



Sexton & Schnoll

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2019

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2019

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INTRODUCTORY SECTION

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

September 30, 2019

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

Current Officials as of September 30, 2019

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, 2019, and 2018, 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, 2019 and 2018, 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 sections is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial 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 April 20, 2020, 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

April 20, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2019

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, 2019. 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 2019 by \$9,121,359. 7.3% 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 \$838,882. The City's net assets are sufficient to meet its demands for restricted net assets.
- The City's total net assets increased \$46,648 or 0.5% over the year.
- 96.0% 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 \$78,054 from the previous year. General revenues from taxes increased 5.4%.
- Business-type activities (the City's enterprise funds) operating revenues increased by \$39,970. Charges for services increased slightly.
- The City's total debt, including bonds decreased by \$138,254 or 5.8% in the current fiscal year.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2019

City Highlights

- As of September 30, 2019, the unemployment rate for Alachua County was 3.4%. The 2019 rate for Hawthorne was 3.2% and reflects the current economic conditions of the county. According to the U.S. Department of Labor, Bureau of Labor Statistics, the State of Florida's unemployment rate was 2.9%.
- 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 2011-2015 American Community Survey 5 – Year estimates).
- The ad valorem tax millage rate for the City was 5.3194 mills in 2019.
- Hawthorne Athletic Park received the FRDAP recreational improvement grant. These improvements were completed in FY2018-19. An additional CDBG grant of \$650,000.00 has been awarded for additional improvements at the park; construction is to start in FY 2019-20.
- Lindsey Phillips Park also has been granted the FRDAP grant for recreation improvements. These improvements were completed in FY2018-19.
- The City of Hawthorne was been awarded a State Revolving Fund Grant/Loan for the replacement of old waterlines in Hawthorne. Engineering for will start for the project in FY2019-20 and replacement of Phases III, IV, V will begin as funding is available.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2019

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 18 to 21.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2019

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 22 through 24.

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 25 through 29 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 through 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, 2019

Statement of Net Assets

The following table reflects a condensed Statement of Net Assets:

	Governmental Activities	Business-type Activities	Total Government	
			2019	2018
Cash and cash equivalents	\$ 654,235	\$ 673,198	\$ 1,327,433	\$ 1,228,195
Other assets	1,470,273	1,674,931	3,145,206	4,136,220
Capital Assets	6,648,297	3,216,422	9,864,719	10,131,472
Total Assets	8,772,805	5,564,551	14,337,355	15,495,887
Other current liabilities	745,312	2,346,033	3,091,345	4,175,354
Long term outstanding	239,813	1,884,839	2,124,652	2,245,820
Total Liabilities	985,125	4,230,872	5,215,997	6,421,174
Net assets:				
Invested in capital assets, net of related debt	6,380,719	1,238,180	7,618,899	8,697,514
Restricted	336,246	327,331	663,577	728,998
Unrestricted	1,070,715	(231,832)	838,883	(351,801)
Total net assets	\$ 7,787,680	\$ 1,333,679	\$ 9,121,359	\$ 9,074,711

The largest portion of the City's net assets reflects its investment in capital assets (\$7,618,899) 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 \$663,577 represents resources that are subject to external restrictions on how they may be used.

Total net assets balance increased by \$46,648 or 0.5% over the previous year.

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2019

Change in Net Assets
For the Fiscal Years Ended September 30, 2019 and 2018

	Governmental Activities	Business-type Activities	Total Government	
			2019	2018
Revenues:				
Program revenues				
Charges for services	\$ 104,491	\$ 899,745	\$ 1,004,236	\$ 932,610
Grants and contributions	403,996	43,250	447,246	790,293
General revenues				
Taxes	756,365	-	756,365	753,664
Tax increment	59,857	-	59,857	70,642
State shared revenues	45,851	-	45,851	51,982
Interest	482	151	633	1,578
Miscellaneous	155,473	38,408	193,881	71,404
Total revenues	1,526,515	981,554	2,508,069	2,672,173
Expenses:				
General government	474,393	-	474,393	579,559
Transportation	187,371	-	187,371	177,646
Economic environment	45,140	-	45,140	33,085
Culture & recreation	701,098	-	701,098	380,111
Interest on long-term debt	11,047	99,576	110,623	117,853
Cemetery	-	18,238	18,238	(131)
Water	-	210,540	210,540	584,786
Garbage services	-	235,039	235,039	201,975
Sewer	-	478,980	478,980	407,255
Total expenses	1,419,049	1,042,373	2,461,422	2,482,139
Changes in net assets	107,465	(60,819)	46,646	190,034
Beginning net assets	7,680,215	1,394,498	9,074,712	8,884,678
Ending net assets	\$ 7,787,680	\$ 1,333,679	\$ 9,121,359	\$ 9,074,712

Current Year Impacts on Revenue and Expense

Revenues - The City's tax revenue was \$745,891, representing a decrease of 0.1% from 2018. State Revenue Sharing decreased marginally by \$6,131 or 11.8%. Enterprise Funds services revenue decreased by \$242,157, due to fewer grants. Total City revenues decreased \$166,052, or 6.2% compared to 2018 due, primarily, to receipt of fewer grants.

Expenses - Governmental activities expenses increased by \$236,991 (20.0%), while enterprise fund activity expenses decreased by \$257,708 (19.8%).

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2019

Capital Assets at September 30, 2019 and 2018

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 4,656,816	\$ 4,657,916	\$ 114,300	\$ 114,300	\$ 4,771,116	\$ 4,772,216
Buildings	1,322,481	1,322,481	4,998,574	5,009,936	6,321,055	6,332,417
Improvements	1,763,126	1,760,366	5,603,160	5,594,098	7,366,286	7,354,464
Equipment	393,903	393,904	196,246	193,945	590,149	587,848
Subtotal	<u>8,136,326</u>	<u>8,134,667</u>	<u>10,912,280</u>	<u>10,912,279</u>	<u>19,048,611</u>	<u>19,046,945</u>
Accumulated depreciation	(1,488,030)	(1,390,152)	(7,695,856)	(7,525,322)	(9,183,886)	(8,915,474)
Capital assets, net	<u>\$ 6,648,296</u>	<u>\$ 6,744,515</u>	<u>\$ 3,216,424</u>	<u>\$ 3,386,957</u>	<u>\$ 9,864,720</u>	<u>\$ 10,131,471</u>

The City's net investment in capital assets for the governmental activities decreased by \$266,752 or 2.6% from the prior year. The City added \$1,660 of assets. Depreciation expense was \$268,412, an increase of 3.0% 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 \$2,245,821, which is a decrease of \$138,254 from the previous year.

Debt Outstanding at September 30, 2019 and 2018

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
USDA bonds	-	-	1,930,800	2,003,800	1,930,800	2,003,800
Loans Payable	267,578	294,100	47,443	86,175	315,021	380,275
Total bonds and notes	<u>\$ 267,578</u>	<u>\$ 294,100</u>	<u>\$ 1,978,243</u>	<u>\$ 2,089,975</u>	<u>\$ 2,245,821</u>	<u>\$ 2,384,075</u>

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

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis
September 30, 2019

Budgetary Highlights

The City's FY budget for 2018-19 was adopted in September, 2018. There were no changes made to the FY 2018-19 budget. A comparison to actual results can be reviewed in supplementary information beginning on page 50.

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, 2019**

	Governmental Activities	Business-type Activities	2019 TOTAL	2018 TOTAL
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 317,988	\$ 345,867	\$ 663,855	499,198
Accounts receivable, net	33,410	92,470	125,880	132,651
Due from other funds	-	1,579,167	1,579,167	2,527,006
Due from other governmental units	258,340	-	258,340	293,001
Total Current Assets	609,738	2,017,504	2,627,242	3,451,856
Restricted assets:				
Cash	336,246	327,331	663,577	728,997
Total Restricted Assets	336,246	327,331	663,577	728,997
Non-current assets:				
Due from other funds	1,166,091	-	1,166,091	1,168,052
Bond costs, net	-	2,181	2,181	2,591
Prepaid Expenses	12,433	1,113	13,546	12,919
Capital assets, net	6,648,297	3,216,422	9,864,719	10,131,471
Total non-current assets	7,826,821	3,219,716	11,046,537	11,315,033
Total assets	8,772,805	5,564,551	14,337,356	15,495,886
LIABILITIES				
Current liabilities (payable from current assets):				
Accounts payable	18,386	23,680	42,066	164,171
Due to other funds	643,104	936,063	1,579,167	2,527,006
Deferred Revenue	12,117	4,525	16,642	11,627
Line of credit	-	-	-	-
Loans payable-current portion	27,765	16,703	44,468	65,255
Accrued wages	39,759	20,516	60,275	67,263
Total current liabilities (payable from current assets)	741,131	1,001,487	1,742,618	2,835,322
Current liabilities (payable from restricted assets):				
Accrued interest payable	-	7,905	7,905	7,905
Deposits	4,181	93,850	98,031	91,075
Bonds payable-current portion	-	76,700	76,700	73,000
Total current liabilities (payable from restricted assets)	4,181	178,455	182,636	171,980

CITY OF HAWTHORNE, FLORIDA

**STATEMENT OF NET ASSETS
September 30, 2019**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>2019 TOTAL</u>	<u>2018 TOTAL</u>
Non-current liabilities:				
Loans payable	239,813	30,739	270,552	315,020
Due to other funds	-	1,166,091	1,166,091	1,168,052
Bonds payable	-	1,854,100	1,854,100	1,930,800
Total long-term liabilities	<u>239,813</u>	<u>3,050,930</u>	<u>3,290,743</u>	<u>3,413,872</u>
 Total liabilities	 <u>985,125</u>	 <u>4,230,872</u>	 <u>5,215,997</u>	 <u>6,421,175</u>
 NET ASSETS				
Invested in capital assets, net of related debt	6,380,719	1,238,180	7,618,899	8,697,514
Restricted net assets	336,246	327,331	663,577	728,998
Unrestricted net assets	1,070,715	(231,832)	838,882	(351,801)
Total net assets	<u>\$ 7,787,680</u>	<u>\$ 1,333,679</u>	<u>\$ 9,121,359</u>	<u>\$ 9,074,711</u>

CITY OF HAWTHORNE, FLORIDA
STATEMENT OF ACTIVITIES
For the Years Ended September 30, 2019 and 2018

Functions / Programs	Expenses	Program			Net Revenue (Expense) and Changes in Net Assets			2018
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Activities	Total	
Governmental Activities								
General government	\$ 474,393	\$ 61,987	\$ 403,996		(8,410)	\$ -	\$ (8,410)	(74,219)
Public safety	-		-	-	-	-	-	-
Transportation	187,371	42,504	-	-	(144,868)	-	(144,868)	(153,519)
Economic environment	45,140	-	-	-	(45,140)	-	(45,140)	(33,085)
Culture & recreation	701,098	-	-	\$ -	(701,098)	-	(701,098)	(380,110)
Interest on long-term debt	11,047	-	-	-	(11,047)	-	(11,047)	(11,657)
Total governmental activities	1,419,049	104,491	403,996	-	(910,563)	-	(910,563)	(652,589)
Business Activities								
Cemetery	18,238	-	-	-	-	(18,238)	(18,238)	131
Water utility	210,540	296,761	(2,300)	-	-	83,921	83,921	21,594
Garbage services	235,039	232,109	-	-	-	(2,930)	(2,930)	25,255
Sewer utility	478,980	370,644	45,550	-	-	(62,786)	(62,786)	(47,681)
Interest on long-term debt	99,576	231	-	-	-	(99,345)	(99,345)	(105,950)
Total business activities	1,042,373	899,745	43,250	-	-	(99,378)	(99,378)	(106,650)
Total Government	\$ 2,461,422	\$ 1,004,236	\$ 447,246	\$ -	\$ (910,563)	\$ (99,378)	\$ (1,009,941)	\$ (759,238)

CONTINUED

CITY OF HAWTHORNE, FLORIDA

**STATEMENT OF ACTIVITIES (Continued)
For the Years Ended September 30, 2019 and 2018**

	<u>Governmental</u>	<u>Business</u>	<u>Total</u>	<u>2018</u>
General Revenues				
Property taxes	396,653	-	396,653	391,764
Sales and use taxes	254,228	-	254,228	261,497
Utility services tax	89,150	-	89,150	87,733
Communications surtax	5,861	-	5,861	5,692
Licenses and permits	10,474	-	10,474	6,978
State shared revenues	45,851	-	45,851	51,982
Tax increment	59,857	-	59,857	70,642
Interest	482	151	633	1,578
Miscellaneous	155,473	38,408	193,881	71,404
Total general revenue	<u>1,018,028</u>	<u>38,559</u>	<u>1,056,588</u>	<u>949,270</u>
Change in net assets	107,465	(60,819)	46,646	190,035
Net assets, beginning of year	7,680,215	1,394,498	9,074,712	8,884,678
Net assets, end of year	<u>\$ 7,787,680</u>	<u>\$ 1,333,679</u>	<u>\$ 9,121,359</u>	<u>\$ 9,074,713</u>

CITY OF HAWTHORNE, FLORIDA

**GOVERNMENTAL FUND
BALANCE SHEET**

September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 654,235	\$ 601,626
Accounts receivable	33,410	63,454
Due from other funds	1,166,091	1,168,052
Due from other governmental units	258,340	293,001
Prepaid expenses	12,433	12,919
Total assets	<u>2,124,509</u>	<u>2,139,052</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable and accrued liabilities	22,567	131,153
Due to other funds	643,104	718,132
Notes Payable	267,578	294,100
Deferred Revenue	12,117	2,623
Accrued compensation	39,759	57,344
Total Liabilities	<u>985,125</u>	<u>1,203,352</u>
FUND BALANCES		
Restricted:		
Reserved Little Orange Creek	-	35,250
Reserved Downtown development	336,246	344,604
Reserved Wild Spaces Public Spaces	-	51,214
Interfund receivable	1,166,091	1,168,052
Unrestricted:	<u>(362,954)</u>	<u>(663,419)</u>
Total fund balances	<u>1,139,384</u>	<u>935,701</u>
Total Liabilities and Fund Balance	<u>\$ 2,124,509</u>	<u>\$ 2,139,052</u>
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets		
Fund balance-Governmental Funds	\$ 1,139,384	\$ 935,700
 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.	6,648,296	6,744,515
Net assets of governmental activities	<u>\$ 7,787,680</u>	<u>\$ 7,680,215</u>

CITY OF HAWTHORNE, FLORIDA

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

For the Fiscal Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUE		
Taxes	\$ 745,891	\$ 746,686
Intergovernmental revenue	105,708	122,624
Charges for services	104,491	69,660
Other revenue	<u>570,425</u>	<u>509,438</u>
Total Revenue	<u>1,526,515</u>	<u>1,448,408</u>
 EXPENDITURES		
Current Expenditures		
General government	454,947	564,051
Transportation	158,769	149,044
Economic environment	45,140	33,085
Culture/recreation	662,316	341,802
Capital outlay/(disposals)	<u>1,660</u>	<u>476,352</u>
Total expenditures	<u>1,322,832</u>	<u>1,564,334</u>
 Excess of revenues over expenditures	<u>203,683</u>	<u>(115,926)</u>
 Net changes in fund balances	203,683	(115,926)
 Fund balances, beginning of year	<u>935,701</u>	<u>1,051,572</u>
Fund balances, end of year	<u>\$ 1,139,384</u>	<u>\$ 935,646</u>

CITY OF HAWTHORNE, FLORIDA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended September 30, 2019

	2019	2018
Net change in fund balances - total governmental funds	\$ 203,683	\$ (115,926)
<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	1,660	
Less current year depreciation	(97,877)	
	(96,217)	382,277
<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
<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)
Change in net assets of governmental activities	\$ 107,466	\$ 266,407

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS**

September 30, 2019

Business-Type Activities - Enterprise Funds

ASSETS	Cemetery	Water	Solid Waste	Sewer	Totals	2018
Current assets						
Cash	\$ 41,127	\$ 130,485	73,346	\$ 100,909	\$ 345,867	\$ 328,639
Accounts receivable (net of allowance for uncollectible)	-	30,200	21,908	40,361	92,469	69,199
Due from other funds	-	1,074,086	56,696	448,385	1,579,167	2,527,006
Restricted assets						
Cash	-	272,667	-	54,665	327,332	297,931
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	5,603,160
Equipment	-	14,630	-	181,616	196,246	196,246
Construction in progress	-	-	-	-	-	-
Allowance for depreciation	-	(1,211,267)	-	(6,484,590)	(7,695,857)	(7,525,322)
Other assets						
Bond costs	-	-	-	12,295	12,295	12,295
Accumulated amortization-bond costs	-	-	-	(10,114)	(10,114)	(9,704)
Prepaid Expenses	-	557	-	557	1,114	-
Total assets	<u>41,127</u>	<u>2,135,804</u>	<u>151,950</u>	<u>3,235,672</u>	<u>5,564,553</u>	<u>6,612,321</u>
LIABILITIES AND NET ASSETS						
Current liabilities						
Due to other funds	40,963	1,127,665	-	933,525	2,102,153	2,976,926
Accounts Payable	-	2,408	17,494	3,778	23,680	35,368
Current liabilities payable from Restricted funds						
Accrued interest payable	-	2,996	-	4,909	7,905	7,905
Deposits	-	93,850	-	-	93,850	88,725
Loan payable CRA-current	-	6,760	-	-	6,760	19,983
Loan payable NRWA-current	-	9,943	-	-	9,943	18,751
Line of Credit	-	-	-	-	-	-
Serial bonds payable-current	-	15,900	-	-	15,900	15,000
Bonds payable FMHA-current	-	-	-	60,800	60,800	58,000
Deferred Revenue	-	-	-	4,525	4,525	9,004
Accrued wages and compensation	-	6,827	2,427	11,263	20,517	9,918
Long-term liabilities						
Loan payable CRA	-	-	-	-	-	6,758
Loan payable NRWA	-	30,739	-	-	30,739	40,683
Serial bonds payable	-	221,100	-	-	221,100	237,000
Bonds payable FMHA	-	-	-	1,633,000	1,633,000	1,693,800
Due to other funds	-	-	-	-	-	-
Total Liabilities	<u>40,963</u>	<u>1,518,188</u>	<u>19,921</u>	<u>2,651,800</u>	<u>4,230,872</u>	<u>5,217,820</u>
NET ASSETS						
Invested in capital assets, net of related debt	-	343,367	-	894,813	1,238,180	2,247,100
Restricted	-	272,667	-	54,665	327,331	297,931
Unrestricted	164	1,583	132,028	(365,607)	(231,829)	(1,150,531)
Total net assets	<u>164</u>	<u>617,616</u>	<u>132,028</u>	<u>583,871</u>	<u>1,333,681</u>	<u>1,394,500</u>
Total liabilities and net assets	<u>\$ 41,127</u>	<u>\$ 2,135,804</u>	<u>\$ 151,950</u>	<u>\$ 3,235,672</u>	<u>\$ 5,564,553</u>	<u>\$ 6,612,321</u>

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Fiscal year Ended September 30, 2019**

	Business-Type Activities - Enterprise Funds				Totals	2018
	Cemetery	Water	Solid Waste	Sewer		
OPERATING REVENUES						
Utility revenue						
Sales	\$ -	\$ 295,261	\$ 232,035	\$ 370,644	\$ 897,940	\$ 858,370
Reconnection fees	-	1,500	-	-	1,500	1,100
Late fees	-	-	-	-	-	-
Total operating revenues	-	296,761	232,035	370,644	899,440	859,470
OPERATING EXPENSES						
Personnel						
Regular salaries	-	48,320	17,049	75,297	140,666	96,324
Payroll tax	-	3,391	1,195	5,659	10,245	7,264
Retirement	-	2,743	980	4,466	8,189	5,482
Life and health insurance	-	10,654	5,176	21,328	37,158	24,914
Worker's compensation	-	4,870	454	5,411	10,735	7,031
Total Personnel Services	-	69,978	24,854	112,161	206,993	141,015
Depreciation and amortization	-	22,148	-	148,386	170,534	218,702
Accounting and auditing	-	-	-	-	-	-
Contractual services	-	51,729	208,150	71,400	331,279	272,834
Communication	-	2,328	-	2,140	4,468	6,148
Utility services	-	9,005	-	31,585	40,590	41,836
Insurance	-	5,501	825	3,967	10,293	10,359
Repairs and maintenance	18,238	17,274	-	34,288	69,800	46,523
Supplies	-	38,544	-	20,906	59,450	34,223
Publications & subscriptions	-	434	-	51	485	780
Other current charges and obligations	-	(6,403)	1,209	54,097	48,903	421,467
Total operating expenses	18,238	140,560	210,184	366,820	735,802	1,052,872
Total expenses	18,238	210,538	235,038	478,981	942,795	1,193,887

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Fiscal year Ended September 30, 2019**

	Business-Type Activities - Enterprise Funds				Totals	2018
	Cemetery	Water	Solid Waste	Sewer		
Operating profit (loss)	(18,238)	86,223	(3,003)	(108,339)	(43,357)	(334,416)
Non-operating revenues						
Grants	-	(2,300)	-	45,550	43,250	330,539
Interest on investments	231	151	-	-	382	311
Gain (loss) on disposal of asset:	-	-	-	-	-	-
Rents and royalties	-	-	-	31,509	31,509	30,212
Miscellaneous	2,210	4,393	74	296	6,973	3,179
Total non-operating revenues	2,441	2,244	74	77,355	82,114	364,241
Debt service - interest	-	(38,798)	-	(60,778)	(99,576)	(106,196)
Net non-operating revenue	2,441	(36,554)	74	16,577	(17,462)	258,045
Change in net assets	(15,797)	49,669	(2,929)	(91,762)	(60,819)	(76,373)
Net assets, beginning of year	15,961	567,947	134,961	675,633	1,394,502	1,470,871
Net assets, end of year	<u>\$ 166</u>	<u>\$ 617,616</u>	<u>\$ 132,028</u>	<u>583,871</u>	<u>\$ 1,333,681</u>	<u>\$ 1,394,498</u>

CITY OF HAWTHORNE, FLORIDA

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal year Ended September 30, 2019

	Business-Type Activities - Enterprise Funds				Totals	2018
	Cemetery	Water	Solid Waste	Sewer		
Cash flows from operating activities						
Cash received from customers	\$ -	\$ 285,680	\$ 230,465	\$ 359,556	\$ 875,701	\$ 1,454,565
Cash payments to employees	-	(54,058)	(17,807)	(87,372)	(159,237)	(115,219)
Cash payments for employee benefits	-	(10,654)	(5,176)	(21,328)	(37,158)	(24,913)
Cash paid to vendors	(8,760)	(128,604)	(209,020)	(157,095)	(503,479)	(1,461,056)
Net cash provided (used) by operating activities	(8,760)	92,365	(1,537)	93,759	175,824	(146,622)
Cash flows from capital and related financing activities						
Interest paid on notes and bonds payable	-	(38,798)	-	(60,778)	(99,576)	(106,196)
Principal paid on notes payable	-	(38,732)	-	-	(38,732)	(37,588)
Principal paid on bonds payable	-	(15,000)	-	(58,000)	(73,000)	(69,500)
Net cash provided by (used for) capital and related financing activities	-	(92,530)	-	(118,778)	(211,306)	(213,284)
Cash flows from non-capital financing activities						
State grant	-	(2,300)	-	45,550	43,250	330,539
Loan proceeds	-	-	-	-	-	-
Rents and royalties	-	-	-	31,509	31,509	30,212
Miscellaneous	2,210	4,393	74	296	6,973	3,179
Net cash provided by non-capital financing activities	2,210	2,093	74	77,355	79,522	363,930
Cash flows from investing activities						
Net Purchases of fixed assets	-	-	-	-	-	(69,683)
Interest Income	231	151	-	-	382	311
Net cash provided (used) for investing activities	231	151	-	-	382	(69,372)
Net increase (decrease) in cash and cash equivalents						
	(6,319)	2,079	(1,463)	52,337	44,422	(490,682)
Cash and cash equivalents, beginning of year						
	47,446	401,072	74,812	103,237	626,567	691,917
Cash and cash equivalents, end of year						
	\$ 41,127	\$ 403,151	\$ 73,346	\$ 155,574	\$ 670,989	\$ 201,235

CITY OF HAWTHORNE, FLORIDA

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

For the Fiscal year Ended September 30, 2019

	Cemetery	Water	Solid Waste	Sewer	Totals	2018
<u>Reconciliation of operating income (loss) to net cash provided by operating activities</u>						
Operating income (loss)	(18,238)	86,223	(3,003)	(108,339)	(43,358)	(334,416)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities						
Depreciation and amortization	-	22,148	-	148,796	170,944	219,112
(Increase) decrease in assets:						
Accounts receivable, net	-	(15,649)	(1,570)	(6,052)	(23,271)	592,393
Prepaid expenses	-	(557)	-	(557)	(1,113)	1,065
Due from other funds	-	593,105	303,318	51,417	947,840	(799,114)
Increase (decrease) in liabilities						
Accounts payable	-	(493)	(1,172)	(10,022)	(11,688)	(582,068)
Due to other funds	9,478	(602,804)	(300,981)	19,534	(874,773)	753,898
Customer deposits payable	-	5,125	-	-	5,125	2,873
Accrued compensation	-	5,265	1,872	3,461	10,598	871
Deferred Revenue	-	-	-	(4,479)	(4,479)	(1,235)
Total adjustments	9,478	6,140	1,466	202,099	219,182	187,793
Net cash provided (used) by operating activities	<u>\$ (8,760)</u>	<u>\$ 92,365</u>	<u>\$ (1,537)</u>	<u>\$ 93,759</u>	<u>\$ 175,824</u>	<u>\$ (146,623)</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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, 2019, 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. No allowances for doubtful accounts as at September 30, 2019. No other allowances for doubtful accounts are maintained since other fund accounts receivable are considered collectible as reported at September 30, 2019.

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, 2019

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, 2019

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>2019</u>	<u>2018</u>
Cost of capital assets	\$ 8,136,327	\$ 8,134,667
Accumulated depreciation	(1,488,030)	(1,390,152)
Total Governmental Assets	<u>\$ 6,648,297</u>	<u>\$ 6,744,515</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

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, 2019

	Total Governmental Fund	Capital Related Items	Long-Term Debt Transactions	2019 Statement of Net Assets	2018 Statement of Net Assets
ASSETS					
Cash	\$ 654,235	\$ -	\$ -	\$ 654,235	\$ 601,626
Accounts receivable	33,410	-	-	33,410	63,453
Due from other funds	1,166,091	-	-	1,166,091	1,168,052
Due from other governmental units	258,340	-	-	258,340	293,001
Note receivable	-	-	-	-	-
Prepaid expenses	12,433	-	-	12,433	12,919
Capital assets - net	-	6,648,297	-	6,648,297	6,744,515
Total assets	2,124,509	6,648,297	-	8,772,806	8,883,566
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	34,684	-	-	34,684	133,831
Due to other funds	643,104	-	-	643,104	718,132
Accrued compensated absences	39,759	-	-	39,759	57,288
Notes payable- long term	267,578	-	-	267,578	294,100
Total Liabilities	985,125	-	-	985,125	1,203,351
 Fund Balance - Net Assets	 1,139,384	 6,648,297	 -	 7,787,681	 7,680,215
Total liabilities and fund balance/net assets	\$ 2,124,509	\$ 6,648,297	\$ -	\$ 8,772,806	\$ 8,883,566

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

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 \$203,683 differs from the "change in net assets" for governmental activities \$107,466 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Capital related items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balances decrease by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charges for the year.

Capital Outlay	\$ 1,660
Depreciation expense	<u>(97,877)</u>
Difference	<u>\$ (96,217)</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. There were no debt principal payments made during the fiscal year ending September 30, 2019.

Accrued compensation

The City's employees have accrued wages payable as of September 30, 2019, in the amount of \$67,741. 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, 2019

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, 2019

	Total Governmental Fund	Capital Related Items	Long-Term Debt Transactions	2019 Statement of Activities	2018 Statement of Activities
REVENUES					
Taxes	\$ 745,891	\$ -	\$ -	\$ 745,891	\$ 746,686
Intergovernmental	105,708	-	-	105,708	122,624
Charges for Services	104,491	-	-	104,491	69,660
Miscellaneous	570,425	-	-	570,425	509,440
Total revenues	<u>1,526,515</u>	<u>-</u>	<u>-</u>	<u>1,526,515</u>	<u>1,448,410</u>
EXPENDITURES					
Current Expenditures					
General government	474,393	-	-	474,393	579,504
Public safety	-	-	-	-	-
Transportation	187,371	-	-	187,371	177,646
Economic environment	45,140	-	-	45,140	33,085
Culture /recreation	701,098	-	-	701,098	380,111
Capital Outlay/(disposals)	-	-	-	-	-
Debt Service					
Principal	(8,501)	-	8,501	-	-
Interest	11,047	-	-	11,047	11,657
Total Expenditures	<u>1,410,548</u>	<u>-</u>	<u>8,501</u>	<u>1,419,049</u>	<u>1,182,002</u>
Excess of revenues over (under) expenditures	115,967	-	(8,501)	107,466	266,408
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	115,967	-	(8,501)	107,466	266,408
Fund balance at beginning of year	1,351,601	5,503,866	824,749	7,680,215	7,413,807
Fund balance at end of year	<u>\$ 1,467,568</u>	<u>\$ 5,503,866</u>	<u>\$ 816,248</u>	<u>\$ 7,787,680</u>	<u>\$ 7,680,215</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

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 2018-2019 was adopted by the City Commission in September, 2018.

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, 2019, the carrying amount of the City's bank balance was \$1,327,433. 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 2018-2019 fiscal year were levied in October 2018. 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, 2019

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019 was as follows:

	2018			
	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Capital assets:				
Land	\$ 4,657,916	\$ -	\$ (1,100)	\$ 4,656,816
Buildings	1,322,481	-	-	1,322,481
Improvements	1,760,366	2,760	-	1,763,126
Equipment and vehicles	393,903	-	-	393,903
Total capital assets	8,134,666	2,760	(1,100)	8,136,327
Less accumulated depreciation	(1,390,151)	(97,877)	-	(1,488,030)
Governmental Activities: capital assets, net	<u>\$ 6,744,515</u>	<u>\$ (95,117)</u>	<u>\$ (1,100)</u>	<u>\$ 6,648,297</u>
Business-type Activities:				
Land	114,300	-	-	114,300
Buildings	4,998,574	-	-	4,998,574
Improvements other than buildings	5,603,160	-	-	5,603,160
Equipment and vehicles	196,246	-	-	196,246
Total capital assets	10,912,280	-	-	10,912,280
Less accumulated depreciation	(7,525,322)	(170,534)	-	(7,695,856)
Business-type activities: capital assets, net	<u>\$ 3,386,958</u>	<u>\$ (170,534)</u>	<u>\$ -</u>	<u>\$ 3,216,424</u>

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

Governmental activities:	2019
General government	30,493
Public safety	-
Transportation	28,602
Culture / recreation	38,782
Total depreciation expense-governmental activities	<u>\$ 97,877</u>
Business-type activities:	
Water utility	22,148
Sewer utility	148,386
Total depreciation expense-business-type activities	<u>\$ 170,534</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 7. INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of inter-fund receivables and payables at September 30, 2019 and 2018.

Fund	2019 Interfund Receivables	2018 Interfund Receivables	2019 Interfund Payables	2018 Interfund Payables
General	\$ 1,166,091	\$ 1,168,052	\$ 643,104	\$ 564,194
Water	1,074,086	912,523	1,127,665	1,139,104
Solid waste	56,696	60,405	-	-
Sewer	448,385	516,722	933,525	923,179
Cemetery	-	-	40,963	31,225
	<u>\$ 2,745,258</u>	<u>\$ 2,657,702</u>	<u>\$ 2,745,258</u>	<u>\$ 2,657,702</u>

The balance of \$933,525 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, 2019 and 2018 consisted of the following:

Fund	2019 Transfers in	2018 Transfers in	2019 Transfers out	2018 Transfers out
General	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
Water	-	-	-	-
Sewer	-	-	-	-
	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 30,000</u>

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

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 9. LONG TERM DEBT - BUSINESS-TYPE ACTIVITIES

A. Water Revenue Bonds Payable

Water Revenue bonds for expansion of the City's water system were sold during the fiscal year ended September 30, 1991, in the amount of \$450,000. These bonds bear interest at the rate of 5.875% per annum, with different denominations maturing September 1, 1997 through 2030. The revenues of the water system after deduction of the costs of operation and maintenance are pledged for payment of these bonds. In addition to the scheduled payments of interest and principal, the City was required to deposit \$2,990 per year into a reserve account until it reached a minimum balance of \$29,900, which has been achieved. Future debt service of the Water Revenue Bonds, including interest, is as follows:

September 30	Principal	Interest	Total
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	20,000	9,835	29,835
2025 - 2028	92,600	26,872	119,472
2029 - 2030	54,800	4,876	59,676
	<u>\$ 237,000</u>	<u>\$ 91,348</u>	<u>\$ 328,348</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, 2019

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

B. Sewer Revenue Bonds Payable – Continued

September 30	Principal	Interest	Total
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	45,900	28,895	74,795
2025 - 2029	266,600	107,655	374,255
2030 - 2033	265,400	33,990	299,390
	<u>\$ 740,800</u>	<u>\$ 306,985</u>	<u>1,047,785</u>

C. Water and Sewer Revenue Bonds, Series 2004

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

September 30	Principal	Interest	Total
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	27,000	38,475	65,475
2025 - 2029	157,000	172,755	329,755
2030 -2034	195,000	134,145	329,145
2035 -2039	242,000	86,355	328,355
2040 -2043	234,000	26,775	260,775
	<u>\$ 953,000</u>	<u>\$ 623,655</u>	<u>\$ 1,576,655</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

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:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	2,282	65	2,347
	<u>\$ 2,282</u>	<u>\$ 65</u>	<u>\$ 2,347</u>

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:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>\$ 37,801</u>	<u>\$ 2,755</u>	<u>\$ 40,555</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

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 Payments</u>
2020	6,760	30	6,790
Total	<u>\$ 6,760</u>	<u>\$ 30</u>	<u>\$ 6,790</u>

The following is a schedule of changes in proprietary fund long-term debt for the year ended September 30, 2019:

	<u>Balance September 30 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30 2019</u>	<u>Due Within One Year</u>
CRA Water Tower	26,741	-	(19,981)	6,760	6,760
NRWA Loan	59,434	-	(18,751)	40,683	9,943
Water Revenue Bonds	252,000	-	(15,000)	237,000	15,900
Sewer Revenue Bonds	1,751,800	-	(58,000)	1,693,800	60,800
	<u>\$ 2,089,975</u>	<u>\$ -</u>	<u>\$ (111,732)</u>	<u>\$ 1,978,243</u>	<u>\$ 93,403</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, 2019

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, 2019, 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 Payments</u>
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	18,150	7,578	25,728
2025 - 2029	103,255	25,385	128,639
2030 - 2032	65,147	3,902	69,049
Total	<u>\$ 251,920</u>	<u>\$ 74,408</u>	<u>\$ 326,328</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 Payments</u>
2020	12,447	500	12,947
2021	3,210	27	3,237
Total	<u>\$ 15,657</u>	<u>\$ 527</u>	<u>\$ 16,184</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

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, 2019:

	Balance September 30 2018	Additions	Retirements	Balance September 30 2019	Due Within One Year
Note Payable - CRA	266,602	-	(14,681)	251,921	15,317
Note Payable - Logan's Way	27,498	-	(11,841)	15,657	12,447
	<u>\$ 294,100</u>	<u>\$ -</u>	<u>\$ (26,522)</u>	<u>267,578</u>	<u>\$ 27,764</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	
2020	24,398
2021	25,462
2022	26,422
2023	26,422
	<u>102,704</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

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, 2019, the City contributed \$29,794 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 April 20, 2020, 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, 2019

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive / (Negative)
REVENUES				
Taxes				
Ad valorem taxes	\$ 287,960	\$ 287,960	251,535	\$ (36,425)
Sales tax - local option gas tax	143,455	143,455	145,117	1,662
Sales tax - 1.2 cent tax	90,685	90,685	89,343	(1,342)
Sales Tax- local discretionary	79,349	79,349	86,563	7,214
Utility service taxes				
Electricity	101,214	101,214	102,094	880
Telecommunications	39,207	39,207	40,445	1,238
Water	22,573	22,573	24,933	2,360
Occupational tax	5,000	5,000	5,861	861
Total taxes	<u>769,443</u>	<u>769,443</u>	<u>745,891</u>	<u>(23,552)</u>
Licenses and permits				
Alcoholic Beverage Licenses	1,200	1,200	4,201	3,001
Permits	900	900	2,450	1,550
Total licenses and permits	<u>2,100</u>	<u>2,100</u>	<u>6,651</u>	<u>4,551</u>
Intergovernmental revenue				
State municipal revenue sharing	58,217	58,217	59,857	1,640
Hawthorne Redevelopment	51,982	51,982	45,851	(6,131)
CRA Administration	30,000	30,000	30,000	-
Total intergovernmental revenue	<u>140,199</u>	<u>140,199</u>	<u>135,708</u>	<u>(4,491)</u>
Charges for Services				
Zoning Fees	2,050	2,050	3,085	1,035
Traffic signal & lighting	24,833	24,833	42,504	17,671
LOC rentals	17,540	17,540	9,872	(7,668)
Recreation fees	45,050	45,050	49,030	3,980
Total charges for services	<u>89,473</u>	<u>89,473</u>	<u>104,491</u>	<u>15,018</u>
Fines and forfeitures				
Fine revenue/sheriff	2,000	2,000	2,748	748
Code enforcement fines	600	600	1,075	475
Total fines and forfeitures	<u>2,600</u>	<u>2,600</u>	<u>3,823</u>	<u>1,223</u>
Miscellaneous				
Grant Revenue from FRDAP	400,000	400,000	300,000	(100,000)
Alachua County Grant Revenue	-	-	-	-
Other Grants	650,000	650,000	39,300	(610,700)
Miscellaneous non-operating	6,000	6,000	190,651	184,651
Total miscellaneous	<u>1,056,000</u>	<u>1,056,000</u>	<u>529,951</u>	<u>(526,049)</u>
Total Revenues	<u>2,059,815</u>	<u>2,059,815</u>	<u>1,526,515</u>	<u>(533,300)</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, 2019

	<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	381,252	381,252	349,298	(31,954)
Operating expenses	344,390	344,390	481,326	136,936
Grant Expense	-	-	478,396	478,396
*Debt Service	158,775	158,775	12,153	(146,622)
Total General Government	<u>884,417</u>	<u>884,417</u>	<u>1,321,172</u>	<u>436,755</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	1,175,398	1,175,398	205,343	(970,055)
Reconciling Items				
Capital expenditure	-	-	(1,660)	(1,660)
Depreciation Expense	<u>-</u>	<u>-</u>	<u>97,877</u>	<u>97,877</u>
Total Reconciling Items			96,217	96,217
Fund balance at beginning of year	<u>1,290,973</u>	<u>1,290,973</u>	<u>935,701</u>	<u>(355,272)</u>
Fund balance at end of year	<u>\$ 2,466,371</u>	<u>\$ 2,466,371</u>	<u>\$ 1,139,384</u>	<u>\$ (1,326,987)</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, 2019

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
REVENUES				
Water Fund				
Charges for Services	\$ 262,391	\$ 262,391	\$ 296,761	\$ 34,370
Penalties	16,500	16,500	-	(16,500)
Miscellaneous revenue	652,250	652,250	2,244	(650,006)
Total water revenues	<u>931,141</u>	<u>931,141</u>	<u>299,005</u>	<u>(632,137)</u>
Sewer Fund				
Sales of sewer services	375,500	375,500	370,644	(4,856)
Septage	2,000	2,000	-	(2,000)
Land Lease Rents	30,504	30,504	33,456	2,952
Other Income	-	-	43,899	43,899
Total sewer revenues	<u>408,004</u>	<u>408,004</u>	<u>447,999</u>	<u>39,995</u>
Sanitation Fund				
Sanitation income	225,800	225,800	232,109	6,309
Total sanitation revenues	<u>225,800</u>	<u>225,800</u>	<u>232,109</u>	<u>6,309</u>
Cemetery Fund				
Sales	500	500	-	(500)
Interest income	500	500	231	(269)
Miscellaneous revenue	500	500	2,210	1,710
Total cemetery revenues	<u>1,500</u>	<u>1,500</u>	<u>2,441</u>	<u>941</u>
Total proprietary revenues	<u><u>1,566,445</u></u>	<u><u>1,566,445</u></u>	<u><u>981,554</u></u>	<u><u>(584,891)</u></u>
EXPENDITURES				
Water Fund				
Personnel services	73,518	73,518	69,979	3,539
** Operating expenses	753,600	753,600	140,562	613,038
*Debt Service	176,071	176,071	38,798	137,273
Total water expenditures	<u>1,003,189</u>	<u>1,003,189</u>	<u>249,339</u>	<u>753,851</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, 2019

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Final Budget Positive / (Negative)
Sewer Fund				
Personnel services	132,770	132,770	112,160	20,610
** Operating expenses	160,050	160,050	366,820	(206,770)
*Debt Service	107,778	107,778	60,778	47,000
Total sewer expenditures	<u>400,598</u>	<u>400,598</u>	<u>539,758</u>	<u>(139,160)</u>
Sanitation Fund				
Personnel services	18,368	18,368	24,854	(6,486)
Operating expenses	192,500	192,500	210,184	(17,684)
Total sanitation expenditures	<u>210,868</u>	<u>210,868</u>	<u>235,038</u>	<u>(24,170)</u>
Cemetery Fund				
Personnel services	-	-	-	-
Operating expenses	1,250	1,250	18,238	(16,988)
Total cemetery expenditures	<u>1,250</u>	<u>1,250</u>	<u>18,238</u>	<u>(16,988)</u>
 Total expenditures	 1,615,906	 1,615,906	 1,042,373	 573,532
 Net change in fund balances	 (49,461)	 (49,461)	 (60,819)	 (11,358)
 Fund balance at beginning of year	 <u>2,021,994</u>	 <u>2,021,994</u>	 <u>1,394,498</u>	 <u>(627,496)</u>
Fund balance at end of year	<u>\$ 1,972,533</u>	<u>\$ 1,972,533</u>	<u>\$ 1,333,679</u>	<u>\$ (638,853)</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, 2019, 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 April 20, 2020.

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
Certified Public Accountants
April 20, 2020

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, 2019 and have issued our report thereon dated April 20, 2020.

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 April 20, 2020. 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, 2019, 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, 2019, the City of Hawthorne had sufficient restricted cash to comply with its Bond Covenants.

CONCLUSION

We have reviewed each of our specific findings with appropriate officials or employees and have provided them with documentation as requested. We very much enjoyed the challenges and experiences associated with this year's audit of the City. We wish to thank Ellen Vause, City Manager and staff for the assistance and courtesy afforded us.



Sexton & Schnoll
Certified Public Accountants
April, 2020

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, 2019 and have issued our report thereon dated April, 2020, 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 April 20, 2020. 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:

Prior 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 was still in the process of developing procedures to regularly reconcile receivables schedule.



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 in the public funds during the year ended September 30, 2019. 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 the specified requirements.

In our opinion, City complied, in all material respects, with aforementioned requirements for the year ended September 30, 2019.

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

Sexton & Schnoll
Certified Public Accountants
April 20, 2020