

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2015

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2015

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INTRODUCTORY SECTION

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

September 30, 2015

Mayor	Matthew Surrency
Vice Mayor	Tommie Howard
City Commission	DeLoris Roberts
	Jimmy Floyd
	Patricia Bouie
City Manager	Ellen Vause
City Clerk	LaKesha Hawkins-McGruder

Current Officials as of May 1, 2016

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, 2015, and 2014 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, 2015 and 2014 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 introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining and individual non-major fund financial statements 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 section has 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 1, 2016, 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.



SEXTON & SCHNOLL
Certified Public Accountants
May 1, 2016



MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2015

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, 2015. 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 2015 by \$ 8,817,694. 10% 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 \$407,629. These unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased \$298,350 or 3.27% over the year.
- 86% 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 increased by \$130,511 from the previous year. General revenues from taxes were relatively flat.
- Business-type activities (the City's enterprise funds) operating revenues decreased by \$27,064. Charges for services increased slightly.
- The City's total debt, including bonds decreased by \$ 135,869 or 5 % in the current fiscal year.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2015

City Highlights

- As of September 30, 2015 the unemployment rate for Alachua County was 5.1%. The 2015 rate was 5.4% 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 5.6 %. The National Unemployment rate was 5.1%.
- The official population of the City according to the 2014 Census was 1,417.
- The ad valorem tax millage rate for the City was 5.3194 mills in 2015.
- Little Orange Creek Nature Park has opened to the Public through special use permits. The Master plan for engineering has been completed and improvements are continuing. Engineering for the remodel of the Event and Education Center have been completed. Construction will start in the budget year 2015-16 for the remodel and will open to the public thereafter.
- Lindsey Phillips Park upgrades are also continuing. These include boat ramp improvements, and ADA accessibility improvements.
- Plum Creek and Envision Alachua have started the process to annex approximately 1300 acres of land adjacent to the City of Hawthorne. Preliminary discussion with Plum Creek is to develop and market the property for commercial operations when the annexation and land use changes are made. An anticipated 3,000 jobs could potentially be situated on this property.
- The City completed the transfer of the Hawthorne Fire Station to Alachua County. The remodel and hardening of the building is complete. Station #25 now provides fire and rescue services to the City with a full staff.
- Love's Travel Plaza has purchased property on US 301 in Hawthorne and will bring a Travel Plaza, truck stop, tire-changing shop and a McDonald's Restaurant to the City. The City Commission applied for, and has obtained a \$1.5 million economic development grant to facilitate a larger water line to the property for fire suppression. Construction of the water line and Travel Plaza are slated for completion in 2016.
- The City applied for a Florida Department of Economic Development CDBG grant for the replacement of old water lines in the historic downtown area of Hawthorne. The \$650,000 neighborhood development grant will be available in the Financial Year 2015-16 for construction of Phase I water line replacement.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2015

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, 2015

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, 2015

Statement of Net Assets

The following table reflects a condensed Statement of Net Assets:

	Governmental Activities	Business-type Activities	Total Government	
			2015	2014
Cash and cash equivalents	\$ 766,111	\$ 510,868	\$ 1,276,979	\$ 1,190,622
Other assets	1,130,964	1,687,011	2,817,975	2,654,590
Capital Assets	6,210,559	3,900,550	10,111,109	10,564,781
Total Assets	<u>8,107,634</u>	<u>6,098,429</u>	<u>14,206,063</u>	<u>14,409,993</u>
Other current liabilities	644,495	1,301,161	1,945,656	1,800,420
Long term outstanding	-	3,442,803	3,442,803	3,493,534
Total Liabilities	<u>644,495</u>	<u>4,743,964</u>	<u>5,388,459</u>	<u>5,293,954</u>
Net assets:				
Invested in capital assets, net of related debt	6,210,559	1,349,742	7,560,301	7,891,891
Restricted	598,630	251,134	849,764	758,023
Unrestricted	653,950	(246,321)	407,629	466,125
Total net assets	<u>\$ 7,463,139</u>	<u>\$ 1,354,555</u>	<u>\$ 8,817,694</u>	<u>\$ 9,116,039</u>

The largest portion of the City's net assets reflects its investment in capital assets (\$7,560,301) 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 \$ 849,764 represents resources that are subject to external restrictions on how they may be used.

Total net assets balance decreased by \$298,350 or 3.27% over the previous year.

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, 2015

Change in Net Assets
For the Fiscal Years Ended September 30, 2015 and 2014

	Governmental Activities	Business-type Activities	Total Government	
			2015	2014
Revenues:				
Program revenues				
Charges for services	\$ 31,316	\$ 775,308	\$ 806,624	\$ 782,817
Grants and contributions	120,700	-	120,700	-
General revenues				
Taxes	580,052		580,052	588,051
Tax increment	54,991		54,991	60,987
State shared revenues	46,050		46,050	48,935
Interest	4,642	1,232	5,874	7,223
Miscellaneous	7,222	31,770	38,992	203,418
Total revenues	<u>844,973</u>	<u>808,310</u>	<u>1,653,283</u>	<u>1,691,431</u>
Expenses:				
General government	454,202	-	454,202	441,626
Public safety	-	-	-	3,239
Transportation	179,101	-	179,101	169,626
Economic environment	34,000	-	34,000	44,658
Culture & recreation	152,680	-	152,680	173,949
Interest on long-term debt	630	118,143	118,773	122,079
Cemetery		13,365	13,365	11,961
Water		263,032	263,032	173,631
Garbage services		179,843	179,843	184,939
Sewer		481,825	481,825	582,172
Total expenses	<u>820,613</u>	<u>1,056,208</u>	<u>1,876,821</u>	<u>1,907,880</u>
Special item - Donation of assets to County	(74,809)		(74,809)	
Changes in net assets	(50,450)	(247,900)	(298,350)	(216,448)
Beginning net assets	<u>7,513,588</u>	<u>1,602,454</u>	<u>9,116,042</u>	<u>9,332,490</u>
Ending net assets	<u>\$ 7,463,139</u>	<u>\$ 1,354,555</u>	<u>\$8,817,694</u>	<u>\$ 9,116,042</u>

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2015

Current Year Impacts on Revenue and Expense

Revenues - The City's tax revenue was \$580,052, representing a small decrease of 1.36% from 2014. State Revenue Sharing decreased marginally by \$2,885 or 5.9%. Enterprise Funds services revenue increased by \$17,509, or 2.2 % overall. Total City revenues decreased \$38,152, or 2.2% compared to 2014.

Expenses - Governmental activities expenses decreased by \$13,514 (1.6 %), while enterprise fund activity expenses decreased by \$17,551 (1.6%).

Special item – The City donated its Fire Station assets to Alachua County, resulting in a special item loss of \$74,809.

Capital Assets

Capital Assets at September 30, 2015 and 2014

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 4,610,616	\$4,620,928	\$ 114,300	\$ 114,300	\$ 4,724,916	\$ 4,735,228
Buildings	782,163	1,136,579	4,998,574	4,998,574	5,780,737	6,135,153
Improvements	1,760,366	1,841,357	5,586,596	5,586,596	7,346,963	7,427,953
Equipment	202,668	202,984	83,616	70,788	286,285	273,772
Subtotal	7,355,814	7,801,848	10,783,086	10,770,258	18,138,900	18,572,106
Accumulated depreciation	(1,145,255)	(1,439,368)	(6,882,536)	(6,567,955)	(8,027,791)	(8,007,323)
Capital assets, net	\$ 6,210,559	\$6,362,480	\$ 3,900,550	\$4,202,303	\$10,111,110	\$10,564,783

The City's net investment in capital assets for the governmental activities decreased by \$433,206 or 2% from the prior year. The City added \$ 14,153 of minor equipment and donated the Fire Station assets to Alachua County, which had a net book value of \$74,809. Depreciation expense was \$ 393,015, a decrease of 22% from the prior year.

Long-term Debt

At the end of the fiscal year, the City had total debt outstanding in bonds and notes payable of \$2,559,689, which is a decrease of \$135,869 from the previous year, due to payments of principal amounts.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2015

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Line of credit	\$ 8,881	\$22,667	\$ -	\$ -	\$ 8,881	\$ 22,667
USDA bonds	-	-	2,202,200	2,261,800	2,202,200	2,261,800
Loans Payable	-	-	348,608	411,091	348,608	411,091
Total bonds and notes	\$ 8,881	\$22,667	\$2,550,808	\$2,672,891	\$2,559,689	\$ 2,695,558

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 2014-15 was adopted in September 2014 and amended in October, 2015. 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. There were no other changes to the FY 2014-15 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, 2015

	Governmental Activities	Business-type Activities	2015 TOTAL	2014 TOTAL
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 167,482	\$ 259,824	\$ 427,306	432,599
Accounts receivable, net	25,099	63,819	88,919	180,611
Due from other funds	-	1,620,191	1,620,191	1,492,454
Due from other governmental unit	83,213	-	83,213	26,207
Total Current Assets	<u>275,794</u>	<u>1,943,834</u>	<u>2,219,628</u>	<u>2,131,870</u>
Restricted assets:				
Cash	<u>598,629</u>	<u>251,134</u>	<u>849,763</u>	<u>758,023</u>
Total Restricted Assets	<u>598,629</u>	<u>251,134</u>	<u>849,763</u>	<u>758,023</u>
Non-current assets:				
Due from other funds	1,009,281	-	1,009,281	939,287
Bond costs, net	-	3,001	3,001	3,820
Prepaid Expenses	13,371	-	13,371	12,211
Capital assets, net	<u>6,210,559</u>	<u>3,900,550</u>	<u>10,111,110</u>	<u>10,564,782</u>
Total non-current assets	<u>7,233,211</u>	<u>3,903,551</u>	<u>11,136,762</u>	<u>11,520,100</u>
Total assets	<u>8,107,634</u>	<u>6,098,520</u>	<u>14,206,154</u>	<u>14,409,993</u>
LIABILITIES				
Current liabilities (payable from current assets):				
Accounts payable	10,003	22,955	32,958	47,779
Due to other funds	577,867	1,042,323	1,620,191	1,489,015
Deferred Revenue	1,647	15,953	17,600	18,810
Line of credit	8,881	-	8,881	22,667
Loans payable-current portion	-	64,113	64,113	62,483
Accrued wages	46,097	16,093	62,189	23,950
Total current liabilities (payable from current assets)	<u>644,495</u>	<u>1,161,436</u>	<u>1,805,932</u>	<u>1,664,703</u>
Current liabilities (payable from restricted assets):				
Accrued interest payable	-	8,303	8,303	9,431
Deposits	-	78,248	78,248	66,685
Bonds payable-current portion	-	62,800	62,800	59,600
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>149,351</u>	<u>149,351</u>	<u>135,717</u>

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2015

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>2015 TOTAL</u>	<u>2014 TOTAL</u>
Non-current liabilities:				
		-	-	-
Loans payable	-	284,496	284,496	348,608
Due to other funds	-	1,009,282	1,009,282	942,726
Bonds payable	-	2,139,400	2,139,400	2,202,200
Total long-term liabilities	-	3,433,177	3,433,178	3,493,534
 Total liabilities	 <u>644,495</u>	 <u>4,743,964</u>	 <u>5,388,461</u>	 <u>5,293,954</u>
 NET ASSETS				
Invested in capital assets, net of related debt	6,210,559	1,349,742	7,560,301	7,891,891
Restricted net assets	598,629	251,134	849,763	758,023
Unrestricted net assets	653,950	(246,321)	407,629	466,126
Total net assets	<u>\$ 7,463,139</u>	<u>\$ 1,354,555</u>	<u>\$ 8,817,694</u>	<u>\$ 9,116,039</u>

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES

For the Years Ended September 30, 2015 and 2014

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	2014
Governmental Activities								
General government	\$ 454,202	\$ 10,988	\$ 71,760		(371,455)	\$ -	\$ (371,455)	(441,462)
Public safety	-		-	-	-	-	-	(1,279)
Transportation	179,101	20,328	-	-	(158,773)	-	(158,773)	(150,176)
Economic environment	34,000	-	25,000	-	(9,000)	-	(9,000)	(44,658)
Culture & recreation	152,680	-	23,940		(128,740)	-	(128,740)	(173,949)
Interest on long-term debt	630	-	-	-	(630)	-	(630)	(1,030)
Total governmental activities	<u>820,613</u>	<u>31,316</u>	<u>120,700</u>	<u>-</u>	<u>(668,597)</u>	<u>-</u>	<u>(668,597)</u>	<u>(812,555)</u>
Business Activities								
Cemetery	13,365	1,540	-	-	-	(11,825)	(11,825)	(11,536)
Water utility	263,032	239,174	-		-	(23,859)	(23,859)	61,632
Garbage services	179,843	191,394	-	-	-	11,551	11,551	(2,808)
Sewer utility	481,825	343,200	-		-	(138,627)	(138,627)	(238,747)
Interest on long-term debt	118,143	-	-	-	-	(118,143)	(118,143)	(121,049)
Total business activities	<u>1,056,209</u>	<u>775,308</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(280,902)</u>	<u>(280,902)</u>	<u>(312,508)</u>
Total Government	<u>\$ 1,876,822</u>	<u>\$ 806,624</u>	<u>\$ 120,700</u>	<u>\$ -</u>	<u>\$ (668,597)</u>	<u>\$ (280,902)</u>	<u>\$ (949,499)</u>	<u>\$ (1,125,063)</u>

CONTINUED

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES (Continued)
For the Years Ended September 30, 2015 and 2014

	<u>Governmental</u>	<u>Business</u>	<u>Total</u>	<u>2014</u>
General Revenues				
Property taxes	237,426	-	237,426	232,288
Sales and use taxes	190,810	-	190,810	197,317
Utility services tax	104,862	-	104,862	111,695
Communications surtax	35,540	-	35,540	42,741
Licenses and permits	11,414	-	11,414	4,010
State shared revenues	46,050	-	46,050	48,935
Tax increment	54,991	-	54,991	60,987
Interest	4,642	1,232	5,874	7,222
Miscellaneous	<u>7,222</u>	<u>31,770</u>	<u>38,992</u>	<u>203,418</u>
Total general revenue	<u>692,957</u>	<u>33,002</u>	<u>725,959</u>	<u>908,613</u>
Special item - donation of assets to County	(74,809)	-	(74,809)	-
Change in net assets	(50,450)	(247,900)	(298,350)	(216,451)
Net assets, beginning of year	7,513,588	1,602,454	9,116,041	9,332,490
Net assets, end of year	<u>\$ 7,463,139</u>	<u>\$ 1,354,555</u>	<u>\$ 8,817,694</u>	<u>\$ 9,116,040</u>

CITY OF HAWTHORNE, FLORIDA

**GOVERNMENTAL FUND
BALANCE SHEET**

September 30, 2015 and 2014

	2015	2014
ASSETS		
Cash	\$ 766,111	\$ 646,790
Accounts receivable	25,099	12,273
Due from other funds	1,009,281	939,287
Note receivable	-	100,937
Due from other governmental units	83,213	26,207
Prepaid expenses	13,371	12,211
Total assets	1,897,075	1,737,705

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable and accrued liabilities	10,003	22,558
Due to other funds	577,867	519,212
Notes Payable	8,881	22,667
Deferred Revenue	1,647	
Accrued compensation	46,097	22,162
Total Liabilities	644,495	586,599

FUND BALANCES

Restricted:

Library	455	455
Downtown development	464,617	464,617
Reserved Wild Spaces Public Spaces	182,124	142,138
Interfund receivable	1,009,281	1,300,592
Unrestricted:	(403,897)	(756,696)
Total fund balances	1,252,580	1,151,107

Total Liabilities and Fund Balance	\$ 1,897,075	\$ 1,737,705
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Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

Fund balance-Governmental Funds	\$ 1,252,580	\$ 1,151,107
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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.	6,210,559	6,362,479
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Net assets of governmental activities	\$ 7,463,139	\$ 7,513,585
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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, 2015 and 2014

	2015	2014
REVENUE		
Taxes	\$ 580,052	\$ 588,051
Intergovernmental revenue	101,041	109,922
Charges for services	31,316	21,574
Other revenue	132,564	181,122
Total Revenue	<u>844,973</u>	<u>900,669</u>
EXPENDITURES		
Current Expenditures		
General government	445,106	427,690
Transportation	149,683	139,394
Economic environment	34,000	44,658
Culture/recreation	113,387	134,333
Capital outlay/(disposals)	1,325	(21,885)
Total expenditures	<u>743,501</u>	<u>724,190</u>
Excess of revenues over expenditures	<u>101,472</u>	<u>176,479</u>
Net changes in fund balances	101,472	176,479
Fund balances, beginning of year	<u>1,151,107</u>	<u>974,628</u>
Fund balances, end of year	<u><u>\$ 1,252,580</u></u>	<u><u>\$ 1,151,107</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, 2015

	<u>2015</u>	<u>2014</u>
Net change in fund balances - total governmental funds	\$ 101,472	\$ 176,479
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		
Capital purchase expenditure	1,325	
Loss on donation of assets to the County	(74,809)	
Less current year depreciation	<u>(78,435)</u>	
	(151,919)	(109,938)
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	13,603	12,467
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 in governmental funds		
Compensated Absences	<u>(13,606)</u>	<u>(12,468)</u>
Change in net assets of governmental activities	<u>\$ (50,450)</u>	<u>\$ 66,540</u>

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2015**

	Business-Type Activities - Enterprise Funds					
ASSETS	Cemetery	Water	Solid Waste	Sewer	Totals	2014
Current assets						
Cash	\$ 45,049	\$ 69,306	\$ -	\$ 145,469	\$ 259,824	\$ 302,065
Accounts receivable (net of allowance for uncollectible)	-	13,096	17,792	32,932	63,819	67,401
Due from other funds	-	1,042,324	70,584	507,284	1,620,191	1,492,454
Restricted assets					-	-
Cash	-	222,403	-	28,732	251,134	241,766
Fixed assets					-	-
Land	-	-	-	114,300	114,300	114,300
Buildings	-	1,554,798	-	3,443,776	4,998,574	4,998,574
Improvements other than buildings	-	253,085	-	5,333,512	5,586,596	5,586,596
Equipment	-	8,367	-	75,249	83,616	70,788
Construction in progress	-	-	-	-	-	-
Allowance for depreciation	-	(1,049,688)	-	(5,832,848)	(6,882,536)	(6,567,955)
Other assets						
Bond costs	-	-	-	12,295	12,295	12,295
Accumulated amortization-bond costs	-	-	-	(9,294)	(9,294)	(8,474)
Total assets	<u>45,049</u>	<u>2,113,690</u>	<u>88,375</u>	<u>3,851,406</u>	<u>6,098,520</u>	<u>6,309,809</u>
LIABILITIES AND NET ASSETS						
Current liabilities						
Due to other funds	23,521	986,962	22,214	9,626	1,042,323	1,912,529
Accounts Payable		16,952	-	6,002	22,955	25,221
Current liabilities payable from Restricted funds	-	-	-	-	-	-
Accrued interest payable	-	3,126	-	5,176	8,303	9,431
Deposits	-	78,248	-	-	78,248	66,685
Loan payable M&S Bank-current	-			11,838	11,838	11,253
Loan payable FDOT-current	-	16,872			16,872	16,872
Loan payable CRA-current	-	18,263			18,263	17,724
Loan payable NRWA-current	-	17,139			17,139	16,633
Serial bonds payable-current	-	12,700			12,700	12,000
Bonds payable FMHA-current	-			50,100	50,100	47,600
Deferred Revenue	-	-	-	15,953	15,953	18,810
Accrued wages and compensation	448	4,770	353	10,522	16,093	1,788
Long-term liabilities						
Loan payable M&S Bank	-			6,147	6,147	17,986
Loan payable FDOT	-	118,106			118,106	134,978
Loan payable CRA	-	64,950			64,950	83,213
Loan payable NRWA	-	95,292			95,292	112,431
Serial bonds payable	-	279,600			279,600	292,300
Bonds payable FMHA	-	-	-	1,859,800	1,859,800	1,909,900
Due to other funds				1,009,282	1,009,282	-
Total Liabilities	<u>23,969</u>	<u>1,712,982</u>	<u>22,567</u>	<u>2,984,447</u>	<u>4,743,964</u>	<u>4,707,355</u>
NET ASSETS						
Invested in capital assets, net of related debt	-	143,639	-	1,206,103	1,349,742	1,529,412
Restricted	-	222,403	-	28,732	251,134	241,766
Unrestricted	<u>21,081</u>	<u>34,666</u>	<u>65,808</u>	<u>(367,876)</u>	<u>(246,321)</u>	<u>(168,724)</u>
Total net assets	<u>21,081</u>	<u>400,708</u>	<u>65,808</u>	<u>866,959</u>	<u>1,354,555</u>	<u>1,602,454</u>
Total liabilities and net assets	<u>\$ 45,049</u>	<u>\$ 2,113,690</u>	<u>\$ 88,375</u>	<u>\$ 3,851,406</u>	<u>\$ 6,098,520</u>	<u>\$ 6,309,809</u>

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Fiscal year Ended September 30, 2015**

	Business-Type Activities - Enterprise Funds					
	<u>Cemetery</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Sewer</u>	<u>Totals</u>	<u>2014</u>
OPERATING REVENUES						
Utility revenue						
Sales	\$ 1,540	\$ 220,016	\$ 191,394	\$ 343,200	\$ 756,151	\$ 761,243
Reconnection fees	-	5,934	-	-	5,934	-
Late fees	-	13,224	-	-	13,224	-
Total operating revenues	<u>1,540</u>	<u>239,174</u>	<u>191,394</u>	<u>343,200</u>	<u>775,309</u>	<u>761,234</u>
OPERATING EXPENSES						
Personnel						
Regular salaries	9,030	26,490	2,297	65,188	103,005	91,027
Payroll tax	682	1,770	282	4,303	7,037	6,741
Retirement	516	1,373	205	3,414	5,507	5,481
Life and health insurance	2,255	5,005	910	14,810	22,980	30,183
Worker's compensation	283	2,119	71	2,119	4,591	3,465
Total Personnel Services	<u>12,765</u>	<u>36,757</u>	<u>3,765</u>	<u>89,833</u>	<u>143,120</u>	<u>136,897</u>
Depreciation and amortization	-	46,106	-	269,294	315,400	424,184
Accounting and auditing	-	-	-	-	-	10,228
Contractual services	-	113,656	175,134	18,124	306,913	236,470
Communication	350	3,898	-	3,126	7,375	7,163
Utility services	220	9,929	-	41,317	51,466	49,313
Insurance	-	6,424	945	5,136	12,505	13,455
Repairs and maintenance	-	5,120	-	14,806	19,926	15,876
Supplies	-	11,534	-	16,328	27,862	17,463
Publications & subscriptions	-	232	-	1,465	1,697	790
Other current charges and obligations	30	29,376	-	22,404	51,810	40,864
Total operating expenses	<u>600</u>	<u>226,276</u>	<u>176,079</u>	<u>392,000</u>	<u>794,954</u>	<u>815,805</u>
Total expenses	<u>13,365</u>	<u>263,032</u>	<u>179,843</u>	<u>481,826</u>	<u>938,074</u>	<u>952,703</u>

CITY OF HAWTHORNE, FLORIDA

PROPRIETARY FUNDS

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal year Ended September 30, 2015

	Business-Type Activities - Enterprise Funds					
	<u>Cemetery</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Sewer</u>	<u>Totals</u>	<u>2014</u>
Operating profit (loss)	<u>(11,825)</u>	<u>(23,859)</u>	<u>11,551</u>	<u>(138,626)</u>	<u>(162,758)</u>	<u>(191,459)</u>
Non-operating revenues						
Federal waste water grant	-	-	-	-	-	-
State waste water grant	-	-	-	-	-	-
Interest on investments	276	956	-	-	1,232	2,370
Gain (loss) on disposal of assets	-	-	-	-	-	-
Rents and royalties	-	3,281	-	28,489	31,770	27,148
Total non-operating revenues	<u>276</u>	<u>4,237</u>	<u>-</u>	<u>28,489</u>	<u>33,002</u>	<u>29,518</u>
Debt service - interest	-	(48,000)	-	(70,142)	(118,143)	(121,049)
Net non-operating revenue	<u>276</u>	<u>(43,763)</u>	<u>-</u>	<u>(41,653)</u>	<u>(85,141)</u>	<u>(91,531)</u>
Change in net assets	(11,549)	(67,622)	11,551	(180,279)	(247,900)	(282,990)
Net assets, beginning of year	32,629	470,452	54,257	1,045,117	1,602,455	1,885,445
Net assets, end of year	<u><u>\$ 21,080</u></u>	<u><u>\$ 402,830</u></u>	<u><u>\$ 65,808</u></u>	<u><u>\$ 864,838</u></u>	<u><u>\$ 1,354,555</u></u>	<u><u>\$ 1,602,455</u></u>

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal year Ended September 30, 2015**

		Business-Type Activities - Enterprise Funds				
	Cemetery	Water	Solid Waste	Sewer	Totals	2014
Cash flows from operating activities						
Cash received from customers	\$ 1,540	\$ 250,571	\$ 189,953	\$ 280,940	\$ 723,004	\$ 695,116
Cash payments to employees	(212)	(27,315)	(3,829)	(64,629)	(95,985)	(29,114)
Cash payments for employee benefits	-	(5,005)	(908)	(14,810)	(20,723)	(11,449)
Cash paid to vendors	(600)	(189,527)	(185,216)	(45,523)	(420,866)	(379,487)
Net cash provided (used) by operating activities	<u>728</u>	<u>28,724</u>	<u>-</u>	<u>155,978</u>	<u>185,430</u>	<u>275,066</u>
Cash flows from capital and related financing activities						
Interest paid on notes and bonds payable	-	(45,682)	-	(70,711)	(116,393)	(121,049)
Principal paid on notes payable	-	(51,229)	-	(11,253)	(62,483)	(54,512)
Principal paid on bonds payable	-	(12,000)	-	(47,600)	(59,600)	(57,500)
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>(108,911)</u>	<u>-</u>	<u>(129,565)</u>	<u>(238,476)</u>	<u>(233,061)</u>
Cash flows from non-capital financing activities						
Loan proceeds	-	-	-	-	-	72,845
Rents and royalties	-	3,281	-	28,489	31,770	27,148
Net cash provided by non-capital financing activities	<u>-</u>	<u>3,281</u>	<u>-</u>	<u>28,489</u>	<u>31,770</u>	<u>99,993</u>
Cash flows from investing activities						
Net Purchases of fixed assets	-	(375)	-	(12,453)	(12,828)	(18,191)
Interest Income	276	956	-	-	1,232	2,370
Net cash provided (used) for investing activities	<u>276</u>	<u>581</u>	<u>-</u>	<u>(12,453)</u>	<u>(11,596)</u>	<u>(15,821)</u>
Net increase (decrease) in cash and cash equivalents	1,004	(76,326)	-	42,449	(32,872)	126,178
Cash and cash equivalents, beginning of year	44,045	368,035	-	131,752	543,830	417,652
Cash and cash equivalents, end of year	<u>\$ 45,049</u>	<u>\$ 291,709</u>	<u>\$ -</u>	<u>\$ 174,201</u>	<u>\$ 510,958</u>	<u>\$ 543,830</u>
<u>Reconciliation of operating income (loss) to net cash provided by operating activities</u>						
Operating income (loss)	<u>(11,825)</u>	<u>(23,859)</u>	<u>11,551</u>	<u>(138,626)</u>	<u>(162,758)</u>	<u>(191,459)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	-	46,106	-	270,113	316,219	424,184
(Increase) decrease in assets:						
Accounts receivable, net	-	5,768	(1,441)	(747)	3,580	(6,119)
Due from other funds	-	(69,082)	-	(58,656)	(127,738)	(120,423)
Increase (decrease) in liabilities:						
Accounts payable	-	(3,246)	(7)	175	(3,078)	1,394
Due to other funds	12,105	59,919	(9,130)	76,182	139,076	143,738
Customer deposits payable	-	11,563	-	-	11,563	6,224
Accrued compensation	448	-	(974)	10,394	9,868	-
Accrued interest	-	1,556	-	-	1,556	-
Deferred Revenue	-	-	-	(2,857)	(2,857)	17,529
Total adjustments	<u>12,553</u>	<u>52,584</u>	<u>(11,552)</u>	<u>294,604</u>	<u>348,189</u>	<u>466,528</u>
Net cash provided (used) by operating activities	<u>\$ 728</u>	<u>\$ 28,724</u>	<u>\$ 0</u>	<u>\$ 155,978</u>	<u>\$ 185,430</u>	<u>\$ 275,066</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

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, 2015

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, 2015

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, 2015

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, 2015

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, 2014, 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, 2015, the allowance for doubtful accounts was \$5,580. No other allowances for doubtful accounts are maintained since other fund accounts receivable are considered collectible as reported at September 30, 2015.

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, 2015

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.

Special Item – The City considers its donation of the Fire Station Assets to Alachua County an infrequent, but not unusual item, and hence presented as a special item on the Financial Statements.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

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>2015</u>	<u>2014</u>
Cost of capital assets	\$ 7,355,814	\$ 7,801,848
Accumulated depreciation	<u>(1,145,255)</u>	<u>(1,439,369)</u>
Total Governmental Capital Assets	<u><u>\$ 6,210,559</u></u>	<u><u>\$ 6,362,479</u></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, 2015

	Total Governmental	Capital	Long-Term	2015	2014
	Fund	Related Items	Debt Transactions	Statement of	Statement of
				Net Assets	Net Assets
ASSETS					
Cash	\$ 766,111	\$ -	\$ -	\$ 766,111	\$ 646,790
Accounts receivable	25,099	-	-	25,099	12,273
Due from other funds	1,009,281	-	-	1,009,281	939,287
Due from other governmental units	83,213	-	-	83,213	26,207
Note receivable	-	-	-	-	100,937
Prepaid expenses	13,371	-	-	13,371	12,211
Capital assets - net	-	6,210,559	-	6,210,559	6,362,479
Total assets	<u>1,897,075</u>	<u>6,210,559</u>	<u>-</u>	<u>8,107,634</u>	<u>8,100,184</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	11,650	-	-	11,650	22,558
Due to other funds	577,867	-	-	577,867	519,212
Due to other governmental units	-	-	-	-	-
Accrued compensated absences	46,097	-	-	46,097	22,162
Line of Credit	8,881	-	-	8,881	22,667
Notes payable- long term	-	-	-	-	-
Total Liabilities	<u>644,495</u>	<u>-</u>	<u>-</u>	<u>644,495</u>	<u>586,599</u>
Fund Balance - Net Assets	1,252,580	6,210,559	-	7,463,139	7,513,585
Total liabilities and fund balance/net assets	<u>\$ 1,897,075</u>	<u>\$ 6,210,559</u>	<u>\$ -</u>	<u>\$ 8,107,634</u>	<u>\$ 8,100,184</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

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 \$ 101,473 differs from the "change in net assets" for governmental activities (\$50,454) 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	\$ 1,325
Net Asset write-down	(74,810)
Depreciation expense	(78,435)
Difference	<u>\$ (151,920)</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, 2015 were \$13,603.

Accrued compensation

The City's employees have accrued wages payable as of September 30, 2015 in the amount of \$62,189. 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, 2015

	Total	Capital	Long-Term	2015	2014
	Governmental Fund	Related Items	Debt Transactions	Statement of Activities	Statement of Activities
REVENUES					
Taxes	\$ 580,052	\$ -	\$ -	\$ 580,052	\$ 588,051
Intergovernmental	221,741	-	-	221,741	109,922
Charges for Services	31,316	-	-	31,316	21,574
Miscellaneous	(62,946)	-	-	(62,946)	181,122
Total revenues	<u>770,163</u>	<u>-</u>	<u>-</u>	<u>770,163</u>	<u>900,669</u>
EXPENDITURES					
Current Expenditures					
General government	444,478	9,724	-	454,202	441,625
Public safety	-	-	-	-	3,240
Transportation	149,684	29,417	-	179,101	169,626
Economic environment	34,000	-	-	34,000	44,658
Culture /recreation	113,387	39,293	-	152,680	173,949
Capital Outlay/(disposals)	-	1,325	(1,325)	-	-
Debt Service					
Principal	13,603	-	(13,603)	-	-
Interest	630	-	-	630	1,030
Total Expenditures	<u>755,781</u>	<u>79,760</u>	<u>(14,928)</u>	<u>820,613</u>	<u>834,127</u>
Excess of revenues over (under) expenditures	14,382	(79,760)	14,928	(50,450)	66,542
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	14,382	(79,760)	14,928	(50,450)	66,542
Fund balance at beginning of year	1,124,847	6,362,479	26,261	7,513,588	7,447,045
Fund balance at end of year	<u>\$ 1,139,229</u>	<u>\$ 6,282,719</u>	<u>\$ 41,189</u>	<u>\$ 7,463,139</u>	<u>\$ 7,513,587</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

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 2014-2015 was adopted by the City Commission in September 2014.

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, 2015, the carrying amount of the City's bank balance was \$1,272,069. 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 2014-2015 fiscal year were levied in October 2014. 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, 2015

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2015 and 2014, was as follows:

	<u>2015</u>			
	Beginning			Ending
	Balance	Additions	Deletions	Balance
Governmental Capital assets:				
Land	\$ 4,620,928		\$ (10,312)	\$ 4,610,616
Buildings	1,136,579	-	(354,416)	782,163
Improvements	1,841,357	-	(80,991)	1,760,366
Equipment and vehicles	202,984	1,324	(1,640)	202,668
Total capital assets	7,801,848	1,324	(447,359)	7,355,813
Less accumulated depreciation	(1,439,368)	(78,435)	372,549	(1,145,254)
Governmental Activities:				
capital assets, net	<u>\$ 6,362,480</u>	<u>\$ (77,111)</u>	<u>\$ (74,810)</u>	<u>\$ 6,210,559</u>
Business-type Activities:				
Land	114,300	-	-	114,300
Buildings	4,998,574		-	4,998,574
Improvements other than buildings	5,586,596		-	5,586,596
Equipment and vehicles	70,789	12,828	-	83,617
Total capital assets	10,770,259	12,828	-	10,783,087
Less accumulated depreciation	(6,567,955)	(314,581)	-	(6,882,536)
Business-type activities:				
capital assets, net	<u>\$ 4,202,304</u>	<u>\$ (301,753)</u>	<u>\$ -</u>	<u>\$ 3,900,551</u>

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

Governmental activities:	<u>2015</u>
General government	9,724
Public safety	-
Transportation	29,417
Culture / recreation	39,293
Total depreciation expense-governmental activities	<u>\$ 78,435</u>
Business-type activities:	
Water utility	46,106
Sewer utility	269,294
Total depreciation expense-business-type activities	<u>\$ 315,400</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 7. INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of inter-fund receivables and payables at September 30, 2015 and 2014.

Fund	2015 Interfund Receivables	2014 Interfund Receivables	2015 Interfund Payables	2014 Interfund Payables
General	\$ 1,009,281	\$ 939,287	\$ 577,867	\$ 519,212
Water	1,042,324	973,242	986,962	927,043
Solid waste	70,584	70,584	22,214	31,344
Sewer	507,284	448,628	1,018,908	942,726
Cemetery	-	-	23,521	11,416
	<u>\$ 2,629,472</u>	<u>\$ 2,431,741</u>	<u>\$ 2,629,472</u>	<u>\$ 2,431,741</u>

The balance of \$ 1,018,908 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, 2015 and 2014 consisted of the following:

Fund	2015 Transfers in	2014 Transfers in	2015 Transfers out	2014 Transfers out
General	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
Water	-	-	-	-
Sewer	-	-	-	-
	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 30,000</u>

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

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

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 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
2016	12,700	17,173	29,873
2017	13,400	16,427	29,827
2018	14,200	15,639	29,839
2019	15,000	14,805	29,805
2020	15,900	13,924	29,824
2020 - 2025	94,900	54,327	149,227
2026 - 2030	126,200	23,088	149,288
	\$ 292,300	\$ 155,383	\$ 447,683

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 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, 2015

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

B. Sewer Revenue Bonds Payable – Continued

September 30	Principal	Interest	Total
2016	31,100	43,745	74,845
2017	32,700	42,190	74,890
2018	34,300	40,555	74,855
2019	36,000	38,840	74,840
2020	37,800	37,040	74,840
2021 - 2025	219,200	154,900	374,100
2026 - 2030	279,900	94,325	374,225
2031 - 2033	203,900	20,720	224,620
	\$ 874,900	\$ 472,315	1,347,215

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
2016	19,000	46,575	65,575
2017	20,000	45,720	65,720
2018	21,000	44,820	65,820
2019	22,000	43,875	65,875
2020	23,000	42,885	65,885
2021 - 2025	131,000	198,000	329,000
2026 -2030	164,000	165,690	329,690
2031 -2035	203,000	125,370	328,370
2036 -2040	253,000	75,465	328,465
2041 -2043	179,000	16,245	195,245
	\$ 1,035,000	\$ 804,645	\$ 1,839,645

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

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:

Year	September 30
2016	16,872
2017	16,872
2018	16,872
2019	16,872
2020	16,872
2021-2023	50,618
	\$ 134,978

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
2016	10,369	1,058	11,427
2017	10,685	742	11,427
2018	11,010	416	11,426
2019	14,069	346	14,415
	\$ 46,132	\$ 2,562	\$ 48,694

CITY OF HAWTHORNE, FLORIDA S
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

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

F. NRWA Revolving Loan

In April of 2014, the City executed a promissory note with the National Rural Water Association for an amount of \$75,000. The note carries an interest of 3% and is payable over a ten year term in annual installments of \$8,690. Payments commenced in June of 2014, and future debt service of this revolving loan is as follows:

September 30	Principal	Interest	Total
2016	6,796	1,895	8,690
2017	7,003	1,687	8,690
2018	7,215	1,475	8,690
2019	7,436	1,254	8,690
2020	7,661	1,029	8,690
2021 and future	30,139	1,726	31,865
Total	\$ 66,250	\$ 9,066	\$ 75,315

G. 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
2016	18,263	2,246	20,509
2017	18,818	1,691	20,509
2018	19,391	1,118	20,509
2019	19,980	529	20,509
2020	6,760	30	6,790
Total	\$ 83,212	\$ 5,614	\$ 88,826

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

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

H. 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 Payments
2016	11,838	640	12,478
2017	6,147	92	6,239
Total	\$ 17,985	\$ 732	\$ 18,717

The following is a schedule of changes in proprietary fund long-term debt for the year ended September 30, 2015:

	Balance September 30			Balance September 30	Due Within
	2014	Additions	Retirements	2015	One Year
FDOT Loan Payable	151,852	-	(16,872)	134,980	16,872
CRA Water Tower	100,937	-	(17,723)	83,214	17,724
NRWA Loan	129,064	-	(16,633)	112,431	16,633
Note Payable -M&S	29,238		(11,253)	17,985	6,147
Water Revenue Bonds	304,300		(12,000)	292,300	12,700
Sewer Revenue Bonds	1,957,500		(47,600)	1,909,900	50,100
	<u>\$ 2,672,893</u>	<u>\$ -</u>	<u>\$ (122,081)</u>	<u>\$ 2,550,811</u>	<u>\$ 120,176</u>

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

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 10. LONG-TERM DEBT - GOVERNMENTAL ACTIVITIES

A. 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, 2015 the outstanding balance was \$ 13,603.

The following is a schedule of changes in general long-term debt for the year ended September 30, 2015:

	Balance September 30 2014	Additions	Retirements	Balance September 30 2015	Due Within One Year
Line of Credit	22,484	-	(8,881)	13,603	-
	<u>\$ 22,484</u>	<u>\$ -</u>	<u>\$ (8,881)</u>	<u>\$ 13,603</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, 2015

NOTE 11. INCOME FROM LEASED PROPERTY (Continued)

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

<u>Year Ending</u> <u>September 30</u>	
2016	27,749
2017	29,671
2018	29,671
2019	29,671
2020	29,671
All Future years	<u>53,256</u>
	<u>\$ 199,689</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, 2015, the City contributed \$12,168 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, 2015

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. DONATION OF FIRE STATION ASSETS TO ALACHUA COUNTY

The City recorded the donation of the Fire Station assets to Alachua County. These assets had a net book value of \$74,809 which was recorded as a special item loss.

NOTE 16. SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through May 1, 2016, the date the financial statements were available to be issued. In November of 2015, the promissory note from FDOT, with unpaid principal of approximately \$135,000 was cancelled by FDOT.

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, 2015

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive / (Negative)
REVENUES				
Taxes				
Ad valorem taxes	\$ 257,083	\$ 257,083	237,426	\$ (19,657)
Sales tax - local option gas tax	121,000	121,000	118,578	(2,422)
Sales tax - 1/2 cent tax	75,000	75,000	72,232	(2,768)
Utility service taxes				
Electricity	85,635	85,635	84,098	(1,537)
Telecommunications	41,000	41,000	35,540	(5,460)
Water	25,419	25,419	20,764	(4,655)
Occupational tax	3,100	3,100	3,597	497
Total taxes	<u>608,237</u>	<u>608,237</u>	<u>572,235</u>	<u>(36,002)</u>
Licenses and permits				
Alcoholic Beverage Licenses	978	978	1,227	249
Permits	700	700	763	63
Total licenses and permits	<u>1,678</u>	<u>1,678</u>	<u>1,990</u>	<u>312</u>
Intergovernmental revenue				
State municipal revenue sharing	47,237	47,237	46,050	(1,187)
Hawthorne Redevelopment	60,950	60,950	89,142	28,192
CRA Administration	38,702	38,702	30,000	(8,702)
Total intergovernmental revenue	<u>146,889</u>	<u>146,889</u>	<u>165,192</u>	<u>18,303</u>
Charges for Services				
Zoning Fees	32,375	32,375	10,932	(21,443)
Traffic signal & lighting	19,903	19,903	20,328	425
Recreation fees	50	50	56	6
Total charges for services	<u>52,328</u>	<u>52,328</u>	<u>31,316</u>	<u>(21,012)</u>
Fines and forfeitures				
Fine revenue/sheriff	5,000	5,000	1,175	(3,825)
Code enforcement fines	1,000	1,000	4,652	3,652
Total fines and forfeitures	<u>6,000</u>	<u>6,000</u>	<u>5,827</u>	<u>(173)</u>
Miscellaneous				
Grant Revenue from DEO	-	-	25,000	25,000
LOC & other miscellaneous	-	-	31,549	31,549
Miscellaneous non-operating	18,598	18,598	11,860	(6,738)
Total miscellaneous	<u>18,598</u>	<u>18,598</u>	<u>68,409</u>	<u>49,811</u>
Total Revenues	<u>833,730</u>	<u>833,730</u>	<u>844,969</u>	<u>11,239</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, 2015

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive / (Negative)
EXPENDITURES				
General government				
Personnel services	316,184	316,184	327,248	11,064
Operating expenses	365,099	365,099	368,119	3,020
Grant Expense	-	-	124,616	124,616
*Debt Service	43,600	43,600	630	(42,970)
Total General Government	<u>724,883</u>	<u>724,883</u>	<u>820,613</u>	<u>95,730</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	108,847	108,847	24,355	(84,492)
 Reconciling Items				
Capital expenditure			(1,325)	(1,325)
Adjustment for accruals			13,611	13,611
Long term liabilities			(13,603)	(13,603)
Depreciation Expense			78,435	78,435
Total Reconciling Items			<u>77,118</u>	<u>77,118</u>
 Fund balance at beginning of year	<u>891,507</u>	<u>891,507</u>	<u>1,151,107</u>	
Fund balance at end of year	<u><u>\$ 1,000,354</u></u>	<u><u>\$ 1,000,354</u></u>	<u><u>\$ 1,252,580</u></u>	<u><u>\$ 252,226</u></u>

*Debt service in budget includes principal and interest payments, while actual amounts only includes interest.

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, 2015

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
REVENUES				
Water Fund				
Charges for Services	230,300	\$ 230,300	\$ 220,016	\$ (10,284)
Penalties	16,737	16,737	19,158	2,421
Miscellaneous revenue	76,500	76,500	4,237	(72,263)
Total water revenues	<u>323,537</u>	<u>323,537</u>	<u>243,411</u>	<u>(80,126)</u>
Sewer Fund				
Sales of sewer services	327,000	327,000	320,320	(6,680)
Septage	35,000	35,000	22,880	(12,120)
Land Lease Rents	27,130	27,130	28,489	1,359
Total sewer revenues	<u>389,130</u>	<u>389,130</u>	<u>371,689</u>	<u>(17,441)</u>
Sanitation Fund				
Sanitation income	188,342	188,342	191,394	3,052
Total sanitation revenues	<u>188,342</u>	<u>188,342</u>	<u>191,394</u>	<u>3,052</u>
Cemetery Fund				
Sales	500	500	1,540	1,040
Interest income	500	500	276	(224)
Miscellaneous revenue	10,731	10,731	-	(10,731)
Total cemetery revenues	<u>11,731</u>	<u>11,731</u>	<u>1,816</u>	<u>(9,915)</u>
Total proprietary revenues	<u>912,740</u>	<u>912,740</u>	<u>808,310</u>	<u>(104,430)</u>
EXPENDITURES				
Water Fund				
Personnel services	37,942	37,942	36,757	1,185
** Operating expenses	173,500	173,500	226,276	(52,776)
*Debt Service	111,784	111,784	48,000	63,784
Total water expenditures	<u>323,226</u>	<u>323,226</u>	<u>311,033</u>	<u>12,193</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, 2015

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
Sewer Fund				
Personnel services	91,073	91,073	89,833	1,240
** Operating expenses	167,500	167,500	391,993	(224,493)
*Debt Service	128,431	128,431	70,142	58,289
Total sewer expenditures	<u>387,004</u>	<u>387,004</u>	<u>551,968</u>	<u>(164,964)</u>
Sanitation Fund				
Personnel services	5,771	5,771	3,765	2,006
Operating expenses	183,000	183,000	176,079	6,921
Total sanitation expenditures	<u>188,771</u>	<u>188,771</u>	<u>179,844</u>	<u>8,927</u>
Cemetery Fund				
Personnel services	8,941	8,941	12,765	(3,824)
Operating expenses	2,050	2,050	600	1,450
Total cemetery expenditures	<u>10,991</u>	<u>10,991</u>	<u>13,365</u>	<u>(2,374)</u>
 Total expenditures	 909,992	 909,992	 1,056,210	 (146,218)
 Net change in fund balances	 2,748	 2,748	 (247,900)	 (250,648)
 Fund balance at beginning of year	 <u>1,947,527</u>	 <u>1,947,527</u>	 <u>1,602,455</u>	 <u>(345,072)</u>
Fund balance at end of year	<u>\$ 1,950,275</u>	<u>\$ 1,950,275</u>	<u>\$ 1,354,555</u>	<u>\$ (595,720)</u>

*Debt service in budget includes principal and interest payments, while actual amounts include only interest

** Operating expenses include depreciation in the actual amounts, but not in the budget

COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the basic financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Hawthorne, Florida, as of and for the year ended September 30, 2015, which collectively comprise the City of Hawthorne, Florida's basic financial statements and have issued our report thereon dated May 1, 2016. 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 no instances of

noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication 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 1, 2016



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, 2015 and have issued our report thereon dated May 1, 2016.

We have issued our Independent Auditor's Report and Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, dated May 15, 2013. Disclosures in those reports and schedules, should be considered in conjunction with this management letter.

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

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 reviewing old balances in the inter-fund accounts and making appropriate accounting adjustments.
- 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

qualitative 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, 2014, 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, 2014. 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, 2015, 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, 2015, 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 1, 2016



Schedule of Findings and Response

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

We have audited the basic financial statements of the City of Hawthorne, Florida (the City) as of and for the year ended September 30, 2015 and have issued our report thereon dated May 1, 2016, which was unqualified.

We have issued our Independent Auditor's Report and Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, dated May 15, 2013. Disclosures in these reports, if any, should be considered in conjunction with this management letter.

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

Current Year Findings:

2015-1: In the inter-fund receivables and payables, there are old balance that have accumulated over the years. The City does not have a clearing system to settle the inter-fund balances that arise in the normal course of business. While the entity-wide financial statements are not impacted due to the compensating nature of these balances, the individual funds reflect large amounts of both receivables and payables. An analysis of these old balances, and developing a system to clear the balances on a regular basis is proper accounting procedure.

Response: The City will develop and set up an incremental payment schedule between inter-funds to clear the accumulated old balances over an extended period of time. This system will be done by issuing checks for repayment to each fund in a predetermined amount.

All prior year findings have been substantially cleared



Sexton & Schnoll
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Commission
City of Hawthorne, Florida

We have examined the City of Hawthorne's compliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2015. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included 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 examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

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

Sexton & Schnoll
Certified Public Accountants
May 1, 2016