



Sexton & Schnoll

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2018

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2018

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INTRODUCTORY SECTION

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

September 30, 2018

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

Current Officials as of September 30, 2018

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, each major fund, and the aggregate remaining fund information of the City of Hawthorne, Florida (City), as of and for the years ended September 30, 2018, and 2017, and the related notes to the financial statements, 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 from 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 on 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, each major fund, and the aggregate remaining fund information of the City of Hawthorne, Florida, as of September 30, 2018 and 2017, and the respective changes in financial position, and, where applicable, cash flows 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 basic financial statements. The introductory section is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor 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 statements 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 nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2019, 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 and compliance and the results of that testing, and not to provide an opinion on 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 8, 2019



MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2018

The management of the City of Hawthorne, Florida 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, 2018. 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 2018 by \$9,074,713. 8% 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 (\$351,799). The City's net assets are not sufficient to meet its demands for restricted net assets.
- The City's total net assets increased \$190,035 or 2.1% over the year.
- 95.8% 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 \$519,836 from the previous year. General revenues from taxes increased 12.6%.
- Business-type activities (the City's enterprise funds) operating revenues increased by \$49,604. Charges for services increased slightly.
- The City's total debt, including bonds decreased by \$93,661 or 3.8% in the current fiscal year.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2018

City Highlights

- As of September 30, 2018, the unemployment rate for Alachua County was 2.9%. The 2018 rate for Hawthorne was 19.9%. According to the U.S. Department of Labor, Bureau of Labor Statistics, the State of Florida's unemployment rate was 3.3%. The National Unemployment rate was 3.7%.
- The official population of the City according to the 2016 Census was 1,519. The estimated population in 2018 is 1,872 (U.S. Census 2012-2016 American Community Survey 5 – Year estimates).
- The ad valorem tax millage rate for the City was 5.3194 mills in 2018.
- The City moved into a newly renovated building for City Hall at 6875 SE 221st street with double the square footage for offices and an updated ADA-compliant Commission Chambers for meetings.
- The Old City Hall has been transitioned to the Community Center with meeting space for the Hawthorne Life Enrichment Center Super Seniors, Community Organizations and rentals for events. The office space has been available for rent.
- Hawthorne Wellness Center opened January, 2018. The City-owned gym has an active membership, Silver Sneaker Program, yoga and children's karate classes.
- Little Orange Creek Nature Park has opened to the Public and active rentals of the building for events such as weddings, reunions and parties have been successful. The City was awarded a recreational improvement grant for Little Orange Creek Nature Park by the Florida Department of Environmental Protection Recreational Development Program (FRDAP) for \$50,000. Elements of the grant have started and a new grant has been applied for.
- Hawthorne Athletic Park received the FRDAP recreational improvement grant. These improvements are slated to be completed in FY2018-19. An additional CDBG grant of \$650,000 has been awarded for additional improvements at the park.
- Lindsey Phillips Park also has been granted the FRDAP grant for recreation improvements. These improvements are slated to be completed in FY2018-19.
- The City of Hawthorne was awarded a Florida Department of Economic Development CDGB grant for the replacement of old water lines in the historic downtown area of Hawthorne. The \$650,000 neighborhood development grant construction of phase I, waterline replacement was completed.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2018

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, 2018

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 30 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 31 through 49 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, 2018

Statement of Net Assets

The following table reflects a condensed Statement of Net Assets:

	Governmental	Business-type	Total Government	
	Activities	Activities	2018	2017
Cash and cash equivalents	\$ 601,626	\$ 626,569	\$ 1,228,195	\$ 1,300,054
Other assets	1,537,426	2,598,794	4,136,220	3,679,529
Capital Assets	<u>6,744,515</u>	<u>3,386,957</u>	<u>10,131,472</u>	<u>9,898,213</u>
Total Assets	<u>8,883,567</u>	<u>6,612,320</u>	<u>15,495,887</u>	<u>14,877,796</u>
Other current liabilities	935,773	3,239,582	4,175,354	2,715,445
Long term outstanding	<u>267,579</u>	<u>1,978,241</u>	<u>2,245,820</u>	<u>3,277,672</u>
Total Liabilities	<u>1,203,352</u>	<u>5,217,822</u>	<u>6,421,174</u>	<u>5,993,117</u>
Net assets:				
Invested in capital assets, net of related debt	6,450,414	2,247,100	8,697,514	7,126,145
Restricted	431,067	297,931	728,998	660,644
Unrestricted	<u>798,734</u>	<u>(1,150,533)</u>	<u>(351,799)</u>	<u>1,097,890</u>
Total net assets	<u>\$ 7,680,215</u>	<u>\$ 1,394,498</u>	<u>\$ 9,074,713</u>	<u>\$ 8,884,679</u>

The largest portion of the City's net assets reflects its investment in capital assets (\$8,697,514) 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 \$728,997 represents resources that are subject to external restrictions on how they may be used.

Total net assets balance increased by \$190,035 or 2.1 % 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, 2018

Change in Net Assets
For the Fiscal Years Ended September 30, 2018 and 2017

	Governmental	Business-type	Total Government	
	Activities	Activities	2018	2017
Revenues:				
Program revenues				
Charges for services	\$ 69,715	\$ 862,895	\$ 932,610	\$ 875,822
Grants and contributions	459,754	330,539	790,293	2,043,711
General revenues				
Taxes	753,664		753,664	663,051
Tax increment	70,642		70,642	52,781
State shared revenues	51,982		51,982	54,638
Interest	1,267	311	1,578	2,122
Miscellaneous	41,439	29,965	71,404	47,738
Total revenues	<u>1,448,463</u>	<u>1,223,710</u>	<u>2,672,173</u>	<u>3,739,863</u>
Expenses:				
General government	579,559	-	579,559	474,650
Transportation	177,646	-	177,646	163,171
Economic environment	33,085	-	33,085	86,787
Culture & recreation	380,111	-	380,111	202,203
Interest on long-term debt	11,657	106,196	117,853	114,436
Cemetery		(131)	(131)	(199)
Water		584,786	584,786	2,084,783
Garbage services		201,975	201,975	201,529
Sewer		407,255	407,255	423,173
Total expenses	<u>1,182,058</u>	<u>1,300,081</u>	<u>2,482,139</u>	<u>3,750,533</u>
Changes in net assets	266,405	(76,371)	190,034	(10,670)
Beginning net assets	<u>7,413,809</u>	<u>1,470,869</u>	<u>8,884,678</u>	<u>8,895,345</u>
Ending net assets	<u>\$ 7,680,214</u>	<u>\$ 1,394,498</u>	<u>\$9,074,712</u>	<u>\$ 8,884,676</u>

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2018

Current Year Impacts on Revenue and Expense

Revenues - The City's tax revenue was \$746,686, representing an increase of 12.6% from 2017. State Revenue Sharing decreased marginally by \$2,656 or 4.9%. Enterprise Funds services revenue decreased by \$1,585,859, due to fewer grants. Total City revenues decreased \$1,067,690, or 28.5 % compared to 2017 due, primarily, to receipt of fewer grants.

Expenses - Governmental activities expenses decreased by \$250,998 (27.0%), while enterprise fund activity expenses decreased by \$1,519,389 (53.9%).

Capital Assets

Capital Assets at September 30, 2018 and 2017

	Governmental		Business-type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Land	\$ 4,657,916	\$4,657,916	\$ 114,300	\$ 114,300	\$ 4,772,216	\$ 4,772,216
Buildings	1,322,481	1,021,625	5,009,936	4,998,574	6,332,417	6,020,199
Improvements	1,760,366	1,760,366	5,594,098	5,588,896	7,354,464	7,349,263
Equipment	393,904	218,408	193,945	140,825	587,848	359,233
Subtotal	<u>8,134,667</u>	<u>7,658,314</u>	<u>10,912,279</u>	<u>10,842,595</u>	<u>19,046,945</u>	<u>18,500,910</u>
Accumulated depreciation	<u>(1,390,152)</u>	<u>(1,296,077)</u>	<u>(7,525,322)</u>	<u>(7,306,620)</u>	<u>(8,915,474)</u>	<u>(8,602,697)</u>
Capital assets, net	<u>\$ 6,744,515</u>	<u>\$6,362,238</u>	<u>\$ 3,386,957</u>	<u>\$3,535,975</u>	<u>\$10,131,471</u>	<u>\$ 9,898,213</u>

The City's net investment in capital assets for the governmental activities increased by \$233,258 or 2.4% from the prior year. The City added \$546,035 of assets. Depreciation expense was \$312,777, an increase of 8.3% 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 \$2,384,075, which is a decrease of \$93,661 from the previous year.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2018

Debt Outstanding at September 30, 2018 and 2017

	Governmental		Business-type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
USDA bonds	-	-	2,003,800	2,073,300	2,003,800	2,073,300
Loans Payable	294,100	280,673	86,175	123,763	380,275	404,436
Total bonds and notes	<u>\$294,100</u>	<u>\$280,673</u>	<u>\$2,089,975</u>	<u>\$2,197,063</u>	<u>\$2,384,075</u>	<u>\$ 2,477,736</u>

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

Budgetary Highlights

The City's FY budget for 2017-18 was adopted in September, 2017. There were no other changes to the FY 2017-18 budget. A comparison to actual results can be reviewed in supplementary information beginning on page 52.

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, 2018

	Governmental Activities	Business-type Activities	2018 TOTAL	2017 TOTAL
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 170,560	\$ 328,638	\$ 499,198	639,412
Accounts receivable, net	63,453	69,198	132,651	694,661
Due from other funds	-	2,527,006	2,527,006	1,727,891
Due from other governmental unit	293,001	-	293,001	46,132
Total Current Assets	<u>527,014</u>	<u>2,924,842</u>	<u>3,451,856</u>	<u>3,108,096</u>
Restricted assets:				
Cash	431,067	297,931	728,997	660,641
Total Restricted Assets	<u>431,067</u>	<u>297,931</u>	<u>728,997</u>	<u>660,641</u>
Non-current assets:				
Due from other funds	1,168,052	-	1,168,052	1,187,698
Bond costs, net	-	2,591	2,591	3,001
Prepaid Expenses	12,919	-	12,919	20,147
Capital assets, net	<u>6,744,515</u>	<u>3,386,956</u>	<u>10,131,471</u>	<u>9,898,213</u>
Total non-current assets	<u>7,925,486</u>	<u>3,389,547</u>	<u>11,315,033</u>	<u>11,109,058</u>
Total assets	<u>8,883,567</u>	<u>6,612,319</u>	<u>15,495,886</u>	<u>14,877,796</u>
LIABILITIES				
Current liabilities (payable from current assets):				
Accounts payable	128,803	35,368	164,171	418,271
Due to other funds	718,132	1,808,874	2,527,006	1,727,891
Deferred Revenue	2,623	9,004	11,627	13,933
Line of credit	-	-	-	294,332
Loans payable-current portion	26,521	38,734	65,255	37,588
Accrued wages	57,343	9,920	67,263	58,033
Total current liabilities (payable from current assets)	<u>933,422</u>	<u>1,901,900</u>	<u>2,835,322</u>	<u>2,550,047</u>
Current liabilities (payable from restricted assets):				
Accrued interest payable	-	7,905	7,905	7,905
Deposits	2,350	88,725	91,075	87,993
Bonds payable-current portion	-	73,000	73,000	69,500
Total current liabilities (payable from restricted assets)	<u>2,350</u>	<u>169,630</u>	<u>171,980</u>	<u>165,398</u>

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2018

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>2018</u> <u>TOTAL</u>	<u>2017</u> <u>TOTAL</u>
Non-current liabilities:				
Loans payable	267,579	47,441	315,020	86,175
Due to other funds	-	1,168,052	1,168,052	1,187,698
Bonds payable	-	1,930,800	1,930,800	2,003,800
Total long-term liabilities	<u>267,579</u>	<u>3,146,293</u>	<u>3,413,872</u>	<u>3,277,673</u>
 Total liabilities	 <u>1,203,352</u>	 <u>5,217,823</u>	 <u>6,421,175</u>	 <u>5,993,119</u>
 NET ASSETS				
Invested in capital assets, net of related debt	6,450,414	2,247,100	8,697,514	7,126,145
Restricted net assets	431,067	297,931	728,998	660,643
Unrestricted net assets	798,734	(1,150,535)	(351,801)	1,097,890
Total net assets	<u>\$ 7,680,215</u>	<u>\$ 1,394,496</u>	<u>\$ 9,074,711</u>	<u>\$ 8,884,678</u>

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES

For the Years Ended September 30, 2018 and 2017

Functions / Programs	Expenses	Program			Net Revenue (Expense) and Changes in Net Assets			2017
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Activities	Total	
Governmental Activities								
General government	\$ 579,559	\$ 45,586	\$ 459,754		(74,219)	\$ -	\$ (74,219)	(357,854)
Public safety	-		-	-	-	-	-	-
Transportation	177,646	24,127	-	-	(153,519)	-	(153,519)	(139,726)
Economic environment	33,085	-	-	-	(33,085)	-	(33,085)	(86,787)
Culture & recreation	380,110	-	-		(380,110)	-	(380,110)	(202,203)
Interest on long-term debt	11,657	-	-	-	(11,657)	-	(11,657)	(4,249)
Total governmental activities	<u>1,182,057</u>	<u>69,713</u>	<u>459,754</u>	<u>-</u>	<u>(652,589)</u>	<u>-</u>	<u>(652,589)</u>	<u>(790,818)</u>
Business Activities								
Cemetery	(131)	-	-	-	-	131	131	399
Water utility	585,038	276,094	330,539		-	21,594	21,594	126,957
Garbage services	201,975	227,230	-	-	-	25,255	25,255	20,633
Sewer utility	407,005	359,325	-	-	-	(47,681)	(47,681)	(77,982)
Interest on long-term debt	106,196	246	-	-	-	(105,950)	(105,950)	(110,187)
Total business activities	<u>1,300,083</u>	<u>862,895</u>	<u>330,539</u>	<u>-</u>	<u>-</u>	<u>(106,650)</u>	<u>(106,650)</u>	<u>(40,180)</u>
Total Government	<u>\$ 2,482,140</u>	<u>\$ 932,608</u>	<u>\$ 790,293</u>	<u>\$ -</u>	<u>\$ (652,589)</u>	<u>\$ (106,650)</u>	<u>\$ (759,238)</u>	<u>\$ (830,998)</u>

CONTINUED

CITY OF HAWTHORNE, FLORIDA

**STATEMENT OF ACTIVITIES (Continued)
For the Years Ended September 30, 2018 and 2017**

	<u>Governmental</u>	<u>Business</u>	<u>Total</u>	<u>2017</u>
General Revenues				
Property taxes	391,764	-	391,764	370,127
Sales and use taxes	261,497	-	261,497	203,263
Utility services tax	87,733	-	87,733	79,481
Communications surtax	5,692	-	5,692	5,646
Licenses and permits	6,978	-	6,978	4,534
State shared revenues	51,982	-	51,982	54,638
Tax increment	70,642	-	70,642	52,781
Interest	1,267	311	1,578	2,122
Miscellaneous	41,439	29,965	71,404	47,739
Total general revenue	<u>918,994</u>	<u>30,276</u>	<u>949,270</u>	<u>820,331</u>
Change in net assets	266,406	(76,371)	190,035	(10,666)
Net assets, beginning of year	7,413,809	1,470,869	8,884,678	8,895,344
Net assets, end of year	<u>\$ 7,680,215</u>	<u>\$ 1,394,498</u>	<u>\$ 9,074,713</u>	<u>\$ 8,884,678</u>

CITY OF HAWTHORNE, FLORIDA

**GOVERNMENTAL FUND
BALANCE SHEET
September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 601,626	\$ 608,134
Accounts receivable	63,454	33,070
Due from other funds	1,168,052	1,187,698
Due from other governmental units	293,001	46,132
Prepaid expenses	<u>12,919</u>	<u>19,082</u>
Total assets	<u>2,139,052</u>	<u>1,894,116</u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable and accrued liabilities	131,153	97,307
Due to other funds	718,132	692,560
Notes Payable	294,100	-
Deferred Revenue	2,623	3,694
Accrued compensation	<u>57,344</u>	<u>48,984</u>
Total Liabilities	<u>1,203,352</u>	<u>842,544</u>
 FUND BALANCES		
Restricted:		
Reserved Little Orange Creek	35,250	23,022
Reserved Downtown development	344,604	245,943
Reserved Wild Spaces Public Spaces	51,214	116,928
Interfund receivable	1,168,052	1,187,698
Unrestricted:	<u>(663,419)</u>	<u>(522,020)</u>
Total fund balances	<u>935,701</u>	<u>1,051,571</u>
 Total Liabilities and Fund Balance	 <u>\$ 2,139,052</u>	 <u>\$ 1,894,116</u>
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets		
Fund balance-Governmental Funds	\$ 935,700	\$ 1,051,571
 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.	6,744,515	6,140,991
 Net assets of governmental activities	 <u>\$ 7,680,215</u>	 <u>\$ 7,192,562</u>

CITY OF HAWTHORNE, FLORIDA

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

For the Fiscal Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
REVENUE		
Taxes	\$ 746,686	\$ 663,052
Intergovernmental revenue	122,624	107,419
Charges for services	69,660	36,800
Other revenue	509,438	121,302
Total Revenue	<u>1,448,408</u>	<u>928,572</u>
EXPENDITURES		
Current Expenditures		
General government	564,051	466,089
Transportation	149,044	134,568
Economic environment	33,085	86,787
Culture/recreation	341,802	167,670
Capital outlay/(disposals)	476,352	297,191
Total expenditures	<u>1,564,334</u>	<u>1,152,305</u>
Excess of revenues over expenditures	<u>(115,926)</u>	<u>(223,733)</u>
Net changes in fund balances	(115,926)	(223,733)
Fund balances, beginning of year	<u>1,051,572</u>	<u>1,275,305</u>
Fund balances, end of year	<u>\$ 935,646</u>	<u>\$ 1,051,572</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 Years Ended September 30, 2018 and 2017

	2018	2017
Net change in fund balances - total governmental funds	\$ (115,926)	\$ (233,733)
<p>Amount reported for governmental activities in the statement of activities is different because:</p>		
<p>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</p>		
Capital purchase expenditure	476,352	
Less current year depreciation	(94,075)	
	382,277	221,246
<p>Repayments of loan principal are expenditures in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Principal payments on long-term debt	22,573	4,327
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds</p>		
Compensated Absences	(22,517)	(4,327)
Change in net assets of governmental activities	\$ 266,406	\$ (2,487)

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2018**

Business-Type Activities - Enterprise Funds

ASSETS	Cemetery	Water	Solid Waste	Sewer	Totals	2017
ASSETS						
Current assets						
Cash	\$ 47,446	\$ 146,081	74,813	\$ 60,299	\$ 328,639	\$ 417,172
Accounts receivable (net of allowance for uncollectible)	-	14,552	20,338	34,309	69,199	661,591
Due from other funds	-	1,667,190	360,013	499,803	2,527,006	1,727,891
Restricted assets						
Cash	-	254,993	-	42,938	297,931	274,748
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	-	269,648	-	5,333,512	5,603,160	5,586,596
Equipment	-	14,630	-	181,616	196,246	143,125
Construction in progress	-	-	-	-	-	-
Allowance for depreciation	-	(1,189,118)	-	(6,336,204)	(7,525,322)	(7,306,620)
Other assets						
Bond costs	-	-	-	12,295	12,295	12,295
Accumulated amortization-bond costs	-	-	-	(9,704)	(9,704)	(9,294)
Prepaid Expenses	-	-	-	-	-	1,065
Total assets	<u>47,446</u>	<u>2,732,774</u>	<u>455,164</u>	<u>3,376,937</u>	<u>6,612,321</u>	<u>6,621,442</u>
LIABILITIES AND NET ASSETS						
Current liabilities						
Due to other funds	31,485	1,730,469	300,981	913,991	2,976,926	1,035,331
Accounts Payable	-	2,901	18,666	13,801	35,368	323,104
Current liabilities payable from Restricted funds						
Accrued interest payable	-	2,996	-	4,909	7,905	7,905
Deposits	-	88,725	-	-	88,725	85,852
Loan payable M&S Bank-current	-	-	-	-	-	-
Loan payable FDOT-current	-	-	-	-	-	-
Loan payable CRA-current	-	19,983	-	-	19,983	19,391
Loan payable CRA-current	-	-	-	-	-	-
Loan payable NRWA-current	-	18,751	-	-	18,751	18,198
Line of Credit	-	-	-	-	-	294,332
Serial bonds payable-current	-	15,000	-	-	15,000	14,200
Bonds payable FMHA-current	-	-	-	58,000	58,000	55,300
Deferred Revenue	-	-	-	9,004	9,004	10,239
Accrued wages and compensation	-	1,562	554	7,802	9,918	9,049
Long-term liabilities						
Loan payable M&S Bank	-	-	-	-	-	-
Loan payable FDOT	-	-	-	-	-	-
Loan payable CRA	-	6,758	-	-	6,758	26,741
Loan payable CRA	-	-	-	-	-	-
Loan payable NRWA	-	40,683	-	-	40,683	59,434
Serial bonds payable	-	237,000	-	-	237,000	252,000
Bonds payable FMHA	-	-	-	1,693,800	1,693,800	1,751,800
Due to other funds	-	-	-	-	-	1,187,698
Total Liabilities	<u>31,485</u>	<u>2,164,828</u>	<u>320,201</u>	<u>2,701,306</u>	<u>5,217,820</u>	<u>5,150,572</u>
NET ASSETS						
Invested in capital assets, net of related debt	-	311,783	-	1,935,317	2,247,100	1,044,580
Restricted	-	254,993	-	42,938	297,931	274,748
Unrestricted	15,961	1,170	134,963	(1,302,623)	(1,150,531)	151,542
Total net assets	<u>15,961</u>	<u>567,946</u>	<u>134,963</u>	<u>675,632</u>	<u>1,394,500</u>	<u>1,470,870</u>
Total liabilities and net assets	<u>\$ 47,446</u>	<u>\$ 2,732,774</u>	<u>\$ 455,164</u>	<u>\$ 3,376,937</u>	<u>\$ 6,612,321</u>	<u>\$ 6,621,442</u>

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Fiscal year Ended September 30, 2018**

	Business-Type Activities - Enterprise Funds				Totals	2017
	Cemetery	Water	Solid Waste	Sewer		
OPERATING REVENUES						
Utility revenue						
Sales	\$ -	\$ 274,994	\$ 227,230	\$ 356,146	\$ 858,370	\$ 839,022
Reconnection fees	-	1,100	-	-	1,100	-
Late fees	-	-	-	-	-	-
Total operating revenues	<u>-</u>	<u>276,094</u>	<u>227,230</u>	<u>356,146</u>	<u>859,470</u>	<u>839,022</u>
OPERATING EXPENSES						
Personnel						
Regular salaries	(117)	26,004	4,908	65,528	96,324	104,040
Payroll tax	(9)	1,988	346	4,939	7,264	8,534
Retirement	(5)	1,497	261	3,729	5,482	6,983
Life and health insurance	-	5,782	1,921	17,211	24,914	20,760
Worker's compensation	-	3,245	-	3,786	7,031	6,172
Total Personnel Services	<u>(131)</u>	<u>38,516</u>	<u>7,436</u>	<u>95,193</u>	<u>141,015</u>	<u>146,490</u>
Depreciation and amortization	-	47,386	-	171,316	218,702	212,751
Accounting and auditing	-	-	-	-	-	-
Contractual services	-	42,596	192,925	37,313	272,834	264,030
Communication	-	2,889	-	3,259	6,148	9,366
Utility services	-	9,985	-	31,851	41,836	48,369
Insurance	-	5,919	888	3,552	10,359	11,545
Repairs and maintenance	-	15,652	-	30,871	46,523	64,644
Supplies	-	17,715	-	16,508	34,223	37,357
Publications & subscriptions	-	434	-	346	780	4,940
Other current charges and obligations	-	403,695	726	17,046	421,467	1,909,795
Total operating expenses	<u>-</u>	<u>546,271</u>	<u>194,539</u>	<u>312,062</u>	<u>1,052,872</u>	<u>2,562,796</u>
Total expenses	<u>(131)</u>	<u>584,787</u>	<u>201,975</u>	<u>407,255</u>	<u>1,193,887</u>	<u>2,709,286</u>

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Fiscal year Ended September 30, 2018**

	Business-Type Activities - Enterprise Funds				Totals	2017
	Cemetery	Water	Solid Waste	Sewer		
Operating profit (loss)	131	(308,694)	25,255	(51,109)	(334,416)	(1,870,264)
Non-operating revenues						
Grants	-	330,539	-		330,539	1,940,271
Interest on investments	247	64	-	-	311	310
Gain (loss) on disposal of assets	-	-	-	-	-	-
Rents and royalties	-	-	-	30,212	30,212	29,672
Miscellaneous	-	-	-	3,179	3,179	2,017
Total non-operating revenues	247	330,603	-	33,391	364,241	1,972,270
Debt service - interest	-	(43,231)	-	(62,965)	(106,196)	(110,187)
Net non-operating revenue	247	287,372	-	(29,574)	258,045	1,862,084
Change in net assets	379	(21,321)	25,255	(80,683)	(76,373)	(8,181)
Net assets, beginning of year	15,582	589,268	109,706	756,315	1,470,871	1,479,051
Net assets, end of year	<u>\$ 15,961</u>	<u>\$ 567,947</u>	<u>\$ 134,961</u>	<u>675,633</u>	<u>\$ 1,394,498</u>	<u>\$ 1,470,870</u>

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal year Ended September 30, 2018**

	Business-Type Activities - Enterprise Funds				Totals	2017
	Cemetery	Water	Solid Waste	Sewer		
Cash flows from operating activities						
Cash received from customers		\$ 868,719	\$ 229,019	\$ 356,827	\$ 1,454,565	\$ 489,171
Cash payments to employees	11	(32,831)	(5,132)	(77,266)	(115,219)	(130,828)
Cash payments for employee benefits		(5,782)	(1,920)	(17,211)	(24,913)	(20,760)
Cash paid to vendors		(1,094,808)	(195,034)	(171,214)	(1,461,056)	(1,938,485)
Net cash provided (used) by operating activities	11	(264,702)	26,933	91,136	(146,622)	(1,600,902)
Cash flows from capital and related financing activities						
Interest paid on notes and bonds payable	-	(43,231)	-	(62,965)	(106,196)	(110,321)
Principal paid on notes payable	-	(37,588)	-	-	(37,588)	6,147
Principal paid on bonds payable	-	(14,200)	-	(55,300)	(69,500)	(66,100)
Net cash provided by (used for) capital and related financing activities	-	(95,019)	-	(118,265)	(213,284)	(170,273)
Cash flows from non-capital financing activities						
State grant	-	330,539	-	-	330,539	1,940,271
Loan proceeds	-	-	-	-	-	-
Rents and royalties	-	-	-	30,212	30,212	29,672
Miscellaneous	-	-	-	3,179	3,179	2,017
Net cash provided by non-capital financing activities	-	330,539	-	33,391	363,930	1,971,960
Cash flows from investing activities						
Net Purchases of fixed assets	-	(16,563)	-	(53,120)	(69,683)	(48,746)
Interest Income	247	64	-	-	311	310
Net cash provided (used) for investing activities	247	(16,499)	-	(53,120)	(69,372)	(48,436)
Net increase (decrease) in cash and cash equivalents	258	(45,682)	26,933	(46,859)	(65,349)	152,349
Cash and cash equivalents, beginning of year	47,188	446,754	47,879	150,096	691,917	539,568
Cash and cash equivalents, end of year	\$ 47,446	\$ 401,072	\$ 74,812	\$ 103,237	\$ 626,568	\$ 691,917

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal year Ended September 30, 2018**

	<u>Cemetery</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Sewer</u>	<u>Totals</u>	<u>2017</u>
<u>Reconciliation of operating income (loss) to net cash provided by operating activities</u>						
Operating income (loss)	<u>131</u>	<u>(308,695)</u>	<u>25,255</u>	<u>(51,108)</u>	<u>(334,416)</u>	<u>(1,870,264)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	-	47,386	-	171,726	219,112	213,161
(Increase) decrease in assets:						
Accounts receivable, net	-	589,220	1,789	1,384	592,393	(357,219)
Prepaid expenses	-	533	-	533	1,065	6,796
Due from other funds	-	(744,713)	(301,531)	247,130	(799,114)	(151,092)
Increase (decrease) in liabilities:						
Accounts payable	-	(581,368)	1,426	(2,126)	(582,068)	360,544
Due to other funds	10	730,160	299,609	(275,881)	753,898	202,136
Customer deposits payable	-	2,873	-	-	2,873	3,429
Accrued compensation	(131)	(96)	383	716	871	(5,536)
Accrued interest	-	-	-	-	-	-
Deferred Revenue	-	-	-	(1,235)	(1,235)	(2,857)
Total adjustments	<u>(121)</u>	<u>43,993</u>	<u>1,677</u>	<u>142,245</u>	<u>187,793</u>	<u>269,361</u>
Net cash provided (used) by operating activities	<u>\$ 11</u>	<u>\$ (264,702)</u>	<u>\$ 26,932</u>	<u>\$ 91,137</u>	<u>\$ (146,623)</u>	<u>\$(1,600,903)</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 a 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, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018, 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, 2018, the allowance for doubtful accounts was \$14,004. No other allowances for doubtful accounts are maintained since other fund accounts receivable are considered collectible as reported at September 30, 2018.

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, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

Assets	Years
Buildings and improvements	10-50
Machinery and equipment	5-12
Streets and related infrastructure	20-40

Capitalization of Interest - Interest related to bond issues are capitalized during the construction period. These costs are netted against applicable interest earnings on construction fund investments. During the current period, the City did not have any capitalized interest.

Deferred Revenues - Deferred revenues reported in government-wide financial statements represent unearned revenues. The deferred revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in proprietary fund financial statements represent unearned revenues which are measurable but not available and, in accordance with the modified accrual basis of accounting, are reported as deferred revenues.

Accrued Compensated Absences - The City accrues accumulated unpaid vacation and sick leave when earned by the employee. The amount is estimated to be used in the following year.

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

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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>2018</u>	<u>2017</u>
Cost of capital assets	\$ 8,134,667	\$ 7,658,315
Accumulated depreciation	<u>(1,390,152)</u>	<u>(1,296,077)</u>
Total Governmental Capital Assets	<u>\$ 6,744,515</u>	<u>\$ 6,632,238</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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, 2018

	Total Governmental Fund	Capital Related Items	Long-Term Debt Transactions	2018 Statement of Net Assets	2017 Statement of Net Assets
ASSETS					
Cash	\$ 601,626		\$ -	\$ 601,626	\$ 608,134
Accounts receivable	63,453		-	63,453	33,070
Due from other funds	1,168,052		-	1,168,052	1,187,698
Due from other governmental units	293,001		-	293,001	46,132
Prepaid expenses	12,919		-	12,919	19,082
Capital assets - net		6,744,515	-	6,744,515	6,362,238
Total assets	2,139,051	6,744,515	-	8,883,566	8,256,355
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	133,831	-	-	133,831	101,000
Due to other funds	718,132	-	-	718,132	692,560
Accrued compensated absences	57,288	-	-	57,288	48,984
Notes payable- long term	294,100	-	-	294,100	-
Total Liabilities	1,203,351	-	-	1,203,351	842,544
Fund Balance - Net Assets	935,700	6,744,515	-	7,680,215	7,413,810
Total liabilities and fund balance/net assets	\$ 2,139,051	\$ 6,744,515	\$ -	\$ 8,883,566	\$ 8,256,355

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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 \$ 115,926 differs from the "change in net assets" for governmental activities \$266,406 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	\$ 476,352
Depreciation expense	<u>(94,075)</u>
Difference	<u><u>\$ 382,277</u></u>

Long-term debt transactions

Debt proceeds are reported as "other financing sources" in the governmental fund, and have the effect of increasing the fund balance. Debt proceeds increase the liabilities in the state of net assets and do not result in an increase in net assets in the statement of activities.

Conversely, repayment of debt principal is reported as expenditures in the governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. However, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. Debt principal payments made during the fiscal year ending September 30, 2018 were \$22,572.

Accrued compensation

The City's employees have accrued wages payable as of September 30, 2018, in the amount of \$74,730. The amount includes vacation and sick leave that has been earned but not yet used by the employees.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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, 2018

	Total	Capital	Long-Term	2018	2017
	Governmental Fund	Related Items	Debt Transactions	Statement of Activities	Statement of Activities
REVENUES					
Taxes	\$ 746,686	\$ -	\$ -	\$ 746,686	\$ 663,052
Intergovernmental	122,624	-	-	122,624	107,419
Charges for Services	69,660	-	-	69,660	36,800
Miscellaneous	509,440	-	-	509,440	121,302
Total revenues	<u>1,448,410</u>	<u>-</u>	<u>-</u>	<u>1,448,410</u>	<u>928,572</u>
EXPENDITURES					
Current Expenditures					
General government	579,504		-	579,504	474,650
Public safety	-		-	-	-
Transportation	177,646		-	177,646	163,171
Economic environment	33,085		-	33,085	86,787
Culture /recreation	380,111		-	380,111	202,203
Capital Outlay/(disposals)		476,352	(476,352)	-	-
Debt Service					
Principal	(8,501)		8,501	-	-
Interest	11,657		-	11,657	4,249
Total Expenditures	<u>1,173,501</u>	<u>476,352</u>	<u>(467,851)</u>	<u>1,182,002</u>	<u>931,059</u>
Excess of revenues over (under) expenditures	274,909	(476,352)	467,851	266,408	(2,487)
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	274,909	(476,352)	467,851	266,408	(2,487)
Fund balance at beginning of year	1,076,691	5,980,218	356,898	7,413,807	7,416,294
Fund balance at end of year	<u>\$ 1,351,600</u>	<u>\$ 5,503,866</u>	<u>\$ 824,749</u>	<u>\$ 7,680,215</u>	<u>\$ 7,413,809</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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 2017-2018 was adopted by the City Commission in September, 2017.

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, 2018, the carrying amount of the City's bank balance was \$1,228,195. 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 2017-2018 fiscal year were levied in October 2017. 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, 2018

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018 was as follows:

	<u>2018</u>			
	Beginning			Ending
	Balance	Additions	Deletions	Balance
Governmental Capital assets:				
Land	\$ 4,657,916	\$ -	\$ -	\$ 4,657,916
Buildings	1,021,625	300,856	-	1,322,481
Improvements	1,760,366	-	-	1,760,366
Equipment and vehicles	218,408	175,496	-	393,903
Total capital assets	<u>7,658,315</u>	<u>476,352</u>	-	<u>8,134,667</u>
Less accumulated depreciation	<u>(1,296,077)</u>	<u>(94,075)</u>	-	<u>(1,390,151)</u>
Governmental Activities:				
capital assets, net	<u>\$ 6,362,238</u>	<u>\$ 382,277</u>	<u>\$ -</u>	<u>\$ 6,744,515</u>
Business-type Activities:				
Land	114,300	-	-	114,300
Buildings	4,998,574	-	-	4,998,574
Improvements other than buildings	5,588,896	14,264	-	5,603,160
Equipment and vehicles	140,825	55,421	-	196,246
Total capital assets	<u>10,842,595</u>	<u>69,685</u>	-	<u>10,912,280</u>
Less accumulated depreciation	<u>(7,306,620)</u>	<u>(218,702)</u>	-	<u>(7,525,322)</u>
Business-type activities:				
capital assets, net	<u>\$ 3,535,977</u>	<u>\$ (149,017)</u>	<u>\$ -</u>	<u>\$ 3,386,960</u>

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

Governmental activities:	<u>2018</u>
General government	27,165
Public safety	-
Transportation	28,602
Culture / recreation	38,308
Total depreciation expense-governmental activities	<u>\$ 94,075</u>
Business-type activities:	
Water utility	47,386
Sewer utility	171,316
Total depreciation expense-business-type activities	<u>\$ 218,702</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 7. INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of inter-fund receivables and payables at September 30, 2018 and 2017.

<u>Fund</u>	2018 <u>Interfund Receivables</u>	2017 <u>Interfund Receivables</u>	2018 <u>Interfund Payables</u>	2017 <u>Interfund Payables</u>
General	\$ 1,168,052	\$ 1,187,698	\$ 564,194	\$ 537,916
Water	912,523	922,477	1,139,104	1,158,750
Solid waste	60,405	58,483	-	-
Sewer	516,722	490,641	923,179	931,407
Cemetery	-	-	31,225	31,225
	<u>\$ 2,657,702</u>	<u>\$ 2,659,298</u>	<u>\$ 2,657,702</u>	<u>\$ 2,659,298</u>

The balance of \$923,179 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, 2018 and 2017 consisted of the following:

<u>Fund</u>	2018 <u>Transfers in</u>	2017 <u>Transfers in</u>	2018 <u>Transfers out</u>	2017 <u>Transfers out</u>
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, 2018

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:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	15,000	14,805	29,805
2020	15,900	13,924	29,824
2021	16,900	12,899	29,799
2022	17,900	11,997	29,897
2023	18,900	10,945	29,845
2024 - 2028	112,600	36,707	149,307
2029 - 2030	54,800	4,876	59,676
	<u>\$ 252,000</u>	<u>\$ 106,153</u>	<u>\$ 358,153</u>

B. Sewer Revenue Bonds Payable

Sewer revenue bonds for construction of the City's sewer system were issued during the fiscal year ended September 30, 1994, in the total amount of \$1,262,500. These bonds bear interest at the rate of 5% per annum, with different denominations maturing September 1, 1997 through 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, 2018

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

B. Sewer Revenue Bonds Payable – Continued

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	36,000	38,840	74,840
2020	37,800	37,040	74,840
2021	39,600	35,150	74,750
2022	41,700	33,170	74,870
2023	43,800	31,085	74,885
2024 - 2028	253,800	120,345	374,145
2029 - 2033	324,100	50,195	374,295
	<u>\$ 776,800</u>	<u>\$ 345,825</u>	<u>1,122,625</u>

C. Water and Sewer Revenue Bonds, Series 2004

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

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	22,000	43,875	65,875
2020	23,000	42,885	65,885
2021	24,000	41,850	65,850
2022	25,000	40,770	65,770
2023	26,000	39,645	65,645
2024 - 2028	150,000	179,505	329,505
2029 -2033	187,000	142,560	329,560
2034 -2038	231,000	96,750	327,750
2039 -2043	287,000	39,690	326,690
	<u>\$ 975,000</u>	<u>\$ 667,530</u>	<u>\$ 1,642,530</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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

D. 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
2019	14,197	346	14,543
	\$ 14,197	\$ 346	\$ 14,543

E. 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
2019	7,436	1,254	8,690
2020	7,661	1,029	8,690
2021	7,894	796	8,691
2022	8,134	556	8,691
2023	8,382	309	8,691
2024	5,729	65	5,794
Total	\$ 45,237	\$ 4,009	\$ 49,245

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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

F. Promissory Note – City of Hawthorne Community Redevelopment Agency

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:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	19,980	529	20,509
2020	6,760	30	6,790
Total	<u>\$ 26,740</u>	<u>\$ 559</u>	<u>\$ 27,299</u>

The following is a schedule of changes in proprietary fund long-term debt for the year ended September 30, 2018:

	Balance			Balance	Due
	September 30			September 30	Within
	<u>2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>2018</u>	<u>One Year</u>
CRA Water Tower	46,132	-	(19,391)	26,741	19,983
NRWA Loan	77,632	-	(18,198)	59,434	18,751
Water Revenue Bonds	266,200		(14,200)	252,000	15,000
Sewer Revenue Bonds	<u>1,807,100</u>		<u>(55,300)</u>	<u>1,751,800</u>	<u>58,000</u>
	<u>\$ 2,197,064</u>	<u>\$ -</u>	<u>\$ (107,089)</u>	<u>\$ 2,089,975</u>	<u>\$ 111,734</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, 2018

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. At September 30, 2018, there was no outstanding balance.

B. Promissory Note – City of Hawthorne Community Redevelopment Agency

In April, 2017, the City entered into an Interlocal Agreement with the Community Redevelopment Agency in the amount of \$285,000. The agreement carries 4.25% annual interest and is payable over fifteen years in monthly installments of \$2,144. The agreement was made in order to purchase and improve a new building for City Hall.

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	14,681	11,047	25,728
2020	15,317	10,411	25,728
2021	15,981	9,747	25,728
2022	16,674	9,054	25,728
2023	17,396	8,332	25,728
2024 - 2028	98,966	29,674	128,639
2029 - 2032	87,587	7,417	95,005
Total	<u>\$ 266,602</u>	<u>\$ 85,682</u>	<u>\$ 352,284</u>

C. Promissory Note – Logan’s Way

In December 2017, the City entered into an agreement with Logan’s Way in the amount of \$36,000. The agreement carries 5% annual interest and is payable over three years in monthly installments of \$1,079. The agreement was made in order to purchase equipment for the wellness center.

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	11,841	1,106	12,947
2020	12,447	500	12,947
2021	3,210	27	3,237
Total	<u>\$ 27,498</u>	<u>\$ 1,633</u>	<u>\$ 29,131</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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

The following is a schedule of changes in general long-term debt for the year ended September 30, 2018:

	Balance September 30 2017	Additions	Retirements	Balance September 30 2018	Due Within One Year
Note Payable	280,673		(14,071)	266,602	14,681
Note Payable- Logan's Way	-	36,000	(8,501)	27,498	11,840
	<u>\$ 280,673</u>	<u>\$ 36,000</u>	<u>\$ (22,572)</u>	<u>294,100</u>	<u>\$ 26,521</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 five years expiring February 14, 2020, with renewal options every five years for an additional thirty years. It provides for \$416 per month, with a 5% increase every five years.

The second lease is for a period of five years expiring March 31, 2021, with one renewal option for five years. It provides for \$1,280 per month, with a 12.5% increase with each lease renewal.

The lessee of the second lease is permitting a third party to share its radio tower. The City holds a contract with that third party whereby the City received a one-time payment of \$1,500 plus \$325 per month for as long as the third party continues its use of the radio tower.

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

Year Ending September 30	
2019	24,252
2020	24,398
2021	25,462
2022	26,422
2023	26,422
	<u>\$ 126,956</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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, 2018, the City contributed \$27,576 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.

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. SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through May 8, 2019, the date the financial statements were available to be issued. No such events were noted.

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, 2018

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive / (Negative)
REVENUES				
Taxes				
Ad valorem taxes	\$ 281,334	\$ 281,334	250,085	\$ (31,249)
Sales tax - local option gas tax	140,000	140,000	141,679	1,679
Sales tax - 1/2 cent tax	84,292	84,292	94,625	10,333
Sales Tax- local discretionary	60,000	60,000	83,981	23,981
Utility service taxes				
Electricity	91,318	91,318	107,612	16,294
Telecommunications	36,371	36,371	39,740	3,369
Water	22,561	22,561	23,271	710
Occupational tax	4,000	4,000	5,692	1,692
Total taxes	<u>719,876</u>	<u>719,876</u>	<u>746,686</u>	<u>26,810</u>
Licenses and permits				
Alcoholic Beverage Licenses	1,200	1,200	2,236	1,036
Permits	700	700	2,075	1,375
Total licenses and permits	<u>1,900</u>	<u>1,900</u>	<u>4,311</u>	<u>2,411</u>
Intergovernmental revenue				
State municipal revenue sharing	52,923	52,923	70,642	17,719
Hawthorne Redevelopment	52,781	52,781	51,982	(799)
CRA Administration	30,000	30,000	30,000	-
Total intergovernmental revenue	<u>135,704</u>	<u>135,704</u>	<u>152,624</u>	<u>16,920</u>
Charges for Services				
Zoning Fees	1,550	1,550	4,993	3,443
Traffic signal & lighting	24,128	24,128	24,128	-
LOC rentals	14,440	14,440	13,190	-
Recreation fees	50	50	27,348	27,298
Total charges for services	<u>40,168</u>	<u>40,168</u>	<u>69,660</u>	<u>30,741</u>
Fines and forfeitures				
Fine revenue/sheriff	1,500	1,500	1,992	492
Code enforcement fines	500	500	675	175
Total fines and forfeitures	<u>2,000</u>	<u>2,000</u>	<u>2,667</u>	<u>667</u>
Miscellaneous				
Grant Revenue from FRDAP	100,000	100,000	93,932	(6,068)
Alachua County Grant Revenue	300,000	300,000	300,000	-
Miscellaneous non-operating	2,300	2,300	78,528	76,228
Total miscellaneous	<u>402,300</u>	<u>402,300</u>	<u>472,460</u>	<u>70,160</u>
Total Revenues	<u>1,301,948</u>	<u>1,301,948</u>	<u>1,448,408</u>	<u>147,709</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, 2018

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive / (Negative)</u>
EXPENDITURES				
General government				
Personnel services	359,999	359,999	396,296	36,297
Operating expenses	835,377	835,377	545,347	(290,030)
Grant Expense	-	-	225,817	225,817
*Debt Service	53,636	53,636	14,653	(38,982)
Total General Government	<u>1,249,011</u>	<u>1,249,011</u>	<u>1,182,113</u>	<u>(66,899)</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	52,937	52,937	266,295	213,358
Reconciling Items				
Capital expenditure			(476,352)	(476,352)
Depreciation Expense			94,075	94,075
Total Reconciling Items			<u>(382,277)</u>	<u>(382,277)</u>
Fund balance at beginning of year	<u>1,238,036</u>	<u>1,238,036</u>	<u>1,051,573</u>	
Fund balance at end of year	<u><u>\$ 1,290,973</u></u>	<u><u>\$ 1,290,973</u></u>	<u><u>\$ 935,591</u></u>	<u><u>\$ (355,382)</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, 2018

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
REVENUES				
Water Fund				
Charges for Services	\$ 256,494	\$ 256,494	\$ 276,094	\$ 19,600
Penalties	15,789	15,789	-	(15,789)
Miscellaneous revenue	801,750	801,750	330,603	(471,147)
Total water revenues	<u>1,074,033</u>	<u>1,074,033</u>	<u>606,697</u>	<u>(467,336)</u>
Sewer Fund				
Sales of sewer services	362,992	362,992	356,146	(6,846)
Septage	500	500	3,179	2,679
Land Lease Rents	30,504	30,504	30,212	(292)
Total sewer revenues	<u>393,996</u>	<u>393,996</u>	<u>389,537</u>	<u>(4,459)</u>
Sanitation Fund				
Sanitation income	212,531	212,531	227,230	14,699
Total sanitation revenues	<u>212,531</u>	<u>212,531</u>	<u>227,230</u>	<u>14,699</u>
Cemetery Fund				
Sales	500	500	-	(500)
Interest income	500	500	247	(253)
Miscellaneous revenue	500	500	-	(500)
Total cemetery revenues	<u>1,500</u>	<u>1,500</u>	<u>247</u>	<u>(1,253)</u>
Total proprietary revenues	<u>1,682,060</u>	<u>1,682,060</u>	<u>1,223,711</u>	<u>(458,349)</u>
EXPENDITURES				
Water Fund				
Personnel services	46,708	46,708	38,516	8,192
** Operating expenses	915,550	915,550	546,272	369,278
*Debt Service	103,537	103,537	43,231	60,306
Total water expenditures	<u>1,065,795</u>	<u>1,065,795</u>	<u>628,019</u>	<u>437,776</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, 2018

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Final Budget Positive / (Negative)</u>
Sewer Fund				
Personnel services	107,983	107,983	95,193	12,790
** Operating expenses	158,550	158,550	312,061	(153,511)
*Debt Service	<u>107,765</u>	<u>107,765</u>	<u>62,965</u>	<u>44,800</u>
Total sewer expenditures	<u>374,298</u>	<u>374,298</u>	<u>470,219</u>	<u>(95,921)</u>
Sanitation Fund				
Personnel services	7,474	7,474	7,436	38
Operating expenses	<u>192,324</u>	<u>192,324</u>	<u>194,539</u>	<u>(2,215)</u>
Total sanitation expenditures	<u>199,798</u>	<u>199,798</u>	<u>201,975</u>	<u>(2,177)</u>
Cemetery Fund				
Personnel services	-	-	(131)	131
Operating expenses	<u>1,350</u>	<u>1,350</u>	<u>-</u>	<u>1,350</u>
Total cemetery expenditures	<u>1,350</u>	<u>1,350</u>	<u>(131)</u>	<u>1,481</u>
Total expenditures	1,641,240	1,641,240	1,300,081	341,159
Net change in fund balances	40,819	40,819	(76,371)	(117,190)
Fund balance at beginning of year	<u>1,981,175</u>	<u>1,981,175</u>	<u>1,470,869</u>	<u>(510,306)</u>
Fund balance at end of year	<u><u>\$ 2,021,994</u></u>	<u><u>\$ 2,021,994</u></u>	<u><u>\$ 1,394,498</u></u>	<u><u>\$ (627,496)</u></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 Honorable Mayor
And Members of the City Commission
City of Hawthorne, Florida

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hawthorne, Florida, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Hawthorne, Florida's basic financial statements, and have issued our report thereon dated May 8, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hawthorne, Florida's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hawthorne, Florida's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hawthorne, Florida's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hawthorne, Florida's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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 not suitable for any other purpose.

Sexton & Schnoll, CPAs

Sexton & Schnoll
Certified Public Accountants
May 8, 2019

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, 2018 and have issued our report thereon dated May 8, 2019.

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 8, 2019. 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. These requirements are addressed in the schedule of findings that accompanies this letter.
- 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 quantitative factors: (1) violations of provisions of contracts or grant agreements, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

- Section 10.554(1)(i)6 *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The annual financial audit report for the City of Hawthorne includes the accounts and transactions of its Community Redevelopment Agency, which is considered a blended component unit pursuant to Chapter 163 of the Florida Statutes.
- Section 10.554(1)(i)7(a) *Rules of the Auditor General*, requires a statement to be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. The City reported no conditions described in Section 218.503(1), Florida Statutes that result in a financial emergency.
- 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, 2018, 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, 2018, 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, CPAs

Sexton & Schnoll
Certified Public Accountants
May 8, 2019

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, 2018 and have issued our report thereon dated May 8, 2019, 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 8, 2019. 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- Financial Statements:

2018-1: The City has accumulated old balances in accounts receivable by counting income twice. By setting up a receivable and then accounting for it as revenue again when the monies are received, they are double booking revenues and accumulating old balances in the receivables schedule.

Response: The City will develop procedures to regularly reconcile receivables schedule.

Prior Year Findings- Financial Statements:

2017-1: In the inter-fund receivables and payables, there are old balances 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 has developed and set up an incremental payment schedule between inter-funds to clear the accumulated old balances over an extended period of time.



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, 2018. 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, 2018.

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, CPAs

Sexton & Schnoll
Certified Public Accountants
May 8, 2019