012

	Governmental Activities	Business-type Activities	2012 TOTAL	2011 TOTAL
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 174,553	\$ 131,758	\$ 306,311	138,132
Accounts receivable, net	139,616	72,874	212,490	225,530
Due from other funds	-	164,880	164,880	186,933
Due from other governmental units	32,366	-	32,366	47,582
Total Current Assets	<u>346,535</u>	<u>369,512</u>	<u>716,047</u>	<u>598,177</u>
Restricted assets:				
Cash	216,999	223,795	440,794	394,569
Total Restricted Assets	<u>216,999</u>	<u>223,795</u>	<u>440,794</u>	<u>394,569</u>
Non-current assets:				
Due from other funds	517,968	-	517,968	481,733
Bond costs, net	-	4,230	4,230	4,640
Prepaid Expenses	14,614	-	14,614	11,271
Capital assets, net	6,552,427	4,248,637	10,801,064	10,690,670
Total non-current assets	<u>7,085,009</u>	<u>4,252,867</u>	<u>11,337,876</u>	<u>11,188,314</u>
Total assets	<u>7,648,543</u>	<u>4,846,174</u>	<u>12,494,717</u>	<u>12,181,060</u>
LIABILITIES				
Current liabilities (payable from current assets):				
Accounts payable	24,608	31,037	55,645	97,930
Due to other funds	147,587	535,261	682,848	668,666
Due to other governmental units	-	-	-	-
Line of credit	48,551	-	48,551	62,151
Loans payable-current portion	12,799	52,407	65,206	55,180
Accrued wages	22,162	1,788	23,950	23,952
Total current liabilities (payable from current assets)	<u>255,707</u>	<u>620,493</u>	<u>876,200</u>	<u>907,879</u>
Current liabilities (payable from restricted assets):				
Accrued interest payable	-	9,432	9,432	9,432
Deposits	-	59,651	59,651	56,264
Bonds payable-current portion	-	54,600	54,600	51,700
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>123,683</u>	<u>123,683</u>	<u>117,396</u>

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF NET ASSETS
September 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>2012 TOTAL</u>	<u>2011 TOTAL</u>
Non-current liabilities:				
		-	-	
Loans payable	197	392,716	392,913	408,355
Due to other funds	-	-	-	-
Bonds payable	-	2,319,300	2,319,300	2,373,900
Total long-term liabilities	<u>197</u>	<u>2,712,016</u>	<u>2,712,213</u>	<u>2,782,255</u>
Total liabilities	<u>255,904</u>	<u>3,456,192</u>	<u>3,712,096</u>	<u>3,807,530</u>
NET ASSETS				
Invested in capital assets, net of related debt	6,552,427	1,536,621	8,089,048	7,823,147
Restricted net assets	481,102	213,004	694,106	769,756
Unrestricted net assets	359,112	(359,641)	(529)	(219,373)
Total net assets	<u><u>\$ 7,392,641</u></u>	<u><u>\$ 1,389,984</u></u>	<u><u>\$ 8,782,625</u></u>	<u><u>\$ 8,373,530</u></u>

CITY OF HAWTHORNE, FLORIDA
STATEMENT OF ACTIVITIES
For the Years Ended September 30, 2012 and 2011

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	2011
Governmental Activities								
General government	\$ 423,038	\$ 1,478			(421,560)	\$ -	\$ (421,560)	(408,280)
Public safety	901	18,054	-	-	17,153	-	17,153	(19,822)
Transportation	150,159	16,028	-	-	(134,131)	-	(134,131)	(187,823)
Economic environment	130,088	30,000		-	(100,088)	-	(100,088)	9,560
Culture & recreation	105,436	138	476,100		370,802	-	370,802	4,465,533
Interest on long-term debt	2,628	-	-	-	(2,628)	-	(2,628)	(3,971)
Total governmental activities	<u>812,250</u>	<u>65,698</u>	<u>476,100</u>	<u>-</u>	<u>(270,452)</u>	<u>-</u>	<u>(270,452)</u>	<u>3,855,197</u>
Business Activities								
Cemetery	6,486	2,020	-	-	-	(4,466)	(4,466)	(5,423)
Water utility	140,463	280,578	-		-	140,115	140,115	139,696
Garbage services	197,284	167,186	-	-	-	(30,098)	(30,098)	1,861
Sewer utility	569,117	336,119	3,000		-	(229,998)	(229,998)	(185,978)
Interest on long-term debt	126,987	-	-	-	-	(126,987)	(126,987)	(127,579)
Total business activities	<u>1,040,337</u>	<u>785,903</u>	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>(251,434)</u>	<u>(251,434)</u>	<u>(177,423)</u>
Total Government	<u>\$ 1,852,587</u>	<u>\$ 851,601</u>	<u>\$ 479,100</u>	<u>\$ -</u>	<u>\$ (270,452)</u>	<u>\$ (251,434)</u>	<u>\$ (521,886)</u>	<u>\$ 3,677,774</u>

CONTINUED

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES (continued)
For the Years ended September 30, 2012 and 2011

	<u>Governmental</u>	<u>Business</u>	<u>Total</u>	<u>2011</u>
General Revenues				
Property taxes	243,172	-	243,172	253,403
Sales and use taxes	188,644	-	188,644	190,211
Franchise fees	20	-	20	49
Utility services tax	100,733	-	100,733	98,470
Communications surtax	51,488	-	51,488	51,717
Licenses and permits	3,266	-	3,266	3,541
State shared revenues	47,772	-	47,772	75,223
Tax increment	64,786	-	64,786	69,489
Interest	4,309	1,724	6,033	8,692
Miscellaneous	<u>203,020</u>	<u>22,045</u>	<u>225,065</u>	<u>114,612</u>
Total general revenue	<u>907,210</u>	<u>23,769</u>	<u>930,979</u>	<u>865,407</u>
Change in net assets	636,758	(227,665)	409,093	4,543,181
Transfers	-	-	-	-
Net assets, beginning of year	6,755,884	1,617,649	8,373,533	-
Net assets, end of year	<u>\$ 7,392,642</u>	<u>\$ 1,389,984</u>	<u>\$ 8,782,626</u>	<u>\$ 4,543,181</u>

CITY OF HAWTHORNE, FLORIDA

GOVERNMENTAL FUND

BALANCE SHEET

September 30, 2012 and 2011

	2012	2011
ASSETS		
Cash	\$ 391,613	\$ 265,201
Accounts receivable	4,725	5,048
Due from other funds	517,968	481,733
Note receivable	134,830	151,031
Due from other governmental units	32,366	32,662
Prepaid expenses	14,614	11,271
Total assets	<u>1,096,116</u>	<u>946,946</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable and accrued liabilities	24,608	42,464
Due to other funds	147,587	126,977
Notes Payable	48,551	62,151
Accrued compensation	22,162	22,162
Total Liabilities	<u>242,908</u>	<u>253,754</u>

FUND BALANCES

Reserved:		
Library	455	455
Downtown development	351,136	366,150
Reserved Wild Spaces Public Spaces	129,511	132,324
Interfund receivable	517,968	481,733
Unreserved:	(145,862)	(287,473)
Total fund balances	<u>853,208</u>	<u>693,189</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.	6,552,427	6,088,139
---	-----------	-----------

Long-term liabilities are not due in the current period and therefore are not reported in the funds	(12,994)	(25,444)
---	----------	----------

Net assets of governmental activities	<u>\$ 7,392,641</u>	<u>\$ 6,755,884</u>
---------------------------------------	---------------------	---------------------

CITY OF HAWTHORNE, FLORIDA

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

For the Fiscal Year Ended September 30, 2012 and 2011

	2012	2011
REVENUE		
Taxes	\$ 587,302	\$ 596,912
Intergovernmental revenue	112,557	144,712
Charges for services	35,686	27,297
Other revenue	713,463	4,704,507
Total Revenue	<u>1,449,008</u>	<u>5,473,428</u>
EXPENDITURES		
Current Expenditures		
General government	425,666	447,971
Public safety	901	30,249
Transportation	150,159	164,208
Economic environment	130,088	37,519
Culture/recreation	105,436	103,534
Capital outlay/disposals	476,739	4,489,325
Total expenditures	<u>1,288,989</u>	<u>5,272,806</u>
Surplus of revenues over expenditures	<u>160,019</u>	<u>200,622</u>
OTHER FINANCING USES		
Interfund transfers out	<u>-</u>	<u>-</u>
Total other financing uses	<u>-</u>	<u>-</u>
Net changes in fund balances	160,019	200,622
Fund balances, beginning of year	<u>693,189</u>	<u>492,567</u>
Fund balances, end of year	<u><u>\$ 853,208</u></u>	<u><u>\$ 693,189</u></u>

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, 2012

	<u>2012</u>	<u>2011</u>
Net change in fund balances - total governmental funds	\$ 160,019	\$ 200,622
 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	549,870	
Less current year depreciation	<u>(85,581)</u>	
	464,289	4,446,453
 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>12,449</u>	<u>41,543</u>
Change in net assets of governmental activities	<u><u>\$ 636,757</u></u>	<u><u>\$ 4,688,618</u></u>

CITY OF HAWTHORNE, FLORIDA

**ENTERPRISE FUNDS
STATEMENT OF NET ASSETS
September 30, 2012**

		Business-Type Activities - Enterprise Funds				
ASSETS	Cemetery	Water	Solid Waste	Sewer	Totals	2011
Current assets						
Cash	\$ 47,393	\$ 84,365	\$ -	\$ -	\$ 131,758	\$ 51,671
Accounts receivable (net of allowance for uncollectible)	-	26,636	17,220	29,018	72,874	69,450
Due from other funds	-	75,676	71,911	17,293	164,880	186,933
Grants receivable	-	-	-	-	-	14,920
Restricted assets						
Cash	-	195,273	-	28,522	223,795	215,830
Fixed assets						
Land	-	-	-	-	-	114,299
Buildings	-	1,358,412	-	3,558,075	4,916,487	4,802,188
Improvements other than buildings	-	449,471	-	4,298,335	4,747,806	4,732,458
Equipment	-	7,992	-	44,606	52,598	43,278
Construction in progress	-	-	-	269,700	269,700	269,700
Allowance for depreciation	-	(911,457)	-	(4,826,497)	(5,737,954)	(5,359,391)
Other assets						
Bond costs	-	-	-	12,295	12,295	12,295
Accumulated amortization of bond costs	-	-	-	(8,065)	(8,065)	(7,655)
Total assets	<u>47,393</u>	<u>1,286,368</u>	<u>89,131</u>	<u>3,423,282</u>	<u>4,846,174</u>	<u>5,145,976</u>
LIABILITIES AND NET ASSETS						
Current liabilities						
Due to other funds	-	70,511	10,708	454,042	535,261	541,689
Accounts Payable	-	9,851	15,281	5,904	31,036	55,466
Current liabilities payable from Restricted funds						
Accrued interest payable	-	1,571	-	7,861	9,432	9,432
Deposits	-	59,650	-	-	59,650	56,264
Loan payable M&S Bank-current	-	-	-	9,341	9,341	-
Loan payable FDOT-current	-	16,872	-	-	16,872	16,872
Loan payable CRA-current	-	16,693	-	-	16,693	16,200
Loan payable NRWA-current	-	9,501	-	-	9,501	9,198
Serial bonds payable-current	-	10,700	-	17,000	27,700	26,100
Bonds payable FMHA-current	-	-	-	26,900	26,900	25,600
Accrued wages and compensation	-	333	1,327	128	1,788	1,788
Long-term liabilities						
Loan payable M&S Bank	-	-	-	39,941	39,941	-
Loan payable FDOT	-	168,723	-	-	168,723	185,595
Loan payable CRA	-	118,137	-	-	118,137	134,830
Loan payable NRWA	-	65,915	-	-	65,915	75,394
Serial bonds payable	-	315,600	-	1,071,000	1,386,600	1,414,300
Bonds payable FMHA	-	-	-	932,700	932,700	959,600
Total Liabilities	<u>-</u>	<u>864,057</u>	<u>27,316</u>	<u>2,564,817</u>	<u>3,456,190</u>	<u>3,528,328</u>
NET ASSETS						
Invested in capital assets, net of related debt	-	236,043	-	1,300,577	1,536,620	1,738,843
Restricted	-	78,379	-	134,625	213,004	215,830
Unrestricted	<u>47,393</u>	<u>107,889</u>	<u>61,815</u>	<u>(576,737)</u>	<u>(359,640)</u>	<u>(337,024)</u>
Total net assets	<u>47,393</u>	<u>422,311</u>	<u>61,815</u>	<u>858,465</u>	<u>1,389,984</u>	<u>1,617,649</u>
Total liabilities and net assets	<u>\$ 47,393</u>	<u>\$ 1,286,368</u>	<u>\$ 89,131</u>	<u>\$ 3,423,282</u>	<u>\$ 4,846,174</u>	<u>\$ 5,145,976</u>

CITY OF HAWTHORNE, FLORIDA

ENTERPRISE FUNDS

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal year Ended September 30, 2012

	Business-Type Activities - Enterprise Funds					
	<u>Cemetery</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Sewer</u>	<u>Totals</u>	<u>2011</u>
OPERATING REVENUES						
Utility revenue						
Sales	\$ 2,020	\$280,228	\$ 167,186	\$ 335,369	\$ 784,803	\$ 709,628
Reconnection fees	-	350	-	750	1,100	-
Late fees	-	-	-	-	-	1,102
Total utility revenue	<u>2,020</u>	<u>280,578</u>	<u>167,186</u>	<u>336,119</u>	<u>785,903</u>	<u>710,730</u>
Other revenue	<u>1,675</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,675</u>	<u>8,451</u>
Total operating revenues	<u>3,695</u>	<u>280,578</u>	<u>167,186</u>	<u>336,119</u>	<u>787,578</u>	<u>719,181</u>
OPERATING EXPENSES						
Personnel						
Regular salaries	-	20,387	5,967	50,988	77,342	96,279
Payroll tax	-	1,448	614	3,737	5,799	8,513
Retirement	-	1,013	305	2,944	4,262	4,099
Life and health insurance	-	4,560	2,606	14,331	21,497	22,130
Worker's compensation	-	732	32	3,107	3,871	3,526
Total Personnel Services	<u>-</u>	<u>28,140</u>	<u>9,524</u>	<u>75,107</u>	<u>112,771</u>	<u>134,547</u>
Depreciation and amortization	-	46,000	-	332,972	378,972	398,350
Accounting and auditing	-	-	-	3,183	3,183	-
Contractual services	-	23,733	184,494	67,486	275,713	306,389
Communication	-	1,189	-	2,458	3,647	4,472
Utility services	174	7,056	-	31,960	39,190	39,874
Insurance	-	6,444	1,432	3,507	11,383	7,120
Repairs and maintenance	6,250	2,568	-	11,829	20,647	34,302
Supplies	15	14,999	1,592	16,973	33,579	32,997
Publications & subscriptions	-	1,530	92	361	1,983	422
Other current charges						
and obligations	<u>47</u>	<u>8,803</u>	<u>150</u>	<u>23,281</u>	<u>32,281</u>	<u>3,775</u>
Total operating expenses	<u>6,486</u>	<u>112,322</u>	<u>187,760</u>	<u>494,010</u>	<u>800,578</u>	<u>827,701</u>
Total expenses	<u>6,486</u>	<u>140,462</u>	<u>197,284</u>	<u>569,117</u>	<u>913,349</u>	<u>962,248</u>

CITY OF HAWTHORNE, FLORIDA

ENTERPRISE FUNDS

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal year Ended September 30, 2012

	Business-Type Activities - Enterprise Funds					
	<u>Cemetery</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Sewer</u>	<u>Totals</u>	<u>2011</u>
Operating profit (loss)	<u>(2,791)</u>	<u>140,116</u>	<u>(30,098)</u>	<u>(232,998)</u>	<u>(125,771)</u>	<u>(243,067)</u>
Non-operating revenues						
Federal waste water grant	-	-	-	3,000	3,000	75,600
State water tower grant	-	-	-	-	-	127,177
Interest on investments	959	765	-	-	1,724	2,453
Gain (loss) on disposal of assets	-	-	-	-	-	-
Rents and royalties	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,369</u>	<u>20,369</u>	<u>19,979</u>
Total non-operating revenues	<u>959</u>	<u>765</u>	<u>-</u>	<u>23,369</u>	<u>25,093</u>	<u>225,209</u>
Debt service - interest	-	(51,325)	-	(75,662)	(126,987)	(127,579)
Net non-operating revenue	<u>959</u>	<u>(50,560)</u>	<u>-</u>	<u>(52,293)</u>	<u>(101,894)</u>	<u>97,630</u>
Income (loss)						
before operating transfers	<u>(1,832)</u>	<u>89,556</u>	<u>(30,098)</u>	<u>(285,291)</u>	<u>(227,665)</u>	<u>(145,437)</u>
Operating transfers-in	-	-	-	-	-	-
Operating transfers-out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	(1,832)	89,556	(30,098)	(285,291)	(227,665)	(145,437)
Net assets, beginning of year	49,225	332,755	91,913	1,143,756	1,617,649	1,763,086
Net assets, end of year	<u>\$ 47,393</u>	<u>\$ 422,311</u>	<u>\$ 61,815</u>	<u>\$ 858,465</u>	<u>\$ 1,389,984</u>	<u>\$ 1,617,649</u>

CITY OF HAWTHORNE, FLORIDA

**ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal year Ended September 30, 2012**

	Business-Type Activities - Enterprise Funds					
	Cemetery	Water	Solid Waste	Sewer	Totals	2011
Cash flows from operating activities						
Cash received from customers	\$ 3,695	\$ 279,773	\$ 168,291	\$ 335,782	\$ 787,541	\$ 702,241
Cash payments to employees	-	(20,387)	(5,967)	(50,988)	(77,342)	(96,279)
Cash payments for employee benefits	-	(7,753)	(3,557)	(24,119)	(35,429)	(40,270)
Cash paid to vendors	(6,486)	(56,613)	(158,767)	(193,624)	(415,490)	(329,987)
Net cash provided (used) by operating activities	<u>(2,791)</u>	<u>195,020</u>	<u>-</u>	<u>67,051</u>	<u>259,280</u>	<u>235,705</u>
Cash flows from capital and related financing activities						
Interest paid on notes and bonds payable	-	(51,325)	-	(75,662)	(126,987)	(127,579)
Capital grants	-	-	-	3,000	3,000	202,777
Principal paid on notes payable	-	(42,248)	-	(5,718)	(47,966)	(41,498)
Principal paid on bonds payable	-	(10,100)	-	(41,600)	(51,700)	(48,900)
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>(103,673)</u>	<u>-</u>	<u>(119,980)</u>	<u>(223,653)</u>	<u>(15,200)</u>
Cash flows from non-capital financing activities						
Loan proceeds	-	-	-	55,000	55,000	-
Rents and royalties	-	-	-	20,369	20,369	19,979
Transfers in	-	-	-	-	-	-
Net cash provided by non-capital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,369</u>	<u>75,369</u>	<u>19,979</u>
Cash flows from investing activities						
Net Purchases of fixed assets	-	(2,227)	-	(22,441)	(24,668)	(282,161)
Interest Income	959	765	-	-	1,724	2,454
Net cash provided (used) for investing activities	<u>959</u>	<u>(1,462)</u>	<u>-</u>	<u>(22,441)</u>	<u>(22,944)</u>	<u>(279,707)</u>
Net increase (decrease) in cash and cash equivalents	(1,832)	89,885	-	(1)	88,052	(39,223)
Cash and cash equivalents, beginning of year	<u>49,225</u>	<u>189,753</u>	<u>-</u>	<u>28,523</u>	<u>267,501</u>	<u>306,724</u>
Cash and cash equivalents, end of year	<u>\$ 47,393</u>	<u>\$ 279,638</u>	<u>\$ -</u>	<u>\$ 28,522</u>	<u>\$ 355,553</u>	<u>\$ 267,501</u>

CITY OF HAWTHORNE, FLORIDA

**ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal year Ended September 30, 2012**

	Business-Type Activities - Enterprise Funds					
	<u>Cemetery</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Sewer</u>	<u>Totals</u>	<u>2011</u>
Reconciliation of operating income (loss) to net cash provided by operating activities						
Operating income (loss)	<u>(2,791)</u>	<u>140,116</u>	<u>(30,098)</u>	<u>(232,998)</u>	<u>(125,771)</u>	<u>(243,067)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	-	46,000	-	332,972	378,972	398,357
(Increase) decrease in assets:						
Accounts receivable, net	-	(4,192)	1,104	14,583	11,495	(16,940)
Due from other funds	-	5,525	33,820	(17,293)	22,052	(600,685)
Increase (decrease) in liabilities:						
Accounts payable	-	(1,866)	(15,534)	(7,027)	(24,427)	(1,604)
Due to other funds	-	6,050	10,708	(23,186)	(6,428)	689,190
Customer deposits payable	-	3,387	-	-	3,387	75
Accrued interest	-	-	-	-	-	(1,049)
Grants receivable	-	-	-	-	-	13,430
Accrued compensated absences	-	-	-	-	-	(2,002)
Total adjustments	<u>-</u>	<u>54,904</u>	<u>30,098</u>	<u>300,049</u>	<u>385,051</u>	<u>478,772</u>
Net cash provided (used) by operating activities	<u><u>\$ (2,791)</u></u>	<u><u>\$ 195,020</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 67,051</u></u>	<u><u>\$ 259,280</u></u>	<u><u>\$235,705</u></u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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, 2012

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, 2012

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, 2012

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, 2011, 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, 2012, 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, 2012.

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, 2012

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, 2012

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

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

"Total 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>2012</u>	<u>2011</u>
Cost of capital assets	\$ 7,820,866	\$ 7,274,177
Accumulated depreciation	<u>(1,268,439)</u>	<u>(1,186,039)</u>
Total Governmental Capital Assets	<u><u>\$ 6,552,427</u></u>	<u><u>\$ 6,088,138</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, 2012, were:

	<u>2012</u>	<u>2011</u>
Hewlett Packard Capital Lease	<u>2,070</u>	<u>3,835</u>
Interlocal Agreement- Alachua County	<u>10,924</u>	<u>10,439</u>
Total Notes Payable	<u><u>\$ 12,994</u></u>	<u><u>\$ 14,274</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

September 30, 2012

	Total Governmental	Capital	Long-Term	2012	2011
	Fund	Related Items	Debt Transactions	Statement of	Statement of
				Net Assets	Net Assets
ASSETS					
Cash	\$ 391,613	\$ -	\$ -	\$ 391,613	\$ 265,200
Accounts receivable	4,725	-	-	4,725	5,047
Due from other funds	517,968	-	-	517,968	481,733
Due from other governmental units	32,366	-	-	32,366	32,662
Note receivable	134,830	-	-	134,830	151,031
Prepaid expenses	14,614	-	-	14,614	11,271
Capital assets - net	-	6,552,427	-	6,552,427	6,088,139
Total assets	<u>1,096,116</u>	<u>6,552,427</u>	<u>-</u>	<u>7,648,543</u>	<u>7,035,083</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	24,608	-	-	24,608	42,464
Due to other funds	147,587	-	-	147,587	126,977
Due to other governmental units	-	-	-	-	-
Accrued compensated absences	22,162	-	-	22,162	22,163
Line of Credit	48,551	-	-	48,551	62,151
Notes payable- long term	-	-	12,994	12,994	25,444
Total Liabilities	<u>242,908</u>	<u>-</u>	<u>12,994</u>	<u>255,902</u>	<u>279,199</u>
Fund Balance - Net Assets	853,208	6,552,427	(12,994)	7,392,641	6,755,884
Total liabilities and fund balance/net assets	<u>\$ 1,096,116</u>	<u>\$ 6,552,427</u>	<u>\$ -</u>	<u>\$ 7,648,543</u>	<u>\$ 7,035,083</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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.

Enterprise 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, 2012

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 \$160,019 differs from the "change in net assets" for governmental activities \$7,395,821 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	\$ 549,870
Depreciation expense	<u>(85,581)</u>
Difference	<u><u>\$464,289</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>\$ 12,449</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.

September 30, 2012

	Total	Capital	Long-Term	2012	2011
	Governmental Fund	Related Items	Debt Transactions	Statement of Activities	Statement of Activities
REVENUES					
Taxes	\$ 587,302	\$ -	\$ -	\$ 587,302	\$ 596,912
Intergovernmental	112,557	-	-	112,557	144,712
Charges for Services	35,686	-	-	35,686	27,297
Miscellaneous	713,463	-	-	713,463	4,704,507
Total revenues	1,449,008	-	-	1,449,008	5,473,428
EXPENDITURES					
Current Expenditures					
General government	340,639	15,216	-	355,855	379,155
Public safety	901	901	-	1,802	34,040
Transportation	150,159	28,981	-	179,140	194,291
Economic environment	130,088	-	-	130,088	37,519
Culture /recreation	105,436	37,303	-	142,739	135,836
Capital Outlay	546,689	(546,689)	-	-	-
Debt Service					
Principal	12,449		(12,449)	-	-
Interest	2,628		-	2,628	3,970
Total Expenditures	1,288,989	(464,288)	(12,449)	812,252	784,811
Excess of revenues over (under) expenditures	160,019	464,288	12,449	636,756	4,688,617
OTHER FINANCING SOURCES (USES)					
Transfers	-	-	-	-	-
Total other financing sources (uses)					
Net change in fund balance	160,019	464,288	12,449	636,756	4,688,617
Fund balance at beginning of year	693,189	6,088,139	(25,444)	6,755,884	2,067,267
Fund balance at end of year.	\$ 853,208	\$ 6,552,427	\$ (12,995)	\$ 7,392,641	\$ 6,755,884

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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. The budget for the fiscal year 2011-2012 was adopted by the City Commission on September 20, 2011. There were no amendments to the budget.

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits: The City maintains all of its cash in checking, certificates of deposit and money market accounts at local banking institutions. At September 30, 2012, the bank balances of the City exceeded federal depository insurance by \$369,530.

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 2011-2012 fiscal year were levied in October 2011. 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 an immaterial amount.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012 and 2011, was as follows:

	<u>2011</u>			<u>2012</u>
	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Capital assets:				
Land	\$ 4,390,950	\$ 254,100	\$ -	\$ 4,645,050
Buildings	1,136,579		-	1,136,579
Improvements	1,549,205	292,152	-	1,841,357
Equipment and vehicles	197,443	5,737	(5,300)	197,880
Total capital assets	7,274,177	551,989	(5,300)	7,820,866
Less accumulated depreciation	(1,186,038)	(85,581)	3,180	(1,268,439)
Governmental Activities: capital assets, net	<u>\$ 6,088,139</u>	<u>\$ 466,408</u>	<u>\$ (2,120)</u>	<u>\$ 6,552,427</u>
Business-type Activities:				
Land	114,300	-	-	114,300
Buildings	5,266,182		-	5,266,182
Improvements other than buildings	4,268,462	15,348	-	4,283,810
Construction in progress	269,700	-	-	269,700
Equipment and vehicles	43,278	9,320	-	52,598
Total capital assets	9,961,922	24,668	-	9,986,590
Less accumulated depreciation	(5,359,391)	(378,563)	-	(5,737,954)
Business-type activities: capital assets, net	<u>\$ 4,602,531</u>	<u>\$ (353,895)</u>	<u>\$ -</u>	<u>\$ 4,248,636</u>

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

Governmental activities:	<u>2012</u>
General government	18,395
Public safety	901
Transportation	28,982
Culture / recreation	37,303
Total depreciation expense-governmental activities	<u>\$ 85,581</u>
Business-type activities:	
Water utility	46,000
Sewer utility	332,563
Total depreciation expense-business-type activities	<u>\$ 378,563</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 7. INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of inter-fund receivables and payables at September 30, 2012 and 2011.

Fund	2012 Interfund Receivables	2011 Interfund Receivables	Fund	2012 Interfund Payables	2011 Interfund Payables
General	\$ 517,968	\$ 481,733	General	\$ 147,587	\$ 126,977
Water	75,676	81,201	Water	70,511	64,461
Solid waste	71,911	105,732	Solid waste	10,708	-0-
Sewer	17,293	-0-	Sewer	454,042	477,228
	<u>\$ 682,848</u>	<u>\$ 668,666</u>		<u>\$ 682,848</u>	<u>\$ 668,666</u>

The balance of \$454,042 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, 2012 and 2011 consisted of the following:

Fund	2012 Transfers in	2011 Transfers in	Fund	2012 Transfers out	2011 Transfers out
General	\$ 30,000	\$ 30,000	General	\$ 30,000	\$ 30,000
Water	-	-	Water	-	-
Sewer	-	-	Sewer	-	-
	<u>\$ 30,000</u>	<u>\$ 30,000</u>		<u>\$ 30,000</u>	<u>\$ 30,000</u>

Transfers were made from the CRA fund to allocate administrative services of the CRA by the General Fund.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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
2013	10,700	19,170	29,870
2014	11,300	18,541	29,841
2015	12,000	17,878	29,878
2016	12,700	17,173	29,873
2017	13,400	16,427	29,827
2018 - 2022	79,900	69,354	149,254
2023 - 2027	106,300	42,951	149,251
2028 - 2030	80,000	9,575	89,575
	<u>\$ 326,300</u>	<u>\$ 211,069</u>	<u>\$ 537,369</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, 2012

B. Sewer Revenue Bonds Payable – Continued

September 30	Principal	Interest	Total
2013	26,900	49,260	74,860
2014	28,200	47,980	74,880
2015	29,600	46,635	74,835
2016	31,100	43,745	74,845
2017	32,700	42,190	74,890
2018 - 2022	189,400	184,755	374,155
2023 - 2027	241,700	132,430	374,130
2028 - 2032	308,700	65,630	374,330
2033	71,300	3,565	74,865
	<u>\$ 959,600</u>	<u>\$ 612,155</u>	<u>\$ 1,571,755</u>

C. Water and Sewer Revenue Bonds, Series 2004

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

September 30	Principal	Interest	Total
2013	17,000	48,960	65,960
2014	18,000	48,195	66,195
2015	18,000	47,385	65,385
2016	19,000	46,575	65,575
2017	20,000	45,720	65,720
2018- 2022	115,000	214,200	329,200
2023 - 2027	143,000	185,940	328,940
2028 - 2032	179,000	150,615	329,615
2033 - 2037	221,000	106,655	327,655
2038 - 2042	277,000	52,155	329,155
2043	61,000	2,745	63,745
	<u>\$ 1,088,000</u>	<u>\$ 949,145</u>	<u>\$ 2,037,145</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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 quarterly installments of \$4,218. 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
2013	16,872
2014	16,872
2015	16,872
2016	16,872
2017	16,872
2018-2022	101,235
	\$ 185,595
	\$ 185,595

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
2013	9,454	2,133	11,587
2014	9,741	1,846	11,587
2015	10,038	15,49	11,587
2016	10,369	1,244	11,613
2017	10,685	929	11,614
2018-2019	25,128	896	26,024
	\$ 75,415	\$ 8,597	\$ 84,012
	\$ 75,415	\$ 8,597	\$ 84,012

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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
2013	16,693	3,817	20,510
2014	17,201	3,309	20,510
2015	17,724	2,786	20,510
2016	18,263	2,246	20,509
2017	18,818	1,691	20,509
2018-2019	46,131	1,690	47,821
	<u>\$ 134,830</u>	<u>\$ 15,539</u>	<u>\$ 150,369</u>

Note Payable – Merchants and Southern Bank

On March 8, 2012, the city obtained a term loan in the amount of \$55,000 that was for the purpose of replacing pump equipment for the Sewer Department. The loan has an interest rate of 5.00% with 59 principal and interest payments of \$1,039. The loan matures on March 8, 2017. A summary of minimum debt requirements are as follows:

September 30	Principal	Interest	Total
2013	9,347	2,097	11,444
2014	10,698	1,781	12,479
2015	11,253	1,225	12,478
2016	11,838	640	12,478
2017	6,147	92	6,239
	<u>\$ 49,283</u>	<u>\$ 5,835</u>	<u>\$ 55,118</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

The following is a schedule of changes in proprietary fund long-term debt for the year ended September 30, 2012:

	Balance September 30 2011	Additions	Retirements	Balance September 30 2012	Due Within One Year
FDOT note payable	202,469	-	(16,872)	185,596	16,872
NRWA note payable	84,590	-	(9,175)	75,415	9,454
CRA Interlocal	151,030	-	(16,200)	134,830	16,693
Note Payable	-	55,000	(5,717)	49,283	9,347
Water revenue bonds	336,400	-	(10,100)	326,300	10,700
Sewer revenue bonds	2,089,200	-	(41,600)	2,047,600	43,900
	<u>\$2,863,689</u>	<u>\$ 55,000</u>	<u>\$(99,664)</u>	<u>\$2,819,025</u>	<u>\$106,966</u>

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

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
2013	<u>10,925</u>	<u>246</u>	<u>11,171</u>
Total Payments	<u>\$10,925</u>	<u>\$246</u>	<u>\$11,171</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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 a 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 city is making voluntary monthly principal and interest payments to reduce the outstanding balance on the line. At September 30, 2012 the outstanding balance was \$48,551.

The following is a schedule of changes in general long-term debt for the year ended September 30, 2012:

	Balance September 30 2011	Additions	Retirements	Balance September 30 2012	Due Within One Year
Line of Credit	62,151	-	(13,601)	48,551	-
Note Payable	21,611	-	(10,449)	11,171	11,171
	<u>\$ 83,762</u>	<u>\$ -</u>	<u>\$ (45,376)</u>	<u>\$ 83,762</u>	<u>\$ 11,171</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.

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.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 12. INCOME FROM LEASED PROPERTY- Continued

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

Year Ending September 30	
2013	24,677
2014	24,677
2015	24,677
2016	24,677
2017	24,892
All Future years	<u>132,948</u>
	<u><u>\$256,548</u></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, 2012, the City contributed \$17,843 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, 2012

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. 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 and May, 2011 with a revised work-plan and to extend the completion date. Work on this project continues.

NOTE 17. CDBG GRANT- WASTEWATER TREATMENT PLANT

On April 12, 2012, the City was awarded a grant from Florida Small Cities Community Development Block Grant Program (CDBG) in the amount of \$650,000 to upgrade and expand the wastewater treatment plant. The funding will allow much needed upgrades to the sewer plant along with a 50,000 gallon per day increase in capacity. This grant, in conjunction with the remaining FDEP grant funding will cover the estimated cost of the improvements. Work on this project with funding from CDBG is scheduled to begin in 2013.

NOTE 18. SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through May 15, 2013, the date the financial statements were available to be issued.

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, 2012

	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
REVENUES			
Taxes			
Ad valorem taxes	\$ 249,306	\$ 243,172	\$ (6,134)
Railroad Tax	2,500		(2,500)
Sales tax - local option gas tax	128,000	116,966	(11,034)
Sales tax - 1/2 cent tax	69,000	71,678	2,678
Utility service taxes			
Electricity	72,000	82,359	10,359
Telecommunications	-	51,487	51,487
Water	12,000	18,375	6,375
Discretionary tax	38,000	-	(38,000)
Occupational tax	3,000	-	(3,000)
Total taxes	<u>573,806</u>	<u>584,037</u>	<u>10,231</u>
Licenses and permits			
Alcoholic Beverage Licenses	1,000	978	(22)
Permits	1,050	3,365	2,315
Total licenses and permits	<u>2,050</u>	<u>4,343</u>	<u>2,293</u>
Intergovernmental revenue			
State municipal revenue sharing	46,500	46,793	293
Hawthorne Redevelopment	65,457	64,786	(671)
Total intergovernmental revenue	<u>111,957</u>	<u>111,579</u>	<u>(378)</u>
Charges for Services			
Fire Assessments	775	128	(647)
Zoning Fees	3,200	1,350	(1,850)
Traffic signal & lighting	16,028	16,029	1
Recreation fees	7,625	25	(7,600)
Total charges for services	<u>27,628</u>	<u>17,532</u>	<u>(10,096)</u>
Fines and forfeitures			
Fine revenue/sheriff	10,000	14,154	4,154
Code enforcement fines	5,000	3,900	(1,100)
Total fines and forfeitures	<u>15,000</u>	<u>18,054</u>	<u>3,054</u>
Miscellaneous			
Sale of surplus property	-	-	-
Sale of timber	-	82,827	82,827
Grant Revenue	-	-	-
Other miscellaneous	6,840	630,636	623,796
Total miscellaneous	<u>6,840</u>	<u>713,463</u>	<u>706,623</u>
Total Revenues	<u><u>737,281</u></u>	<u><u>1,449,008</u></u>	<u><u>711,727</u></u>

CITY OF HAWTHORNE, FLORIDA

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

For the Fiscal Year Ended September 30, 2012

EXPENDITURES

General government

Personnel services	322,259	294,323	27,936
Operating expenses	285,087	358,617	(73,530)
Debt Service	51,651	2,628	49,023
Total General Government	<u>658,997</u>	<u>655,568</u>	<u>3,429</u>

OTHER FINANCING SOURCES (USES)

Interfund transfers in	(30,000)	30,000	-
Interfund transfers out	30,000	(30,000)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>

Net change in fund balances	78,284	793,440	708,298
-----------------------------	--------	---------	---------

Reconciling Items

Adjustment for capital assets		(499,551)	
Long term liabilities		(12,995)	
CRA Match transfer		(41,102)	
Depreciation Expense		(82,401)	(82,401)
Total Reconciling Items		<u>(636,049)</u>	

Fund balance at beginning of year	693,189	693,189	-
Fund balance at end of year	<u>\$ 771,473</u>	<u>\$ 850,580</u>	<u>\$ 79,107</u>

CITY OF HAWTHORNE, FLORIDA

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

For the Fiscal Year Ended September 30, 2012

	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
REVENUES			
Water Fund			
Sales of water	\$ 202,000	\$ 280,228	\$ 78,228
Penalties	10,000	-	(10,000)
Disconnect / reconnect fees	2,800	350	(2,450)
Impact fees	3,200	-	(3,200)
Grant Revenue	-	-	-
Miscellaneous revenue	2,800	-	(2,800)
Interest income	-	765	765
Total water revenues	<u>220,800</u>	<u>281,343</u>	<u>60,543</u>
Sewer Fund			
Sales of sewer services	330,000	311,294	(18,706)
Septage	14,500	24,075	9,575
Penalties	-	-	-
Line installations	1,500	750	(750)
Grant Revenue	844,000	3,000	(841,000)
Miscellaneous revenue	3,700	-	(3,700)
Interest income	750	-	(750)
Land lease rents	22,885	20,369	(2,516)
Total sewer revenues	<u>1,217,335</u>	<u>359,488</u>	<u>(857,847)</u>
Sanitation Fund			
Sanitation income	220,000	167,186	(52,814)
Miscellaneous revenue	-	-	-
Total sanitation revenues	<u>220,000</u>	<u>167,186</u>	<u>(52,814)</u>
Cemetery Fund			
Interest income	-	958	958
Miscellaneous revenue	-	3,695	3,695
Total cemetery revenues	<u>-</u>	<u>4,653</u>	<u>4,653</u>
Total proprietary revenues	<u>1,658,135</u>	<u>812,670</u>	<u>(845,465)</u>
EXPENDITURES			
Water Fund			
Personnel services	29,637	28,140	1,497
Operating expenses	96,550	112,322	(15,772)
Loan Interest	51,220	51,325	(105)
Total water expenditures	<u>177,407</u>	<u>191,787</u>	<u>(14,380)</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, 2012

	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
Sewer Fund			
Personnel services	82,883	75,108	7,775
Operating expenses	163,892	490,645	(326,753)
Loan Interest	73,925	75,662	(1,737)
Capital outlay	844,000	3,365	840,635
Total sewer expenditures	<u>1,164,700</u>	<u>644,780</u>	<u>519,920</u>
Sanitation Fund			
Personnel services	10,089	9,524	565
Operating expenses	205,844	187,760	18,084
Total sanitation expenditures	<u>215,933</u>	<u>197,284</u>	<u>18,084</u>
Cemetery Fund			
Operating expenses	-	6,486	(6,486)
Total cemetery expenditures	<u>-</u>	<u>6,486</u>	<u>(6,486)</u>
 Total expenditures	 <u>1,558,040</u>	 <u>1,040,337</u>	 <u>517,138</u>
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	-	-	-
Interfund transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
 Net change in fund balances	 100,095	 (227,667)	 (327,762)
 Fund balance at beginning of year	 <u>1,617,651</u>	 <u>1,617,651</u>	 <u>-</u>
Fund balance at end of year	<u>\$ 1,717,746</u>	<u>\$ 1,389,984</u>	<u>\$ (327,762)</u>

COMPLIANCE SECTION

CITY OF HAWTHORNE, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
For the Fiscal year Ended September 30, 2012

GRANTOR PROGRAM TITLE	CFDA # CSFA #	Contract Number	Award Amount	Received in Prior Years	Fund Balance 10/1/2011	2012		Fund Balance 9/30/2012
						Revenue Received or Receivable	Expenditures	
Federal Awards								
US Department of Housing and Urban Development Passed through the Florida Department of Economic Opportunity Community Development Block Grant	14.228	12DB-0H-03 11-02-N22	650,000	-	-	-	-	650,000
Total Federal Awards			<u>\$ 650,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>650,000</u>
State Financial Assistance								
State of Florida Department of Environmental Protection Statewide Surface Water Restoration and Waste Water Projects Grant	37.039	LP6724	500,000	322,350	177,650	3,000	3,000	\$ 174,650
Total State financial assistance			<u>500,000</u>	<u>322,350</u>	<u>177,650</u>	<u>3,000</u>	<u>3,000</u>	<u>174,650</u>
Total federal awards and state financial assistance			<u><u>\$ 1,150,000</u></u>	<u><u>\$ 322,350</u></u>	<u><u>\$ 177,650</u></u>	<u><u>\$ 3,000</u></u>	<u><u>\$ 3,000</u></u>	<u><u>\$ 824,650</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, 2012, which collectively comprise the City of Hawthorne, Florida's basic financial statements and have issued our report thereon dated May 15, 2013. 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.

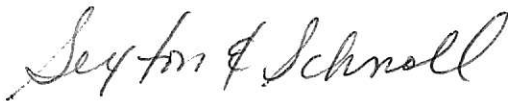
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not be designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material 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 misstatement, 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 Commission, 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.



Sexton & Schnoll
Certified Public Accountants
May 15, 2013

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, 2012 and have issued our report thereon dated May 15, 2013, 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 May 15, 2013. 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:

1. Several instances of improper cutoff procedures were noted this year with reference to accounts payable. While immaterial in amount, accounting staff should record payables in the proper monthly period so that City expenses are not overstated.
2. Bank reconciliation should be performed in a timely manner and Management should review and authorize the research of stale dated items. These outstanding and uncleared items can under- or overstate the amount of cash recorded in the general ledger. Items should be voided, and/or reissued according to the relevant state laws.

1st Prior Year Finding:

6. Although the City has begun to diversify its cash among different banks, as of September 30, 2012, the balances exceeded the FDIC insurance limit of \$250,000 by over \$368,000. We recommend that the City request that its depository consider collateralization of its deposit such that there is adequate insurance of the City's cash resources.

2nd Prior Year Findings:

1. The City's Enterprise Funds do not generate revenue in excess of operating funds and its other 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. Although significantly improved from the previous year, the City did not meet the Bond reserve requirements as of September 30, 2012. 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, 2012, the reserve requirement was \$213,004 and restricted cash was 212,413, a deficit of \$591.

4. While the City did not have sufficient cash restricted for future uses as required by the County's Wild Spaces, Public Places initiative, it has begun the systematic transfers of cash to a segregated account. At September 30, 2012, the cash account restricted to Wild Spaces, Public Places had a balance of \$39,601 and the City continues to make deposits monthly. Restricted net assets for this initiative are \$129,511.

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. Therefore, we recommend that the City continue to retain consultation with a qualified accounting firm.

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, 2012. This report was filed in June, 2013.

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 reported no conditions described in Section 218.503(1)(e), *Florida Statutes*, that 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 did not 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 no conditions which comprise a "deteriorating financial conditions" as defined by Section 218.503, *Florida Statutes*.

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, 2012, 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 loan agreements had not occurred.
- As of September 30, 2012, 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, City Manager and staff for the assistance and courtesy afforded us.



Sexton & Schnoll
Certified Public Accountants
May 15, 2013

Management Response to Findings

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, 2012 and have issued our report thereon dated May 15, 2013, 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 May 15, 2013. 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:

1. Several instances of improper cutoff procedures were noted this year with reference to accounts payable. While immaterial in amount, accounting staff should record payables in the proper monthly period so that City expenses are not overstated.

Response: Management has reviewed the accounts payable and will set up accrual procedures to insure that the payables are recorded in the proper monthly fiscal year period.

2. Bank reconciliation should be performed in a timely manner and Management should review and authorize the research of stale dated items. These outstanding and uncleared items can under- or overstate the amount of cash recorded in the general ledger. Items should be voided, and/or reissued according to the relevant state laws.

Response: As of October 1, 2012 bank statements are being reviewed and balanced by professional accounting firm within 15 days of receipt. Management reviews the statements monthly. Outstanding items are voided and/or reissued according to the relevant state laws.

1st Prior Year Finding:

6. Although the City has begun to diversify its cash among different banks, as of September 30, 2012, the balances exceeded the FDIC insurance limit of \$250,000 by over \$368,000. We recommend that the City request that its depository consider collateralization of its deposit such that there is adequate insurance of the City's cash resources.

Response: The management is working with the banking facility to collateralize its deposits to provide adequate insurance for the City's cash resources.

2nd Prior Year Findings:

1. The City's Enterprise Funds do not generate revenue in excess of operating funds and its other 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.

Response: New water rates went into effect in January of 2012. In the water rate ordinance an annual review of the rates by staff is required. The water rates should be adjusted annually by the CPI or similar guidance document to insure that rates cover the required 100% of operation and maintenance of the systems in addition to the reserve required.

2. Although significantly improved from the previous year, the City did not meet the Bond reserve requirements as of September 30, 2012. 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, 2012, the reserve requirement was \$213,004 and restricted cash was 212,413, a deficit of \$591.

Response: The City has been making monthly deposits into the reserve accounts. The deposits will continue until such a time the requirements are met.

4. While the City did not have sufficient cash restricted for future uses as required by the County's Wild Spaces, Public Places initiative, it has begun the systematic transfers of cash to a segregated account. At September 30, 2012, the cash account restricted to Wild Spaces, Public Places had a balance of \$39,601 and the City continues to make deposits monthly. Restricted net assets for this initiative are \$129,511.

Response: The City has been making monthly transfers of cash to a segregated account. The transfers will continue until the required totals are in the restricted accounts.

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. Therefore, we recommend that the City continue to retain consultation with a qualified accounting firm.

Response: 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.

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