

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2013

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2013

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INTRODUCTORY SECTION

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

September 30, 2013

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

Current Officials as of May 15, 2014

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, 2013, and 2012 which collectively comprise the City's basic financial statements as listed in the table of contents.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013 and 2012 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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. 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 basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2014, on our consideration of the City of Hawthorne, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hawthorne, Florida's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Sexton & Schnoll".

SEXTON & SCHNOLL
Certified Public Accountants
May 15, 2014

MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2013

The management of the City of Hawthorne, Florida (City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013. This discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activities and identify changes in the City's financial position. It is intended to be an easily readable analysis of the City's 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.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal year 2013 by \$9,332,490.
- 7% of the City's net assets represent resources that are dedicated or subject to restriction on how they may be used. The balance of unrestricted net assets is \$347,675. These unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$549,868 or 6% over the year, which was primarily the result of the strict adherence to the budget and the increase in capital assets.
- 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.
- Revenues from Governmental Activities decreased \$619,403 from the previous year. General revenues from taxes were relatively flat. The decrease is a result of grant funding in the previous year for the acquisition of Little Orange Creek Nature Preserve.
- Business-type activities (the City's enterprise funds) operating revenues increased by \$2,404. Charges for services increased slightly. The increase in total income is the result of current year grant funding for the Sewer System re-rating project.
- The City's total debt, including bonds decreased by \$96,341 or 3.3% in the current fiscal year. No new debt was incurred.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2013

City Highlights

- As of September 30, 2013 the unemployment rate for Alachua County was 5.4%. The 2012 rate was 6.5% and reflects the current economic conditions of the country. According to the U.S. Department of Labor, Bureau of Labor Statistics, the State of Florida's unemployment rate was 6.8%. The National Unemployment rate was 7.2%.
- The official population of the City according to the 2010 Census was 1,142 and is estimated to be approximately the same in 2013.
- The ad valorem tax millage rate for the City was 5.3194 mills in 2013.
- The City was successful in obtaining grants from the State of Florida and the Federal Government for improvements to the City's wastewater treatment plant, which was expanded to 50,000 gallons per day of capacity. In addition, the plant has had several repairs and other modification to its infrastructure. Total cost of this project was \$1.1 million and was completed in February, 2013.
- Little Orange Creek Nature Park has opened to the Public through special use permits. Master plan engineering has been completed and improvements will continue.
- Lindsey Phillips Park upgrades are also continuing. These include boat ramp improvements, and ADA accessibility improvements.
- Plum Creek and Envision Alachua have conducted community workshops for economic development and conservation. Through this process, a broad cross section of the community representing environmental, education, and business interest discuss in the Sector plan holding at least 15,000 conservation acres. Work continues on this process.
- The City is in the process of working with Alachua County Board of County Commissioners to bring fire and rescue services back to the City of Hawthorne, upgrading the city's existing fire station.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. They are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

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.

Government-Wide Financial Statements

- The Government-Wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business, in that all governmental and business-type activities are consolidated into columns which add up to a total for the primary government.
- 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.
- Government-wide financial statements can be found on pages 19 to 22.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2013

Fund Financial Statements

Fund financial statements focus separately on governmental and proprietary funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: Governmental and Proprietary funds.

Governmental Funds

Governmental fund statements follow the more traditional presentation of financial statements. The City has three governmental funds, the General Fund, Community Redevelopment and Capital Assets which are combined into a single aggregated presentation. Unlike the government-wide financial statements, governmental fund financial statements focus on *near-term* inflows and outflows of spendable resources as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's *near-term* financing requirements.

Governmental fund financial statements can be found on pages 23 through 25.

Proprietary Funds

The City's proprietary funds, or enterprise funds, are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sanitation, Cemetery and Sewer operations.

Proprietary fund financial statements can be found on pages 26 through 29 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 through 50 of this report.

In addition to the basic and fund financial statements and notes, this report also presents certain required supplementary information concerning the City's budget compliance.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2013

Statement of Net Assets

The following table reflects a condensed Statement of Net Assets:

	Governmental Activities	Business-type Activities	Total Government	
			2013	2012
Cash and cash equivalents	\$ 493,193	\$ 417,653	\$ 910,846	\$ 747,105
Other assets	1,011,523	971,877	1,983,400	946,548
Capital Assets	6,472,417	4,608,296	11,080,713	10,810,064
Total Assets	7,977,133	5,997,826	13,974,959	12,494,717
Current liabilities	530,088	959,473	1,489,561	999,883
Long term liabilities	-	3,025,516	3,025,516	2,712,213
Total Liabilities	530,088	4,112,381	4,642,469	3,712,096
Net assets:				
Invested in capital assets,				
Net of related debt	6,472,417	1,896,236	8,368,653	8,089,048
Restricted	382,963	232,932	615,895	694,106
Unrestricted	591,665	(243,723)	347,942	(529)
Total net assets	\$ 7,447,045	\$ 1,885,445	\$ 9,332,490	\$ 8,782,625

The largest portion of the City's net assets reflects its investment in capital assets (\$8,368,653) such as land, buildings and equipment. 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 liabilities.

The City uses these capital assets to provide services to the citizens: consequently, these assets are not available for future spending. An additional \$615,895 represents resources that are subject to external restrictions on how they may be used.

Total net assets balance increased by \$549,000 or 6.2% over the previous year, which is primarily the result of the sewer plant expansion and renovation.

Statement of Activities

The following schedule presents the revenues and expenses for the current and prior years:

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2013

Change in Net Assets
For the Fiscal Years Ended September 30, 2013 and 2012

	Governmental Activities	Business-type Activities	Total Government	
			2013	2012
Revenues:				
Program revenues				
Charges for services	\$ 20,667	\$ 788,307	\$ 808,974	\$ 851,601
Grants and contributions	-	801,378	801,378	479,100
General revenues				
Taxes	580,994	-	581,677	584,057
Tax increment	61,124	-	61,124	64,786
State shared revenues	48,088	-	48,088	47,772
Interest	4,963	2,004	6,967	6,033
Miscellaneous	113,731	19,502	132,587	228,330
Total revenues	<u>829,604</u>	<u>1,611,191</u>	<u>2,440,795</u>	<u>2,261,679</u>
Expenses:				
General government	426,023	-	426,023	423,038
Public safety	3,239	-	3,239	901
Transportation	170,508	-	170,508	150,159
Economic environment	54,872	-	54,872	130,088
Culture & recreation	120,560	-	120,560	105,436
Interest on long-term debt	-	124,151	124,151	129,615
Cemetery	-	6,721	6,721	6,486
Water	-	161,974	161,974	140,463
Garbage services	-	187,421	187,421	197,284
Sewer	-	635,463	635,463	569,117
Total expenses	<u>775,201</u>	<u>1,115,730</u>	<u>1,890,931</u>	<u>1,852,587</u>
Changes in net assets	54,403	495,461	549,864	409,092
Beginning net assets	<u>7,392,642</u>	<u>1,389,984</u>	<u>8,782,626</u>	<u>8,373,533</u>
Ending net assets	<u>\$ 7,447,045</u>	<u>\$ 1,885,445</u>	<u>\$ 9,332,490</u>	<u>\$ 8,782,625</u>

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2013

Current Year Impacts on Revenue and Expense

Revenues - The City's tax revenue was \$581,677, representing a decrease of .41% from 2012. Sales Tax revenue and State Revenue Sharing declined \$3,300 or 5%. Enterprise Funds services revenue were stable. Total City revenues increased \$179,116 or 7.92% compared to 2012.

Expenses - Governmental activities expenses decreased \$52,579 (6%), while enterprise fund activity expenses increased by \$75,393 or 7%.

Capital Assets

Capital Assets at September 30, 2013 and 2012

	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Land	\$ 4,645,050	\$ 4,645,050	\$ 114,300	\$ 114,300	\$ 4,759,349	\$ 4,759,349
Buildings	1,136,579	1,136,579	4,998,573	5,112,873	7,256,900	6,402,761
Improvements	1,841,357	1,841,357	5,586,597	4,283,810	6,306,207	6,125,167
Construction in progress		-	-	269,700	-	269,700
Equipment	207,393	197,881	52,598	52,598	259,992	250,478
Subtotal	7,830,379	7,820,867	10,752,068	9,986,590	18,582,448	17,807,457
Accumulated depreciation	(1,357,962)	(1,268,438)	(6,143,771)	(5,737,955)	(7,501,734)	(7,006,393)
Capital assets, net	<u>\$ 6,472,417</u>	<u>\$ 6,552,429</u>	<u>\$ 4,608,296</u>	<u>\$ 4,248,635</u>	<u>\$ 11,080,714</u>	<u>\$ 10,801,062</u>

The City's net investment in capital assets for the governmental activities increased by \$279,652 or 3% from the prior year. The City's largest addition was from the Sewer improvement to increase the system's capacity. Other additions include renovation to the Sewer department's storage area and some small equipment for the Roads and Streets department. Depreciation expense increased by \$495,341 or 7% from the prior year's amount.

Long-term Debt

At the end of the fiscal year, the City had total long-term debt outstanding in bonds and notes payable of \$2,784,227, which is a decrease of \$96,341 from the previous year, due to principal payments.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2013

Debt Outstanding at September 30, 2013 and 2012

	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Line of credit	\$ 36,084	\$ 48,551		\$ -	\$ 36,084	\$ 48,551
USDA bonds	-	-	2,319,300	2,373,900	2,319,300	2,373,900
Loans Payable		12,996	428,843	445,123	428,843	458,119
Total bonds and notes	<u>\$ 36,084</u>	<u>\$ 61,547</u>	<u>\$ 2,748,143</u>	<u>\$ 2,819,023</u>	<u>\$ 2,784,227</u>	<u>\$ 2,880,570</u>

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

Budgetary Highlights

The City's FY budget for 2013 was adopted on September 24, 2012 and amended on November 19, 2013. Under Florida Statute 166.241(4), the governing body of a municipality may amend a budget within 60 days following the end of the fiscal year. Accordingly, the Commission approved an amendment to the budget to include Grant Funding from the State of Florida for the Wastewater Treatment Plant improvements. There were no other changes to the FY 2013 budget. A comparison to actual results can be reviewed in supplementary information beginning on page 51.

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 any 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, 2013

	Governmental Activities	Business-type Activities	2013 TOTAL	2012 TOTAL
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 110,230	\$ 184,721	\$ 294,951	306,311
Accounts receivable, net	126,302	61,281	187,583	212,490
Due from other funds	-	906,775	906,775	164,880
Due from other governmental units	32,154	-	32,154	32,366
Total Current Assets	<u>268,686</u>	<u>1,152,777</u>	<u>1,421,463</u>	<u>716,047</u>
Restricted assets:				
Cash	382,963	232,932	615,895	440,794
Total Restricted Assets	<u>382,963</u>	<u>232,932</u>	<u>615,895</u>	<u>440,794</u>
Non-current assets:				
Due from other funds	853,067	-	853,067	517,968
Bond costs, net	-	3,821	3,821	4,230
Prepaid Expenses	-	-	-	14,614
Capital assets, net	6,472,417	4,608,296	11,080,713	10,801,064
Total non-current assets	<u>7,325,484</u>	<u>4,612,117</u>	<u>11,937,601</u>	<u>11,337,876</u>
Total assets	<u>7,977,133</u>	<u>5,997,826</u>	<u>13,974,959</u>	<u>12,494,717</u>
LIABILITIES				
Current liabilities (payable from current assets):				
Accounts payable	15,535	23,827	39,362	55,645
Due to other funds	456,309	878,040	1,334,349	228,806
Deferred Revenue	-	1,281	1,281	-
Line of credit	36,084	-	36,084	48,551
Loans payable-current portion	-	54,537	54,537	65,206
Accrued wages	22,160	1,788	23,948	23,950
Total current liabilities (payable from current assets)	<u>530,088</u>	<u>959,473</u>	<u>1,489,561</u>	<u>422,158</u>
Current liabilities (payable from restricted assets):				
Accrued interest payable	-	9,431	9,431	9,432
Deposits	-	60,461	60,461	59,651
Bonds payable-current portion	-	57,500	57,500	54,600
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>127,392</u>	<u>127,392</u>	<u>123,683</u>

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF NET ASSETS
September 30, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>2013 TOTAL</u>	<u>2012 TOTAL</u>
Non-current liabilities:		-	-	
Loans payable	-	338,223	338,223	392,913
Due to other funds	-	425,493	425,493	454,042
Bonds payable	-	2,261,800	2,261,800	2,319,300
Total long-term liabilities	<u>-</u>	<u>3,025,516</u>	<u>3,025,516</u>	<u>3,166,255</u>
Total liabilities	<u>530,088</u>	<u>4,112,381</u>	<u>4,642,469</u>	<u>3,712,096</u>
NET ASSETS				
Invested in capital assets, net of related debt	6,472,417	1,896,236	8,368,653	8,089,044
Restricted net assets	382,963	232,932	615,895	694,106
Unrestricted net assets	591,665	(243,723)	347,942	(529)
Total net assets	<u>\$ 7,447,045</u>	<u>\$ 1,885,445</u>	<u>\$ 9,332,490</u>	<u>\$ 8,782,621</u>

CITY OF HAWTHORNE, FLORIDA
STATEMENT OF ACTIVITIES
For the Years Ended September 30, 2013 and 2012

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	2012
Governmental Activities								
General government	\$ 424,244	\$ 232			(424,012)	\$ -	\$ (424,012)	(421,560)
Public safety	3,239	3,719	-	-	480	-	480	17,153
Transportation	170,508	16,691	-	-	(153,817)	-	(153,817)	(134,131)
Economic environment	54,872	-		-	(54,872)	-	(54,872)	(100,088)
Culture & recreation	120,560	25			(120,535)	-	(120,535)	370,802
Interest on long-term debt	1,778	-	-	-	(1,778)	-	(1,778)	(2,628)
Total governmental activities	<u>775,201</u>	<u>20,667</u>	<u>-</u>	<u>-</u>	<u>(754,534)</u>	<u>-</u>	<u>(754,534)</u>	<u>(270,452)</u>
Business Activities								
Cemetery	6,721	2,570	-	-	-	(4,151)	(4,151)	(4,466)
Water utility	161,974	243,005	-		-	81,031	81,031	140,115
Garbage services	187,421	182,671	-	-	-	(4,750)	(4,750)	(30,098)
Sewer utility	635,463	360,061	-	801,378	-	525,976	525,976	(229,998)
Interest on long-term debt	124,151	-	-	-	-	(124,151)	(124,151)	(126,987)
Total business activities	<u>1,115,730</u>	<u>788,307</u>	<u>-</u>	<u>801,378</u>	<u>-</u>	<u>473,955</u>	<u>473,955</u>	<u>(251,434)</u>
Total Government	<u>\$ 1,890,931</u>	<u>\$ 808,974</u>	<u>\$ -</u>	<u>\$ 801,378</u>	<u>\$ (754,534)</u>	<u>\$ 473,955</u>	<u>\$ (280,579)</u>	<u>\$ (521,886)</u>

CONTINUED

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES (Continued)
For the Years Ended September 30, 2013 and 2012

	<u>Governmental</u>	<u>Business</u>	<u>Total</u>	<u>2012</u>
General Revenues				
Property taxes	233,023	-	233,023	243,172
Sales and use taxes	192,581	-	192,581	188,644
Franchise fees	-	-	-	20
Utility services tax	105,772	-	105,772	100,733
Communications surtax	45,648	-	45,648	51,488
Licenses and permits	4,653	-	4,653	3,266
State shared revenues	48,088	-	48,088	47,772
Tax increment	61,124	-	61,124	64,786
Interest	4,963	2,004	6,967	6,033
Miscellaneous	113,085	19,502	132,587	225,065
Total general revenue	<u>808,937</u>	<u>21,506</u>	<u>830,443</u>	<u>930,979</u>
Change in net assets	54,403	495,461	549,864	409,093
Transfers	-	-	-	-
Net assets, beginning of year	7,392,642	1,389,984	8,782,626	8,373,533
				-
Net assets, end of year	<u>\$ 7,447,045</u>	<u>\$ 1,885,445</u>	<u>\$ 9,332,490</u>	<u>\$ 8,782,626</u>

CITY OF HAWTHORNE, FLORIDA

**GOVERNMENTAL FUND
BALANCE SHEET
September 30, 2013 and 2012**

	2013	2012
ASSETS		
Cash	\$ 493,193	\$ 391,613
Accounts receivable	8,165	4,725
Due from other funds	853,067	517,968
Note receivable	118,137	134,830
Due from other governmental units	32,154	32,366
Prepaid expenses	-	14,614
Total assets	<u>1,504,716</u>	<u>1,096,116</u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable and accrued liabilities	15,534	24,608
Due to other funds	456,309	147,587
Notes Payable	36,084	48,551
Accrued compensation	22,161	22,162
Total Liabilities	<u>530,088</u>	<u>242,908</u>
 FUND BALANCES		
Restricted:		
Library	455	455
Downtown development	400,743	351,136
Reserved Wild Spaces Public Spaces	142,138	129,511
Interfund receivable	853,067	517,968
Unrestricted:	<u>(421,775)</u>	<u>(145,862)</u>
Total fund balances	<u>974,628</u>	<u>853,208</u>
 Total Liabilities and Fund Balance	<u>\$ 1,504,716</u>	<u>\$ 1,096,116</u>

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

Fund balance-Governmental Funds	\$ 974,628	\$ 853,208
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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 governmental funds.	6,472,417	6,552,427
Long-term liabilities are not due in the current period and therefore are not reported in the funds	-	(12,994)

Net assets of governmental activities	<u>\$ 7,447,045</u>	<u>\$ 7,392,641</u>
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CITY OF HAWTHORNE, FLORIDA

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

For the Fiscal Year Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
REVENUE		
Taxes	\$ 580,994	\$ 587,302
Intergovernmental revenue	109,212	112,557
Charges for services	20,667	35,686
Other revenue	<u>118,731</u>	<u>713,463</u>
Total Revenue	<u>829,604</u>	<u>1,449,008</u>
EXPENDITURES		
Current Expenditures		
General government	418,302	425,666
Public safety	3,239	901
Transportation	141,315	150,159
Economic environment	54,872	130,088
Culture/recreation	80,943	105,436
Capital outlay/disposals	<u>9,513</u>	<u>476,739</u>
Total expenditures	<u>708,184</u>	<u>1,288,989</u>
Excess of revenues over expenditures	<u>121,420</u>	<u>160,019</u>
Net changes in fund balances	121,420	160,019
Fund balances, beginning of year	<u>853,208</u>	<u>693,189</u>
Fund balances, end of year	<u><u>\$ 974,628</u></u>	<u><u>\$ 853,208</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, 2013

	2013	2012
Net change in fund balances - total governmental funds	\$ 121,420	\$ 160,019
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	9,513	
Less current year depreciation	<u>(89,524)</u>	
	(80,011)	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.		
Principal payments on long-term debt	25,462	41,543
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		-
Compensated Absences	<u>(12,468)</u>	<u>0</u>
Change in net assets of governmental activities	<u>\$ 54,403</u>	<u>\$ 4,648,015</u>

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2013**

	Business-Type Activities - Enterprise Funds					
ASSETS	Cemetery	Water	Solid Waste	Sewer	Totals	2012
Current assets						
Cash	\$ 45,021	\$ 139,699	\$ -	\$ -	\$ 184,720	\$ 131,758
Accounts receivable (net of allowance for uncollectible)	-	18,747	15,739	26,795	61,281	72,874
Due from other funds	-	836,158	70,617	-	906,775	164,880
Restricted assets						
Cash	-	204,710	-	\$ 28,222	232,932	223,795
Fixed assets						
Land	-	-	-	114,300	114,300	114,300
Buildings	-	1,554,798	-	3,443,775	4,998,573	4,802,187
Improvements other than buildings	-	253,085	-	5,333,512	5,586,597	4,747,806
Equipment	-	7,992	-	44,606	52,598	52,598
Construction in progress	-	-	-	-	-	269,700
Allowance for depreciation	-	(957,520)	-	(5,186,251)	(6,143,771)	(5,737,954)
Other assets						
Bond costs	-	-	-	12,295	12,295	12,295
Accumulated amortization-bond costs	-	-	-	(8,474)	(8,474)	(8,065)
Total assets	<u>45,021</u>	<u>2,057,669</u>	<u>86,356</u>	<u>3,808,780</u>	<u>5,997,826</u>	<u>4,846,174</u>
LIABILITIES AND NET ASSETS						
Current liabilities						
Due to other funds	-	850,084	27,956	425,493	1,303,533	535,261
Accounts Payable	1,300	21,534	7	986	23,827	31,036
Current liabilities payable from	-	-	-	-	-	-
Restricted funds						
Accrued interest payable	-	1,570	-	7,861	9,431	9,432
Deposits	-	60,461	-	-	60,461	59,650
Loan payable M&S Bank-current	-	-	-	10,698	10,698	9,341
Loan payable FDOT-current	-	16,872	-	-	16,872	16,872
Loan payable CRA-current	-	17,201	-	-	17,201	16,693
Loan payable NRWA-current	-	9,766	-	-	9,766	9,501
Serial bonds payable-current	-	11,300	-	-	11,300	27,700
Bonds payable FMHA-current	-	-	-	46,200	46,200	26,900
Deferred Revenue	-	-	-	1,281	1,281	-
Accrued wages and compensation	-	333	1,328	128	1,789	1,788
Long-term liabilities						
Loan payable M&S Bank	-	-	-	29,239	29,239	39,941
Loan payable FDOT	-	151,851	-	-	151,851	168,723
Loan payable CRA	-	100,937	-	-	100,937	118,137
Loan payable NRWA	-	56,195	-	-	56,195	65,915
Serial bonds payable	-	304,300	-	-	304,300	1,386,600
Bonds payable FMHA	-	-	-	1,957,500	1,957,500	932,700
Total Liabilities	<u>1,300</u>	<u>1,602,404</u>	<u>29,291</u>	<u>2,479,386</u>	<u>4,112,381</u>	<u>3,456,190</u>
NET ASSETS						
Invested in capital assets, net of related debt	-	189,933	-	1,706,305	1,896,238	1,536,620
Restricted	-	204,710	-	28,222	232,932	213,004
Unrestricted	<u>43,721</u>	<u>60,622</u>	<u>57,065</u>	<u>(405,133)</u>	<u>(243,725)</u>	<u>(359,640)</u>
Total net assets	<u>43,721</u>	<u>455,265</u>	<u>57,065</u>	<u>1,329,394</u>	<u>1,885,445</u>	<u>1,389,984</u>
Total liabilities and net assets	<u>\$ 45,021</u>	<u>\$ 2,057,669</u>	<u>\$ 86,356</u>	<u>\$ 3,808,780</u>	<u>\$ 5,997,826</u>	<u>\$ 4,846,174</u>

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Fiscal year Ended September 30, 2013**

	Business-Type Activities - Enterprise Funds					
	<u>Cemetery</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Sewer</u>	<u>Totals</u>	<u>2012</u>
OPERATING REVENUES						
Utility revenue						
Sales	\$ 2,570	\$ 243,005	\$ 182,671	\$ 360,061	\$ 788,307	\$ 784,803
Reconnection fees	-	-	-	-	-	1,100
Late fees	-	-	-	-	-	-
Total utility revenue	<u>2,570</u>	<u>243,005</u>	<u>182,671</u>	<u>360,061</u>	<u>788,307</u>	<u>785,903</u>
Other revenue	-	-	-	761	\$ 761	1,675
Total operating revenues	<u>2,570</u>	<u>243,005</u>	<u>182,671</u>	<u>360,822</u>	<u>789,068</u>	<u>787,578</u>
OPERATING EXPENSES						
Personnel						
Regular salaries	-	20,194	3,397	55,331	78,922	77,342
Payroll tax	-	1,419	226	4,015	5,660	5,799
Retirement	-	1,054	211	3,163	4,428	4,262
Life and health insurance	-	5,339	1,642	15,514	22,495	21,497
Worker's compensation	-	1,198	-	1,716	2,914	3,871
Total Personnel Services	<u>-</u>	<u>29,204</u>	<u>5,476</u>	<u>79,739</u>	<u>114,419</u>	<u>112,771</u>
Depreciation and amortization	-	46,062	-	360,164	406,226	378,972
Accounting and auditing	-	2,105	-	-	2,105	3,183
Contractual services	-	29,051	179,846	46,887	255,784	275,713
Communication	-	2,495	-	2,414	4,909	3,647
Utility services	191	9,392	-	31,732	41,315	39,190
Insurance	-	8,636	1,486	2,912	13,034	11,383
Repairs and maintenance	6,500	6,960	-	28,905	42,365	20,647
Supplies	30	3,131	613	11,225	14,999	33,579
Publications & subscriptions	-	598	-	445	1,043	1,983
Other current charges and obligations	<u>-</u>	<u>24,340</u>	<u>-</u>	<u>71,040</u>	<u>95,380</u>	<u>32,281</u>
Total operating expenses	<u>6,721</u>	<u>132,770</u>	<u>181,945</u>	<u>555,724</u>	<u>877,160</u>	<u>800,578</u>
Total expenses	<u>6,721</u>	<u>161,974</u>	<u>187,421</u>	<u>635,463</u>	<u>991,579</u>	<u>913,349</u>

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Fiscal year Ended September 30, 2013**

	Business-Type Activities - Enterprise Funds					
	<u>Cemetery</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Sewer</u>	<u>Totals</u>	<u>2012</u>
Operating profit (loss)	<u>(4,151)</u>	<u>81,031</u>	<u>(4,750)</u>	<u>(274,641)</u>	<u>(202,511)</u>	<u>(125,771)</u>
Non-operating revenues						
Federal waste water grant	-	-	-	626,728	626,728	3,000
State waste water grant	-	-	-	174,650	174,650	-
Interest on investments	479	1,525	-	-	2,004	1,724
Gain (loss) on disposal of assets	-	-	-	-	-	-
Rents and royalties	-	-	-	18,741	18,741	20,369
Total non-operating revenues	<u>479</u>	<u>1,525</u>	<u>-</u>	<u>820,119</u>	<u>822,123</u>	<u>25,093</u>
Debt service - interest	-	(49,600)	-	(74,551)	(124,151)	(126,987)
Net non-operating revenue	<u>479</u>	<u>(48,075)</u>	<u>-</u>	<u>745,568</u>	<u>697,972</u>	<u>(101,894)</u>
Change in net assets	(3,672)	32,956	(4,750)	470,927	495,461	(227,665)
Net assets, beginning of year	47,393	422,310	61,815	858,466	1,389,984	1,617,649
Net assets, end of year	<u><u>\$ 43,721</u></u>	<u><u>\$ 455,266</u></u>	<u><u>\$ 57,065</u></u>	<u><u>\$ 1,329,393</u></u>	<u><u>\$ 1,885,445</u></u>	<u><u>\$ 1,389,984</u></u>

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal year Ended September 30, 2013**

	Cemetery	Business-Type Activities - Enterprise Funds			Totals	2012
		Water	Solid Waste	Sewer		
Cash flows from operating activities						
Cash received from customers	\$ 2,570	\$ 282,652	\$ 182,671	\$ 299,405	\$ 767,298	\$ 787,541
Cash payments to employees	-	(20,194)	(3,397)	(55,331)	(78,922)	(77,342)
Cash payments for employee benefits	-	(9,009)	(2,080)	(24,408)	(35,497)	(35,429)
Cash paid to vendors	(5,421)	(86,708)	(177,194)	(146,809)	(416,132)	(415,490)
Net cash provided (used) by operating activities	(2,851)	166,741	-	72,857	236,747	259,280
Cash flows from capital and related financing activities						
Interest paid on notes and bonds payable	-	(49,600)	-	(74,551)	(124,151)	(126,987)
Capital grants	-	-	-	801,378	801,378	3,000
Principal paid on notes payable	-	(43,193)	-	(9,346)	(52,539)	(47,966)
Principal paid on bonds payable	-	(10,700)	-	(43,900)	(54,600)	(51,700)
Net cash provided by (used for) capital and related financing activities	-	(103,493)	-	673,581	570,088	(223,653)
Cash flows from non-capital financing activities						
Loan proceeds	-	-	-	-	-	55,000
Rents and royalties	-	-	-	18,737	18,737	20,369
Transfers in	-	-	-	-	-	-
Net cash provided by non-capital financing activities	-	-	-	18,737	18,737	75,369
Cash flows from investing activities						
Net Purchases of fixed assets	-	-	-	(765,476)	(765,476)	(24,668)
Interest Income	480	1,523	-	-	2,003	1,724
Net cash provided (used) for investing activities	480	1,523	-	(765,476)	(763,473)	(22,944)
Net increase (decrease) in cash and cash equivalents	(2,371)	64,771	-	(301)	62,099	88,052
Cash and cash equivalents, beginning of year	47,393	279,638	-	28,522	355,553	267,501
Cash and cash equivalents, end of year	\$ 45,022	\$ 344,409	\$ -	\$ 28,221	\$ 417,652	\$ 355,553
<u>Reconciliation of operating income (loss) to net cash provided by operating activities</u>						
Operating income (loss)	(4,151)	81,031	(4,750)	(274,637)	(202,507)	(125,771)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	-	46,062	-	360,164	406,226	378,972
(Increase) decrease in assets:						
Accounts receivable, net	-	7,889	1,482	2,223	11,594	11,495
Due from other funds	-	(1,001,532)	-	(322,942)	(1,324,474)	22,052
Increase (decrease) in liabilities:						
Accounts payable	1,300	11,857	(15,268)	(4,917)	(7,028)	(24,427)
Due to other funds	-	1,020,624	18,543	311,685	1,350,852	(6,428)
Customer deposits payable	-	810	(7)	-	803	3,387
Accrued interest	-	-	-	-	-	-
Deferred Revenue	-	-	-	1,281	1,281	-
Total adjustments	1,300	85,710	4,750	347,494	439,254	385,051
Net cash provided (used) by operating activities	\$ (2,851)	\$ 166,741	\$ -	\$ 72,857	\$ 236,747	\$ 259,280

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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, 2013

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, 2013

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, 2013

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, 2013

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, 2013, 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, 2013, 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, 2013.

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 "interfund receivables/payables." 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 other 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, 2013

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, 2013

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>2013</u>	<u>2012</u>
Cost of capital assets	\$ 7,830,380	\$ 7,820,866
Accumulated depreciation	<u>(1,357,962)</u>	<u>(1,268,439)</u>
Total Governmental Capital Assets	<u>\$ 6,472,418</u>	<u>\$ 6,552,427</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, 2013, were:

	<u>2013</u>	<u>2012</u>
Hewlett Packard Capital Lease	0	2,070
Interlocal Agreement- Alachua County	<u>0</u>	<u>10,927</u>
Total Notes Payable	<u>\$ 0</u>	<u>\$ 14,274</u>

CITY OF HAWTHORNE, FLORIDA

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

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

September 30, 2013

	Total Governmental	Capital	Long-Term	2013	2012
	Fund	Related Items	Debt Transactions	Statement of	Statement of
				Net Assets	Net Assets
ASSETS					
Cash	\$ 493,193	\$ -	\$ -	\$ 493,193	\$ 391,613
Accounts receivable	8,165	-	-	8,165	4,725
Due from other funds	853,067	-	-	853,067	517,968
Due from other governmental units	32,154	-	-	32,154	32,366
Note receivable	118,137	-	-	118,137	134,830
Prepaid expenses	-	-	-	-	14,614
Capital assets - net	-	6,472,417	-	6,472,417	6,552,427
Total assets	<u>1,504,716</u>	<u>6,472,417</u>	<u>-</u>	<u>7,977,133</u>	<u>7,648,543</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	15,535	-	-	15,535	24,608
Due to other funds	456,309	-	-	456,309	147,587
Due to other governmental units	-	-	-	-	-
Accrued compensated absences	22,160	-	-	22,160	22,162
Line of Credit	36,084	-	-	36,084	48,551
Notes payable- long term	-	-	-	-	12,994
Total Liabilities	<u>530,088</u>	<u>-</u>	<u>-</u>	<u>530,088</u>	<u>255,902</u>
Fund Balance - Net Assets	974,628	6,472,417	-	7,447,045	7,392,641
Total liabilities and fund balance/net assets	<u>\$ 1,504,716</u>	<u>\$ 6,472,417</u>	<u>\$ -</u>	<u>\$ 7,977,133</u>	<u>\$ 7,648,543</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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

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 \$121,420 differs from the "change in net assets" for governmental activities \$54,404 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	\$ 9,513
Depreciation expense	<u>(89,524)</u>
Difference	<u><u>\$80,011</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 during the fiscal year ending September 30, 2013 were \$25,462.

Accrued compensation

The City's employees have accrued wages payable as of September 30, 2013 in the amount of \$22,160. The amount includes vacation and sick leave that has been earned but not yet used by the employees.

CITY OF HAWTHORNE, FLORIDA

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

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

September 30, 2013

	Total Governmental Fund	Capital Related Items	Long-Term Debt Transactions	2013 Statement of Activities	2012 Statement of Activities
REVENUES					
Taxes	\$ 580,994	\$ -	\$ -	\$ 580,994	\$ 587,302
Intergovernmental	109,212	-	-	109,212	112,557
Charges for Services	20,667	-	-	20,667	35,686
Miscellaneous	118,731	-	-	118,731	713,463
Total revenues	<u>829,604</u>	<u>-</u>	<u>-</u>	<u>829,604</u>	<u>1,449,008</u>
EXPENDITURES					
Current Expenditures					
General government	406,766	17,476	-	424,242	355,855
Public safety	-	3,240	-	3,240	1,802
Transportation	141,316	29,192	-	170,508	179,140
Economic environment	54,872	-	-	54,872	130,088
Culture /recreation	80,944	39,616	-	120,560	142,739
Capital Outlay	9,513	(9,513)	-	-	-
Debt Service					
Principal	25,462	-	(25,462)	-	-
Interest	1,778	-	-	1,778	2,628
Total Expenditures	<u>720,651</u>	<u>80,011</u>	<u>(25,462)</u>	<u>775,200</u>	<u>812,252</u>
Excess of revenues over (under) expenditures	108,953	(80,011)	25,462	54,404	636,756
OTHER FINANCING SOURCES (USES)					
Transfers	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	108,953	(80,011)	25,462	54,404	636,756
Fund balance at beginning of year	853,208	6,552,427	(12,994)	7,648,542	6,755,884
Fund balance at end of year	<u>\$ 962,161</u>	<u>\$ 6,472,416</u>	<u>\$ 12,468</u>	<u>\$ 7,447,045</u>	<u>\$ 7,392,640</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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 2012-2013 was adopted by the City Commission on September 24, 2012 and amended November 19, 2013.

NOTE 4. CASH 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, 2013, the carrying amount of the City's bank balance was \$910,846. These balances were covered by federal depository insurance or by collateral held by the City's custodial bank which is pledged to a state trust fund that provides security for amounts held in excess of FDIC insurance coverage in accordance with the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes.

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 2012-2013 fiscal year were levied in October 2012. 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, 2013

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013 and 2012, was as follows:

	<u>2012</u>			<u>2013</u>
	Beginning			Ending
	Balance	Additions	Deletions	Balance
Governmental Capital assets:				
Land	\$ 4,645,050	\$ -	\$ -	\$ 4,645,050
Buildings	1,136,579	-	-	1,136,579
Improvements	1,841,357	-	-	1,841,357
Equipment and vehicles	197,881	9,513	-	207,394
Total capital assets	7,820,867	9,513	-	7,830,380
Less accumulated depreciation	(1,268,438)	(89,524)	-	(1,357,962)
Governmental Activities:				
capital assets, net	<u>\$ 6,552,429</u>	<u>\$ (80,011)</u>	<u>\$ -</u>	<u>\$ 6,472,418</u>
Business-type Activities:				
Land	114,300	-	-	114,300
Buildings	5,266,182	12,900	-	5,279,082
Improvements other than buildings	4,283,810	1,022,278	-	5,306,088
Construction in progress	269,700	-	(269,700)	-
Equipment and vehicles	52,598	-	-	52,598
Total capital assets	9,986,590	1,035,178	(269,700)	10,752,068
Less accumulated depreciation	(5,737,955)	(405,816)	-	(6,143,771)
Business-type activities:				
capital assets, net	<u>\$ 4,248,635</u>	<u>\$ 629,362</u>	<u>\$ (269,700)</u>	<u>\$ 4,608,297</u>

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

Governmental activities:	<u>2012</u>
General government	17,476
Public safety	3,240
Transportation	29,192
Culture / recreation	39,616
Total depreciation expense-governmental activities	<u>\$ 89,524</u>
Business-type activities:	
Water utility	46,062
Sewer utility	359,754
Total depreciation expense-business-type activities	<u>\$ 405,816</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 7. INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of inter-fund receivables and payables at September 30, 2013 and 2012.

Fund	2013	2012	Fund	2013	2012
	Interfund Receivables	Interfund Receivables		Interfund Payables	Interfund Payables
General	\$ 853,067	\$ 517,968	General	\$ 456,309	\$ 147,587
Water	836,158	75,676	Water	850,084	70,511
Solid waste	70,617	71,911	Solid waste	27,956	10,708
Sewer	-0-	17,293	Sewer	425,493	454,042
	<u>\$ 1,759,842</u>	<u>\$ 682,848</u>		<u>\$ 1,759,842</u>	<u>\$ 682,848</u>

The balance of \$425,493 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, 2013 and 2012 consisted of the following:

Fund	2013	2012	Fund	2013	2012
	Transfers in	Transfers in		Transfers out	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, 2013

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
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	14,200	15,639	29,839
2019 - 2023	84,600	64,569	149,169
2024 - 2028	112,600	36,707	149,307
2029 - 2030	54,800	4,876	59,676
	<u>\$ 315,600</u>	<u>\$ 191,810</u>	<u>\$ 507,410</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, 2013

NOTE 9. LONG TERM DEBT - BUSINESS-TYPE ACTIVITIES (Continued)

B. Sewer Revenue Bonds Payable – Continued

September 30	Principal	Interest	Total
2014	28,200	46,635	74,835
2015	29,600	45,225	74,835
2016	31,100	43,745	74,845
2017	32,700	42,190	74,890
2018	34,300	40,555	74,855
2019 - 2023	198,900	175,285	374,185
2024 - 2028	253,800	120,345	374,145
2029 - 2033	324,100	50,195	374,295
	<u>\$ 932,700</u>	<u>\$ 564,175</u>	<u>\$ 1,496,875</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
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	21,000	44,820	65,820
2018 - 2023	120,000	209,025	329,025
2024 - 2028	150,000	179,505	329,505
2029 - 2033	187,000	142,560	329,560
2034 - 2038	231,000	96,750	327,750
2039 - 2043	287,000	39,690	326,690
	<u>\$ 1,071,000</u>	<u>\$ 900,225</u>	<u>\$ 1,971,225</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 9. LONG TERM DEBT - BUSINESS-TYPE ACTIVITIES (Continued)

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
2014	16,872
2015	16,872
2016	16,872
2017	16,872
2018	16,872
2019-2022	84,363
	\$ 168,723
	\$ 168,723

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
2014	9,766	1,663	11,429
2015	10,063	1,365	11,428
2016	10,369	1,058	11,427
2017	10,685	742	11,427
2018	11,009	416	11,425
2019	14,068	346	14,414
	\$ 65,961	\$ 5,590	\$ 71,551
	\$ 65,961	\$ 5,590	\$ 71,551

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 9. LONG TERM DEBT - BUSINESS-TYPE ACTIVITIES (Continued)

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
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	19,391	1,118	20,509
2019	26,741	1,690	28,431
	<u>\$ 118,138</u>	<u>\$ 12,840</u>	<u>\$ 130,978</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
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>\$ 39,936</u>	<u>\$ 3,738</u>	<u>\$ 43,674</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 9. LONG TERM DEBT - BUSINESS-TYPE ACTIVITIES (Continued)

The following is a schedule of changes in proprietary fund long-term debt for the year ended September 30, 2013:

	Balance September 30 2012	Additions	Retirements	Balance September 30 2013	Due Within One Year
FDOT note payable	185,596	-	(16,872)	168,724	16,872
NRWA note payable	75,415	-	(9,454)	65,961	9,766
CRA Interlocal	134,830	-	(16,692)	118,138	17,200
Note Payable	49,283	-	(9,347)	39,936	10,697
Water revenue bonds	326,300	-	(10,700)	315,600	11,300
Sewer revenue bonds	2,047,600	-	(43,900)	2,003,700	46,200
	<u>\$2,819,024</u>	<u>\$ -</u>	<u>\$(106,965)</u>	<u>\$2,712,059</u>	<u>\$112,035</u>

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

NOTE 10. LONG-TERM DEBT - GOVERNMENTAL ACTIVITIES

A. 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 required one payment of \$11,400 and then eight payments of \$11,171 per year, including interest at 2.20% per annum. On December 12, 2012, the City paid the agreement in full.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 10. LONG-TERM DEBT - GOVERNMENTAL ACTIVITIES (Continued)

B. Line of Credit - Merchants and Southern Bank

On September 24, 2008, the City obtained a 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, 2013 the outstanding balance was \$36,084.

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

	Balance September 30 2012	Additions	Retirements	Balance September 30 2013	Due Within One Year
Line of Credit	48,551	-	(12,467)	36,084	-
Note Payable	10,925	-	(10,925)	-	-
	<u>\$ 59,476</u>	<u>\$ -</u>	<u>\$ (23,392)</u>	<u>\$ 36,084</u>	<u>\$ -</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, 2016, with one renewal option for five years. 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, 2013

NOTE 11. INCOME FROM LEASED PROPERTY (Continued)

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

Year Ending September 30	
2014	\$ 24,677
2015	24,677
2016	24,892
2017	26,814
2018	26,814
All Future years	104,027
	<u>\$231,901</u>

NOTE 12. 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, 2013, the City contributed \$22,601 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, 2013

NOTE 13. 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 14. 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 15. 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. The City completed construction by the end of the fiscal year.

NOTE 16. 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 allowed 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 covered the cost of the improvements. Work on this project was completed by the end of the fiscal year.

NOTE 17. SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through May 15, 2014, 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, 2013

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive / (Negative)
REVENUES				
Taxes				
Ad valorem taxes	\$ 241,190	\$ 241,190	\$ 233,024	\$ (8,166)
Sales tax - local option gas tax	121,000	121,000	118,879	(2,121)
Sales tax - 1/2 cent tax	71,845	71,845	73,702	1,857
Utility service taxes				
Electricity	81,917	81,917	84,757	2,840
Telecommunications	46,594	46,594	45,648	(946)
Water	16,578	16,578	21,015	4,437
Occupational tax	3,200	3,200	3,969	769
Total taxes	<u>582,324</u>	<u>582,324</u>	<u>580,994</u>	<u>(1,330)</u>
Licenses and permits				
Alcoholic Beverage Licenses	979	979	979	-
Permits	100	100	775	675
Total licenses and permits	<u>1,079</u>	<u>1,079</u>	<u>1,754</u>	<u>675</u>
Intergovernmental revenue				
State municipal revenue sharing	46,500	46,500	47,109	609
Hawthorne Redevelopment	101,240	101,240	99,517	(1,723)
Total intergovernmental revenue	<u>147,740</u>	<u>147,740</u>	<u>146,626</u>	<u>(1,114)</u>
Charges for Services				
Fire Assessments	150	150	44	(106)
Zoning Fees	1,425	1,425	3,675	2,250
Traffic signal & lighting	16,569	16,569	16,691	122
Recreation fees	2,125	2,125	25	(2,100)
Total charges for services	<u>20,269</u>	<u>20,269</u>	<u>20,435</u>	<u>166</u>
Fines and forfeitures				
Fine revenue/sheriff	10,000	10,000	7,080	(2,920)
Code enforcement fines	5,000	5,000	350	(4,650)
Total fines and forfeitures	<u>15,000</u>	<u>15,000</u>	<u>7,430</u>	<u>(7,570)</u>
Miscellaneous				
Interest	750	5,684	4,963	
Other miscellaneous	2,825	2,825	67,402	64,577
Total miscellaneous	<u>3,575</u>	<u>8,509</u>	<u>72,365</u>	<u>64,577</u>
Total Revenues	<u>769,987</u>	<u>774,921</u>	<u>829,604</u>	<u>55,404</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, 2013

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive / (Negative)
EXPENDITURES				
General government				
Personnel services	310,256	310,256	296,540	13,716
Operating expenses	293,614	293,614	468,623	(175,009)
Grant Expense	-	-	40,280	
*Debt Service	51,651	51,651	1,778	49,873
Total General Government	<u>655,521</u>	<u>655,521</u>	<u>807,221</u>	<u>(111,420)</u>
 OTHER FINANCING SOURCES (USES)				
Interfund transfers in	30,000	30,000	30,000	-
Interfund transfers out	<u>(30,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Net change in fund balances	114,466	119,400	22,383	(97,017)
 Reconciling Items				
Adjustment for capital assets	-	-	9,513	9,513
Long term liabilities	-	-	-	
Depreciation Expense	<u>-</u>	<u>-</u>	<u>89,524</u>	<u>89,524</u>
Total Reconciling Items			<u>99,037</u>	
 Fund balance at beginning of year	<u>771,473</u>	<u>771,473</u>	<u>853,208</u>	
Fund balance at end of year	<u>\$ 885,939</u>	<u>\$ 890,873</u>	<u>\$ 974,628</u>	<u>\$ 83,755</u>

*Debt service in budget includes principal and interest payments.

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, 2013

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive /
REVENUES				
Water Fund				
Charges for Services	212,000	\$ 212,000	\$ 243,005	\$ 31,005
Penalties	10,000	10,000	-	(10,000)
Disconnect /reconnect fees	1,800	1,800	-	(1,800)
Miscellaneous revenue	500	500	1,523	1,023
Total water revenues	<u>224,300</u>	<u>224,300</u>	<u>244,528</u>	<u>20,228</u>
Sewer Fund				
Sales of sewer services	322,727	322,727	316,563	(6,164)
Septage	24,000	24,000	43,500	19,500
Line installations	750	750	761	11
Grant Revenue	2	827,000	801,378	(25,622)
Land Lease Rents	22,885	22,885	18,740	(4,145)
Interest income	750	750	-	(750)
Total sewer revenues	<u>371,114</u>	<u>1,198,112</u>	<u>1,180,942</u>	<u>(17,170)</u>
Sanitation Fund				
Sanitation income	186,000	186,000	182,671	(3,329)
Miscellaneous revenue	-	-	-	-
Total sanitation revenues	<u>186,000</u>	<u>186,000</u>	<u>182,671</u>	<u>(3,329)</u>
Cemetery Fund				
Interest income	-	-	480	480
Miscellaneous revenue	-	-	2,570	2,570
Total cemetery revenues	<u>-</u>	<u>-</u>	<u>3,050</u>	<u>3,050</u>
Total proprietary revenues	<u>781,414</u>	<u>1,608,412</u>	<u>1,611,191</u>	<u>2,779</u>
EXPENDITURES				
Water Fund				
Personnel services	29,845	29,845	29,204	641
Operating expenses	90,100	90,100	132,770	(42,670)
Debt Service- Interest	49,568	49,568	49,600	(32)
Total water expenditures	<u>169,513</u>	<u>169,513</u>	<u>211,574</u>	<u>(42,061)</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, 2013

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive /
Sewer Fund				
Personnel services	82,880	82,880	79,739	3,141
Operating expenses	155,000	155,000	506,973	(351,973)
Debt Service- Interest	71,794	71,794	74,552	(2,758)
Grant Expenses	2	827,000	48,750	778,250
Total sewer expenditures	<u>309,676</u>	<u>1,136,674</u>	<u>710,014</u>	<u>426,660</u>
Sanitation Fund				
Personnel services	5,811	5,811	5,477	334
Operating expenses	<u>178,500</u>	<u>178,500</u>	<u>181,944</u>	<u>(3,444)</u>
Total sanitation expenditures	<u>184,311</u>	<u>184,311</u>	<u>187,421</u>	<u>(3,444)</u>
Cemetery Fund				
Operating expenses	<u>-</u>	<u>-</u>	<u>6,721</u>	<u>(6,721)</u>
Total cemetery expenditures	<u>-</u>	<u>-</u>	<u>6,721</u>	<u>(6,721)</u>
 Total expenditures	 663,500	 1,490,498	 1,115,730	 374,434
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	-	-	-
Interfund transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	117,914	117,914	495,461	377,547
Fund balance at beginning of year	<u>1,717,746</u>	<u>1,717,746</u>	<u>1,389,984</u>	<u>(327,762)</u>
Fund balance at end of year	<u>\$ 1,835,660</u>	<u>\$ 1,835,660</u>	<u>\$ 1,885,445</u>	<u>\$ 49,785</u>

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN
ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS, ISSUED BY THE COMPTROLLER GENERAL
OF THE UNITED STATES AND OMB CIRCULAR A-133**

CITY OF HAWTHORNE, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
For the Fiscal Year Ended September 30, 2013

GRANTOR PROGRAM TITLE	CFDA #	CSFA #	Contract Number	Award Amount	Received in Prior Years	Program Amount	2013		Fund Balance 9/30/2013
							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	-	626,728	626,728	626,728	-
Total Federal Awards				<u>\$ 650,000</u>	<u>\$ -</u>	<u>\$ 626,728</u>	<u>\$ 626,728</u>	<u>\$ 626,728</u>	<u>-</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	174,650	174,650	174,650	\$ -
Total State Financial Assistance				<u>500,000</u>	<u>322,350</u>	<u>174,650</u>	<u>174,650</u>	<u>174,650</u>	<u>-</u>
Total Federal Awards and State Financial Assistance				<u>\$ 1,150,000</u>	<u>\$ 322,350</u>	<u>\$ 801,378</u>	<u>\$ 801,378</u>	<u>\$ 801,378</u>	<u>\$ -</u>

CITY OF HAWTHORNE, FLORIDA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE For the Fiscal Year Ended September 30, 2013

Note 1 – General

The accompanying schedule of expenditures of federal awards and state financial assistance presents the activity of all federal awards programs and state financial assistance projects of the City of Hawthorne, Florida (the City). The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, local Governments, and Non-Profit Organizations*.

The City reporting entity is defined in Note 1 to the City's basic financial statements for the year ended September 30, 2013. All federal awards and state financial assistance received directly from federal agencies or state agencies, as well as federal awards and state financial assistance passed through other governmental agencies are included in the schedule.

Note 2 – Basis of Accounting

The accompanying schedule of expenditures of federal awards and state financial assistance is presented using the same basis of accounting as the fund in which the grant is recorded, generally the accrual or modified accrual basis, as described in Note 1 to the City's financial statements.

CITY OF HAWTHORNE, FLORIDA

**SCHEDULE OF FINDINGS AND QUESTIONED COST
FEDERAL AWARDS PROGRAM**

For the Fiscal Year Ending September 30, 2013

1. Summary of Audit Results

Financial Statements

A. Type of Audit Report Issued on Financial Statements

Unqualified Opinion

B. Significant Deficiency and/or Material Weaknesses in Internal Control

The audit disclosed no significant deficiencies in internal control over financial reporting.

C. Noncompliance Material to Auditee Financial Statements

The Audit disclosed no material instances of noncompliance.

Federal Awards Program

D. Significant Deficiencies and/or Material Weaknesses in Internal Control over Major Federal Awards Programs

The Audit disclosed no significant deficiencies and/or material weaknesses in internal control over major federal award programs that are required to be reported in the schedule of findings and questioned costs.

E. Type of Audit Report issued on Compliance with Requirements Applicable to Major Federal Awards Programs

Unqualified Opinion

F. Audit Findings Relative to Major Programs

The audit disclosed no findings required to be reported under Section 510(s) of OMB Circular A-133.

G. Programs Tested as major Federal Awards Program

<u>Federal Program</u>	<u>CFDA No.</u>
Small Cities CDBG - Neighborhood Revitalization	14.228

H. Dollar Threshold Used to Distinguish Between Type A and Type B Federal Programs.

\$300,000

CITY OF HAWTHORNE, FLORIDA

**SCHEDULE OF FINDINGS AND QUESTIONED COST
FEDERAL AWARDS PROGRAM
For the Fiscal Year Ending September 30, 2013**

I. Auditee Risk

The City did not qualify as a low risk auditee under OMB Circular A-133. A Single audit was not required in the previous three fiscal years.

2. Findings Related to the Financial Statements Required to be reported under Generally Accepted Government Auditing Standards (GAGAS)

The audit disclosed the following findings which are required to be reported under GAGAS:

2013-1 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.

2013-2 During the course of audit testing, we noted several instances of posting errors which understated intercompany receivables and payables of a material amount.

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

3. Finding and Questioned Costs for Major Federal Awards Program

The audit disclosed no findings for federal awards programs which are required to be reported under OMB Circular A-133. No Summary of Prior Audit Findings is required because there were no prior audit findings related to federal awards programs.

COMPLIANCE SECTION



Sexton & Schnoll

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and City Commissioners
City of Hawthorne, Florida

We have audited the compliance of the City of Hawthorne, Florida (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on the City's major federal programs for the year ended September 30, 2013. The City's major federal program is identified in the summary of Auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major federal program is the responsibility of the City's management. Our responsibility is to express an opinion of the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect to the major federal program for the year ended September 30, 2013.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion of the effectiveness of the City's internal control over compliance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 (Continued)**

Internal Control Over Compliance (Concluded)

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 noncompliance with a type of compliance requirement of a federal program 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 compliance 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 compliance 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.

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

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, 2014



Sexton & Schnoll
CERTIFIED PUBLIC ACCOUNTANTS

**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 Honorable Mayor and City Commissioners
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, 2013, which collectively comprise the City of Hawthorne, Florida's basic financial statements and have issued our report thereon dated May 15, 2014. 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 certain any 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*.

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

A handwritten signature in cursive script that reads "Sexton & Schnoll".

Sexton & Schnoll
Certified Public Accountants
May 15, 2014

Management Letter

To the Honorable 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, 2013 and have issued our report thereon dated May 15, 2014.

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 and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. We have issued our report on internal control over financial reporting and compliance and other matters, report on compliance with requirements applicable to each major federal award program and on internal control over compliance in accordance with OMB Circular A-133; and schedule of finding and questioned costs. Disclosures in those reports and schedules, which are dated May 15, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedules.

- Section 10.554(1)(i)1 *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial report. We are pleased to report that all prior year findings and recommendations listed in the previous annual financial report have been corrected in the current year.
- Section 10.554(1)(i)2 *Rules of the Auditor General*, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the Investment of Public Funds. The City complied with Section 218.415, *Florida Statutes*, regarding the investment of public funds.
- Section 10.554(1)(i)3 *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. Accordingly we recommend that accounting staff pay close attention to proper cutoff and intercompany recording procedures in order to ensure that the financial statements do not contain material misstatements.
- Section 10.554(1)(i)4 *Rules of the Auditor General*, requires that we address violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse that have an effect on the determination of financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

- Section 10.554(1)(i)5 *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both qualitative and quantitative factors: (1) violations of provisions of contracts or grant agreements, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6 *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The annual financial audit report for the City of Hawthorne includes the accounts and transactions of its Community Redevelopment Agency, which is considered a blended component unit pursuant to Chapter 163 of the Florida Statutes.
- Section 10.554(1)(i)7(a) *Rules of the Auditor General*, requires a statement to be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. The City reported no conditions described in Section 218.503(1), Florida Statutes that result in a financial emergency.
- Section 10.554(1)(i)7(b) *Rules of the Auditor General*, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2013, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2013. We have determined that these reports are in agreement.
- Pursuant to Section 10.554(1)(i)7(c) and 10.556(7) *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representation made by management and the review of financial information provided to us by same.

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.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

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, 2013, 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 banking institutions that are Qualified Public Depositories as described in Chapter 280 of the Florida Statutes.
- 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, 2013, the City of Hawthorne had 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, 2014

City of Hawthorne, Florida
Response to Audit Findings
FY2012-2013

Current Year Findings:

Finding: 2013-1: 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: As of October 1, 2013 accounting staff training along with accounting review from an outside accounting firm will be closely monitoring those entries for proper timing.

Finding: 2013-2: During the course of audit testing, we noted several instances of posting errors which understated intercompany receivables and payables of a material amount.

Response: As of October 1, 2013 an additional separate checking account was established for the Wastewater Enterprise fund. With the establishment of the account numerous posting entries will be eliminated. Account staff training along with accounting review from an outside accounting firm will be closely monitoring those entries.

City Response prepared by:

Ellen Vause
City Manager
June 5, 2014