



Sexton & Schnoll

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2021

INTRODUCTORY SECTION

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September 30, 2021**

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**CITY OF HAWTHORNE, FLORIDA
LISTING OF OFFICIALS
September 30, 2021**

Mayor	Jacquelyn Randall
Vice Mayor	Tommie Howard
City Commission	Patricia Bouie-Hutchinson Matthew Surrency
City Manager	Wendy Sapp
City Clerk	LaKesha Hawkins-McGruder

Current Officials as of September 30, 2021

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, 2021, and 2020, 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, 2021 and 2020, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hawthorne, Florida's basic financial statements. The introductory section is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2022, 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.

A handwritten signature in blue ink that reads "Sexton + Schnoll". The signature is written in a cursive, flowing style.

SEXTON & SCHNOLL

Certified Public Accountants

June 21, 2022

CITY OF HAWTHORNE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2021

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, 2021. 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 2020 by \$8,124,169. 9.5% 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 \$724,562. The City's net assets are sufficient to meet its demands for restricted net assets.
- The City's total net assets decreased \$338,747 or 2.3% over the year.
- 81.6% of the City's net assets reflect its investment in capital assets (land, buildings, infrastructure, and equipment) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.
- Revenues from Governmental Activities decreased by \$268,756 from the previous year. General revenues from taxes increased 3.3%.
- Business-type activities (the City's enterprise funds) total revenues increased by \$336,624. Charges for services increased slightly.
- The City's total debt, including bonds increased by \$298,402 or 12.1% in the current fiscal year.

**CITY OF HAWTHORNE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2021**

City Highlights

- As of September 30, 2021, the unemployment rate for Alachua County was 3.9%. The 2021 rate for City of Hawthorne was 2.7% and reflects the current economic conditions of the country. According to the U.S. Department of Labor, Bureau of Labor Statistics, the State of Florida's unemployment rate was 3.5%.
- The official population of the City according to the 2020 Census was 1,536.
- The ad valorem tax millage rate for the City was 5.3194 mills in 2021.
- The City of Hawthorne was awarded a Florida Department of Environmental Protection grant for improvements to the Hawthorne Downtown Streetscape, to install rain gardens. Additionally, the Florida Department of State, Division of Historical Resources approved a grant for professional architectural and engineering services for restoring the Hawthorne Historical Museum and Cultural Center.
- The City of Hawthorne has been awarded a FDEP State Revolving Fund Grant/Loan for the construction and replacement of old water lines in Phase III/IV. The project started in FY2020-21 and should be completed in the Spring of 2023.

CITY OF HAWTHORNE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2021

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 12 to 15.

**CITY OF HAWTHORNE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2021**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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 16 through 18.

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 19 through 22 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 23 through 45 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, 2021**

Statement of Net Assets

The following table reflects a condensed Statement of Net Assets:

	Governmental Activities	Business-type Activities	Total Government	
			2021	2020
Cash and cash equivalents	\$ 992,633	\$ 819,403	\$ 1,812,036	\$ 1,512,596
Other assets	1,085,677	1,881,875	2,967,552	3,361,016
Capital Assets	6,499,481	2,898,485	9,397,966	9,642,689
Total Assets	8,577,791	5,599,763	14,177,554	14,516,301
Other current liabilities	464,776	2,258,834	2,723,610	2,149,586
Long term outstanding	311,298	3,004,477	3,315,775	3,505,899
Total Liabilities	776,074	5,263,311	6,039,385	5,655,485
Net assets:				
Invested in capital assets, net of related debt	6,122,459	521,670	6,644,129	7,109,001
Restricted	410,502	358,975	769,477	733,020
Unrestricted	1,268,756	(544,193)	724,563	1,018,795
Total net assets	\$7,801,717	\$ 336,452	\$ 8,138,169	\$ 8,860,816

The largest portion of the City's net assets reflects its investment in capital assets 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.

Total net assets balance decreased by \$722,647 or 8.2% over the previous year.

**CITY OF HAWTHORNE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2021**

Change in Net Assets

The following table reflects a condensed Change in Net Assets:

	Governmental Activities	Business-type Activities	Total Government	
			2021	2020
Revenues:				
Program revenues				
Charges for services	\$ 88,190	\$ 923,579	\$ 1,011,769	\$ 973,633
Grants and contributions	163,499	669,817	833,316	945,533
General revenues				
Taxes	767,683	-	767,683	742,835
Tax increment	66,424	-	66,424	56,577
State shared revenues	43,420	-	43,420	44,251
Interest	210	64	274	277
Miscellaneous	42,385	54,091	96,476	105,161
Total revenues	<u>1,171,811</u>	<u>1,647,551</u>	<u>2,819,362</u>	<u>2,868,297</u>
Expenses:				
General government	439,947	-	439,947	453,157
Transportation	207,491	-	207,491	150,069
Economic environment	93,687	-	93,687	104,009
Culture & recreation	534,107	-	534,107	722,921
Interest on long-term debt	13,345	96,760	110,105	112,649
Cemetery	-	440	440	10,357
Water	-	1,461,544	1,461,544	895,568
Garbage services	-	237,278	237,278	238,466
Sewer	-	457,408	457,408	441,645
Total expenses	<u>1,288,577</u>	<u>2,253,430</u>	<u>3,542,007</u>	<u>3,128,839</u>
Changes in net assets	(116,766)	(605,879)	(722,645)	(260,545)
Beginning net assets	<u>7,918,483</u>	<u>942,331</u>	<u>8,860,814</u>	<u>9,121,360</u>
Ending net assets	<u>\$ 7,801,717</u>	<u>\$ 336,452</u>	<u>\$ 8,138,169</u>	<u>\$ 8,860,815</u>

Current Year Impacts on Revenue and Expense

The governmental activities change in net position was \$(116,766) for 2021 compared to \$130,803 for the prior year, mainly due to:

- Total revenue decreased by \$399,560 or 25.4% mainly due to:
 - Decreased grants of \$433,840 or 80.6%, as in prior year, the City received the CDBG grant for the improvements to the Hawthorne Athletic Park.
 - However, an increase occurred on General revenues primarily on State Half-cent tax of 16.7% increase and Communication Service tax of 19.2% increase.

**CITY OF HAWTHORNE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2021**

Change in Net Assets (Continued)

Current Year Impacts on Revenue and Expense (Continued)

- Total expense decreased by \$151,990 or 10.6% mainly due to:
 - The most significant decrease was related to Culture and Recreation amounting to \$188,813 or 26.1% primarily due to the Athletic Park Grant Expense expensed in prior year.
 - However, an increase of \$57,421 or 38.3% occurred on Transportation expenses primarily on personnel related costs and repairs and maintenance expenses.

The business-type activities change in net asset was \$(605,879) for 2021 compared to \$(391,347) for the prior year, mainly due to:

- Total revenue increased by \$350,624 or 27.0% mainly due to:
 - Increased in Grants and Contributions by \$331,617 primarily related to the receipt of FDEP State Revolving Fund Grant for the construction and replacement of old water lines.
 - Charges and Services increase slightly by \$28,719 or 3.2% primarily due to the increase in collection of Residential Sales in the City's sanitation and sewer activities. An increase on water disconnection fees and penalties also occurred on the City's water utility services.
- Total expense increased by \$565,156 or 33.5% mainly due to the construction of SRJMD Water Replacement started in 2021.

Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 4,656,816	\$ 4,656,816	\$ 114,300	\$ 114,300	\$ 4,771,116	\$ 4,771,116
Buildings	1,322,482	1,322,481	4,998,574	4,998,574	6,321,056	6,321,056
Improvements	1,763,126	1,763,126	5,603,160	5,603,160	7,366,286	7,366,286
Equipment	437,061	426,677	196,246	196,246	633,307	622,922
Subtotal	8,179,485	8,169,100	10,912,280	10,912,280	19,091,765	19,081,385
Accumulated depreciation	(1,680,004)	(1,582,555)	(8,013,794)	(7,856,134)	(9,693,798)	(9,438,690)
Capital assets, net	<u>\$ 6,499,481</u>	<u>\$ 6,586,545</u>	<u>\$ 2,898,486</u>	<u>\$ 3,056,146</u>	<u>\$ 9,397,967</u>	<u>\$ 9,642,689</u>

The City's net investment in capital assets for the governmental activities decreased by \$408,538 or 6.8% from the prior year. The City added \$10,384 of assets. Depreciation expense was \$87,065, an decrease of 7.9% from the prior year.

**CITY OF HAWTHORNE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2021**

Long-term Debt

At the end of the fiscal year, the City had total debt outstanding in bonds and notes payable of \$2,767,836, which is an increase of \$298,402 from the previous year.

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
USDA bonds	\$ -	\$ -	\$ 1,773,600	\$ 1,854,100	\$ 1,773,600	\$ 1,854,100
Loans Payable	377,021	239,813	603,215	375,520	980,236	615,334
Total bonds and notes	<u>\$ 377,021</u>	<u>\$ 239,813</u>	<u>\$ 2,376,815</u>	<u>\$ 2,229,620</u>	<u>\$ 2,753,836</u>	<u>\$ 2,469,434</u>

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

Budgetary Highlights

The City's FY budget for 2020-21 was adopted in September, 2020. There were no changes made to the FY 2020-21 budget. A comparison to actual results can be reviewed in supplementary information beginning on page 46.

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, 2021

	Governmental Activities	Business-type Activities	2021 Total	2020 Total
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 582,131	\$ 460,428	\$ 1,042,559	\$ 779,576
Accounts receivable, net	35,204	158,989	194,193	123,399
Prepaid Expenses	21,469	1,436	22,905	14,454
Due from other funds	-	1,720,089	1,720,089	1,825,930
Due from other governmental units	222,270	-	222,270	236,603
Total Current Assets	<u>861,074</u>	<u>2,340,942</u>	<u>3,202,016</u>	<u>2,979,962</u>
Restricted assets:				
Cash	410,502	358,975	769,478	733,020
Total Restricted Assets	<u>410,502</u>	<u>358,975</u>	<u>769,478</u>	<u>733,020</u>
Non-current assets:				
Due from other funds	806,734	-	806,734	1,158,859
Bond costs, net	-	1,361	1,361	1,771
Capital assets, net	<u>6,499,481</u>	<u>2,898,485</u>	<u>9,397,966</u>	<u>9,642,689</u>
Total non-current assets	<u>7,306,215</u>	<u>2,899,846</u>	<u>10,206,061</u>	<u>10,803,319</u>
Total assets	<u><u>\$ 8,577,791</u></u>	<u><u>\$ 5,599,763</u></u>	<u><u>\$ 14,177,554</u></u>	<u><u>\$ 14,516,301</u></u>
LIABILITIES				
Current liabilities (payable from current assets):				
Accounts payable	39,886	569,514	609,400	33,841
Sales tax payable	741	-	741	299
Deferred Revenue	-	-	-	3,954
Accrued compensation	40,614	16,826	57,440	66,826
Loans payable-current portion	65,723	94,472	160,195	41,893
Due to other funds	314,538	1,405,552	1,720,090	1,825,930
Total current liabilities (payable from current assets)	<u>461,501</u>	<u>2,086,364</u>	<u>2,547,866</u>	<u>1,972,743</u>
Current liabilities (payable from restricted assets):				
Accrued interest payable	-	-	-	7,905
Deposits	3,275	87,870	91,145	88,437
Bonds payable-current portion	-	84,600	84,600	80,500
Total current liabilities (payable from restricted assets)	<u>3,275</u>	<u>172,470</u>	<u>175,745</u>	<u>176,842</u>

CITY OF HAWTHORNE, FLORIDA
STATEMENT OF NET ASSETS
September 30, 2021

	Governmental Activities	Business-type Activities	2021 Total	2020 Total
Non-current liabilities:				
Loans payable	311,298	508,743	820,041	573,441
Due to other funds	-	806,734	806,734	1,158,859
Bonds payable	-	1,689,000	1,689,000	1,773,600
Total long-term liabilities	<u>311,298</u>	<u>3,004,477</u>	<u>3,315,775</u>	<u>3,505,900</u>
Total liabilities	<u>776,074</u>	<u>5,263,311</u>	<u>6,039,385</u>	<u>5,655,485</u>
NET ASSETS				
Invested in capital assets, net of related debt	6,122,459	521,670	6,644,129	7,109,001
Restricted net assets	410,502	358,975	769,477	733,020
Unrestricted net assets	1,268,756	(544,193)	724,563	1,018,795
Total net assets	<u>\$ 7,801,717</u>	<u>\$ 336,452</u>	<u>\$ 8,138,169</u>	<u>\$ 8,860,816</u>

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES
For the Years Ended September 30, 2021 and 2020

Functions / Programs	Expenses	Program			Net Revenue (Expense) and Changes in Net Assets			2020
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Activities	Total	
Governmental Activities								
General government	\$ 439,947	\$ 58,850	\$ 163,499	\$ -	(217,598)	\$ -	\$ (217,598)	\$ 204,454
Public safety	-	-	-	-	-	-	-	-
Transportation	207,491	29,340	-	-	(178,151)	-	(178,151)	(121,544)
Economic environment	93,687	-	-	-	(93,687)	-	(93,687)	(104,009)
Culture & recreation	534,107	-	-	-	(534,107)	-	(534,107)	(722,921)
Interest on long-term debt	13,345	-	-	-	(13,345)	-	(13,345)	(10,411)
Total governmental activities	<u>1,288,576</u>	<u>88,190</u>	<u>163,499</u>	<u>-</u>	<u>(1,036,887)</u>	<u>-</u>	<u>(1,036,887)</u>	<u>(754,430)</u>
Business Activities								
Cemetery	440	-	-	-	-	(440)	(440)	(10,357)
Water utility	1,461,544	299,527	669,817	-	-	(492,200)	(492,200)	(266,588)
Garbage services	237,278	243,727	-	-	-	6,450	6,450	(1,617)
Sewer utility	457,408	380,076	-	-	-	(77,332)	(77,332)	(75,758)
Interest on long-term debt	96,760	249	-	-	-	(96,511)	(96,511)	(101,994)
Total business activities	<u>2,253,430</u>	<u>923,579</u>	<u>669,817</u>	<u>-</u>	<u>-</u>	<u>(660,033)</u>	<u>(660,033)</u>	<u>(456,314)</u>
Total Government	<u>\$ 3,542,006</u>	<u>\$ 1,011,769</u>	<u>\$ 833,316</u>	<u>\$ -</u>	<u>\$ (1,036,887)</u>	<u>\$ (660,033)</u>	<u>\$ (1,696,920)</u>	<u>\$ (1,210,744)</u>

CONTINUED

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES (Continued)
For the Years Ended September 30, 2021 and 2020

	<u>Governmental</u>	<u>Business</u>	<u>Total</u>	<u>2020</u>
General Revenues				
Property taxes	387,178	-	387,178	384,782
Sales and use taxes	259,358	-	259,358	242,163
Utility services tax	56,113	-	56,113	91,811
Communications surtax	51,412	-	51,412	6,113
Licenses and permits	13,621	-	13,621	17,966
State shared revenues	43,420	-	43,420	44,251
Tax increment	66,424	-	66,424	56,577
Interest	210	64	274	277
Miscellaneous	42,385	54,091	96,476	105,161
Total general revenue	<u>920,122</u>	<u>54,155</u>	<u>974,277</u>	<u>949,101</u>
Change in net assets	(116,766)	(605,879)	(722,645)	(260,544)
Net assets, beginning of year	7,918,483	942,331	8,860,814	9,121,359
Net assets, end of year	<u>\$ 7,801,717</u>	<u>\$ 336,452</u>	<u>\$ 8,138,169</u>	<u>\$ 8,860,815</u>

**CITY OF HAWTHORNE, FLORIDA
GOVERNMENTAL FUND
BALANCE SHEET
September 30, 2021**

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 992,633	\$ 766,207
Accounts receivable	35,204	32,588
Prepaid Expenses	21,469	13,089
Due from other funds	806,734	1,158,859
Due from other governmental units	222,270	236,603
Total assets	<u><u>\$ 2,078,310</u></u>	<u><u>\$ 2,207,346</u></u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	39,886	11,587
Deposits	3,275	763
Sales tax payable	741	299
Deferred Revenue	-	2,286
Accrued compensation	40,614	43,630
Due to other funds	314,538	577,030
Notes Payable	377,021	239,813
Total Liabilities	<u><u>776,074</u></u>	<u><u>875,408</u></u>
 FUND BALANCES		
Restricted:		
Reserved Downtown development	410,502	397,447
Interfund receivable	806,734	1,158,859
Unrestricted:	85,000	(224,368)
Total fund balances	<u><u>1,302,236</u></u>	<u><u>1,331,938</u></u>
 Total Liabilities and Fund Balance	 <u><u>\$ 2,078,310</u></u>	 <u><u>\$ 2,207,346</u></u>
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets		
Fund balance-Governmental Funds	\$ 1,302,236	\$ 1,331,938
 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.	6,499,481	6,586,545
Long-term liabilities are not due in the current period and therefore are not reported in the funds	-	-
 Net assets of governmental activities	 <u><u>\$ 7,801,717</u></u>	 <u><u>\$ 7,918,483</u></u>

**CITY OF HAWTHORNE, FLORIDA
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Fiscal Years Ended September 30, 2021 and 2020**

	2021	2020
REVENUE		
Taxes	\$ 754,062	\$ 724,870
Intergovernmental revenue	109,844	100,828
Charges for services	88,190	78,803
Other revenue	219,715	666,870
Total Revenue	1,171,811	1,571,371
EXPENDITURES		
Current Expenditures		
General government	419,932	432,275
Transportation	175,685	119,657
Economic environment	93,687	104,009
Culture/recreation	501,824	690,100
Capital outlay/(disposals)	10,384	32,774
Total expenditures	1,201,512	1,378,815
Excess of revenues over expenditures	(29,701)	192,555
Net changes in fund balances	(29,701)	192,555
Fund balances, beginning of year	1,331,937	1,139,384
Fund balances, end of year	\$ 1,302,236	\$ 1,331,939

**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, 2021**

	2021	2020
Net change in fund balances - total governmental funds	\$ (29,701)	\$ 192,555
<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	10,384	
Less current year depreciation	(97,449)	
	(87,065)	(61,752)
<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		-
<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	-	-
Change in net assets of governmental activities	\$ (116,766)	\$ 130,803

**CITY OF HAWTHORNE, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 September 30, 2021**

	Business-Type Activities - Enterprise Funds					2020
	Cemetery	Water	Solid Waste	Sewer	Total	
ASSETS						
Current assets						
Cash	\$ 34,347	\$ 326,123	\$ 20,499	\$ 79,459	\$ 460,428	\$ 410,816
Accounts receivable (net of allowance for uncollectible)	-	85,702	30,545	42,741	158,988	90,811
Prepaid Expenses	-	-	-	1,436	1,436	1,365
Due from other funds	-	1,256,870	105,936	357,284	1,720,090	1,825,930
Restricted assets						
Cash	-	286,468	-	72,508	358,976	335,573
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
Allowance for depreciation	-	(1,255,282)	-	(6,758,512)	(8,013,794)	(7,856,134)
Other assets						
Bond costs	-	-	-	12,295	12,295	12,295
Accumulated amortization-bond costs	-	-	-	(10,933)	(10,933)	(10,523)
Total assets	34,347	2,538,957	156,980	2,869,482	5,599,766	5,722,410
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts Payable	-	547,039	18,427	4,048	569,514	22,255
Due to other funds	43,361	1,271,803	-	897,121	2,212,285	2,407,759
Current liabilities payable from Restricted funds						
Accrued interest payable	-	-	-	-	-	7,905
Deposits	-	87,870	-	-	87,870	87,674
Deferred Revenue	-	-	-	-	-	1,668
Accrued compensation	-	4,337	1,692	10,797	16,826	23,196
Capital Line of Credit	-	59,281	-	-	59,281	-
Loan payable NRWA-current	-	8,134	-	-	8,134	7,894
Loan payable DEP-current	-	27,057	-	-	27,057	14,807
Serial bonds payable-current	-	17,900	-	-	17,900	16,900
Bonds payable FMHA-current	-	-	-	66,700	66,700	63,600
Long-term liabilities						
Due to other funds	-	-	-	-	-	-
Capital Line of Credit	-	-	-	-	-	-
Loan payable NRWA	-	14,111	-	-	14,111	22,245
Loan payable DEP	-	494,632	-	-	494,632	330,574
Serial bonds payable	-	186,300	-	-	186,300	204,200
Bonds payable FMHA	-	-	-	1,502,700	1,502,700	1,569,400
Total Liabilities	43,361	2,718,464	20,119	2,481,366	5,263,310	4,780,077
NET ASSETS						
Invested in capital assets, net of related debt	-	(223,620)	-	745,291	521,670	665,343
Restricted	-	286,468	-	72,508	358,975	335,573
Unrestricted	(9,014)	(242,354)	136,861	(429,683)	(544,189)	(58,584)
Total net assets	(9,014)	(179,507)	136,861	388,116	336,456	942,332
Total liabilities and net assets	\$ 34,347	\$ 2,538,957	\$ 156,980	\$ 2,869,482	\$ 5,599,766	\$ 5,722,410

CITY OF HAWTHORNE, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Fiscal year Ended September 30, 2021

	Business-Type Activities - Enterprise Funds				Total	2020
	Cemetery	Water	Solid Waste	Sewer		
OPERATING REVENUES						
Utility revenue						
Sales	\$ -	\$ 267,288	\$ 243,727	\$ 377,676	\$ 888,691	\$ 890,915
Reconnection fees	-	14,400	-	2,400	16,800	3,700
Late fees	-	17,839	-	-	17,839	-
Total operating revenues	<u>-</u>	<u>299,527</u>	<u>243,727</u>	<u>380,076</u>	<u>923,330</u>	<u>894,615</u>
OPERATING EXPENSES						
Personnel						
Regular salaries	-	74,388	11,554	102,117	188,059	180,629
Payroll tax	-	6,104	979	8,192	15,275	14,235
Retirement	-	5,436	768	7,186	13,390	11,285
Life and health insurance	-	23,322	5,454	30,876	59,652	53,818
Worker's compensation	-	4,852	-	4,852	9,705	5,755
Total Personnel Services	<u>-</u>	<u>114,102</u>	<u>18,755</u>	<u>153,223</u>	<u>286,080</u>	<u>265,722</u>
Depreciation and amortization	-	21,958	-	135,701	157,660	160,278
Accounting and auditing	-	-	-	-	-	-
Contractual services	-	51,394	218,513	69,459	339,365	312,655
Communication	-	845	10	805	1,660	9,574
Utility services	-	9,497	-	29,539	39,036	41,667
Insurance	-	3,009	-	6,684	9,693	7,618
Repairs and maintenance	440	3,080	-	30,938	34,457	47,437
Supplies	-	31,788	-	27,588	59,376	38,374
Publications & subscriptions	-	434	-	-	434	565
Other current charges and obligation	-	1,225,436	-	3,471	1,228,908	702,147
Total operating expenses	<u>440</u>	<u>1,347,443</u>	<u>218,523</u>	<u>304,183</u>	<u>1,870,589</u>	<u>1,320,314</u>
Total expenses	<u>440</u>	<u>1,461,545</u>	<u>237,278</u>	<u>457,406</u>	<u>2,156,669</u>	<u>1,586,036</u>
Operating profit (loss)	<u>(440)</u>	<u>(1,162,018)</u>	<u>6,450</u>	<u>(77,330)</u>	<u>(1,233,339)</u>	<u>(691,423)</u>
Non-operating revenues						
Grants	-	669,817	-	-	669,817	338,200
Interest on investments	249	64	-	-	313	306
Rents and royalties	-	-	-	30,863	30,863	31,984
Miscellaneous	23	8,846	-	14,359	23,228	31,821
Total non-operating revenues	<u>272</u>	<u>678,727</u>	<u>-</u>	<u>45,222</u>	<u>724,221</u>	<u>402,311</u>
Debt service - interest	-	(19,760)	-	(77,000)	(96,760)	(102,238)
Net non-operating revenue	<u>272</u>	<u>658,967</u>	<u>-</u>	<u>(31,778)</u>	<u>627,461</u>	<u>300,073</u>
Change in net assets	(168)	(503,051)	6,450	(109,108)	(605,877)	(391,350)
Net assets, beginning of year	(8,847)	323,544	130,411	497,224	942,332	1,333,682
Net assets, end of year	<u>\$ (9,015)</u>	<u>\$ (179,507)</u>	<u>\$ 136,861</u>	<u>\$ 388,116</u>	<u>\$ 336,456</u>	<u>\$ 942,332</u>

**CITY OF HAWTHORNE, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 For the Fiscal year Ended September 30, 2021**

	Business-Type Activities - Enterprise Funds					2020
	Cemetery	Water	Solid Waste	Sewer	Total	
Cash flows from operating activities						
Cash received from customers	\$ -	\$ 237,006	\$ 235,834	\$ 380,768	\$ 853,608	\$ 886,989
Cash payments to employees	-	(93,781)	(14,545)	(124,472)	(232,798)	(209,223)
Cash payments for employee benefits	-	(23,322)	(5,454)	(30,876)	(59,652)	(53,818)
Cash paid to vendors	(440)	(808,748)	(274,255)	(171,450)	(1,254,893)	(1,102,619)
Net cash provided (used) by operating activities	(440)	(688,845)	(58,420)	53,970	(693,735)	(478,672)
Cash flows from capital and related financing activities						
Interest paid on notes and bonds payable	-	(22,756)	-	(81,909)	(104,665)	(102,238)
Principal paid on notes payable	-	(22,701)	-	-	(22,701)	328,078
Principal paid on bonds payable	-	(16,900)	-	(63,600)	(80,500)	(76,290)
Net cash provided by (used for) capital and related financing activities	-	(62,357)	-	(145,509)	(207,866)	149,550
Cash flows from non-capital financing activities						
State grant	-	669,817	-	-	669,817	338,200
Loan proceeds	-	250,395	-	-	250,395	31,984
Rents and royalties	-	-	-	30,863	30,863	-
Miscellaneous	23	8,846	-	14,359	23,228	31,821
Net cash provided by non-capital financing activities	23	929,058	-	45,222	974,303	400,905
Cash flows from investing activities						
Interest Income	249	64	-	-	313	306
Net cash provided (used) for investing activities	249	64	-	-	313	306
Net increase (decrease) in cash and cash equivalents	(168)	177,920	(58,420)	(46,317)	73,015	72,090
Cash and cash equivalents, beginning of year	34,514	434,671	78,919	198,287	746,391	670,989
Cash and cash equivalents, end of year	\$ 34,346	\$ 612,591	\$ 20,499	\$ 151,970	\$ 819,406	\$ 743,079

**CITY OF HAWTHORNE, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 For the Fiscal year Ended September 30, 2021**

	Business-Type Activities - Enterprise Funds				Total	2020
	Cemetery	Water	Solid Waste	Sewer		
<u>Reconciliation of operating income (loss) to net cash provided by operating activities</u>						
Operating income (loss)	\$ (440)	\$ (1,162,018)	\$ 6,450	\$ (77,330)	\$ (1,233,338)	\$ (691,423)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	-	21,958	-	136,111	158,069	160,278
(Increase) decrease in assets:						
Accounts receivable, net	-	(63,192)	(7,893)	2,907	(68,178)	1,659
Prepaid expenses	-	475	-	(547)	(71)	(252)
Due from other funds	-	130,728	(57,133)	32,245	105,841	(246,764)
Increase (decrease) in liabilities:						
Accounts payable	-	545,669	1,400	190	547,259	(1,425)
Due to other funds	(0)	(159,660)	-	(35,813)	(195,474)	305,606
Customer deposits payable	-	196	-	-	196	(6,176)
Accrued compensation	-	(3,001)	(1,244)	(2,125)	(6,371)	2,681
Deferred Revenue	-	-	-	(1,668)	(1,668)	(2,857)
Total adjustments	(0)	473,173	(64,869)	131,300	539,603	212,750
Net cash provided (used) by operating activities	<u>\$ (440)</u>	<u>\$ (688,845)</u>	<u>\$ (58,420)</u>	<u>\$ 53,970</u>	<u>\$ (693,735)</u>	<u>\$ (478,671)</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

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.

1.1 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 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

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.1 Reporting Entity (Continued)

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.

1.2 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, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.2 Measurement Focus and Basis of Accounting (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, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.2 Measurement Focus and Basis of Accounting (Continued)

Governmental Funds (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.

1.3 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.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.3 Basis of Accounting (Continued)

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

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.

1.4 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, 2021, 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, 2021. No other allowances for doubtful accounts are maintained since other fund accounts receivable are considered collectible as reported at September 30, 2021.

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.

Due From/Due To Other Funds - Amounts receivable from, or payable to, other funds are reflected in the accounts of the fund until liquidated, usually within one year. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statements as "internal balances".

**CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.4 Assets, Liabilities and Net Assets or Equity (Continued)

Prepaid Items - Certain payments to vendors for services that will benefit periods beyond September 30, 2021 are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are reported as expenditures during the period benefited by the prepayment

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 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

When capital assets are disposed of, the cost and accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in the government-wide and proprietary fund financial statements.

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

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.4 Assets, Liabilities and Net Assets or Equity (Continued)

Deferred Revenues (Continued) - 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.

Other post-employment benefits (OPEB) - Florida Statutes 112.0801 requires that "any state agency, county, municipality, special district, community college, or district school board that provides life, health, accident, hospitalization, or annuity insurance, or all of any kinds of such insurance, for its officers and employees and their dependents upon a group insurance plan or self-insurance plan shall allow all former personnel who retired before October 1, 1987, as well as those who retire on or after such date, and their eligible dependents, the option of continuing to participate in the group insurance plan or self-insurance plan. Retirees and their eligible dependents shall be offered the same health and hospitalization insurance coverage as is offered to active employees at a premium cost of no more than the premium cost applicable to active employees. For retired employees and their eligible dependents, the cost of continued participation may be paid by the employer or by the retired employees."

Interfund Activity - During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are reflected as loans, services provided, reimbursements, or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

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

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Revenues, Expenditures, and Expenses - Substantially all governmental fund revenues (including sales taxes, franchise fees, and licenses) are accrued. Property taxes are generally billed and collected within the same period in which the taxes are levied. In addition, revenue from Federal and State reimbursement type grants for which eligibility requirements have been met have been accrued and recognized as revenues of the period. Only the portion of special

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.4 Assets, Liabilities and Net Assets or Equity (Continued)

Revenues, Expenditures, and Expenses (Continued) - assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Operating revenues for proprietary operations generally result from providing services in connection with a proprietary fund's principal on-going operation. The principal operating revenue of the proprietary funds is receipts from customers. Operating expenses for these operations include all costs related to providing the service. These costs include salaries, contractual services, depreciation, and administrative expenses. All other revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

NOTE 2. FUTURE ADOPTION OF GASB PRONOUNCEMENTS

Due to the ongoing COVID-19 pandemic, the GASB issued Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance, in May 2020. The effective dates of the following GASB pronouncements, which were issued prior to May 2020, are based on the revised dates in Statement 95:

GASB Statement 87, Leases. This statement was issued June 2017 to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments and increases the usefulness of governments' financial statements. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB Statement 87 will be effective for the fiscal year ending September 30, 2022.

GASB Statement 91, Conduit Debt Obligations. This statement was issued May 2019 to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB Statement 91 will be effective for the fiscal year ending September 30, 2023.

GASB Statement 92, Omnibus 2020. This statement was issued January 2020 to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB Statement 92 will be effective for the fiscal year ending September 30, 2022.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 2. FUTURE ADOPTION OF GASB PRONOUNCEMENTS (Continued)

GASB Statement 93, Replacement of Interbank Offered Rates. This statement was issued March 2020 to address accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR) in agreements in which variable payments made or received depend on an IBOR. Statement 93 will be effective for the fiscal year ending September 30, 2022.

GASB Statement 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. This statement was issued March 2020 to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements and to provide guidance for accounting and financial reporting for availability payment arrangements. Statement 94 will be effective for the fiscal year ending September 30, 2023.

GASB Statement 96, Subscription-Based Information Technology Arrangements. This statement was issued May 2020 to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). Statement 96 will be effective for the fiscal year ending September 30, 2023.

GASB Statement 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements 14 and 84, and a supersession of GASB Statement 32. This statement was issued June 2020 to provide for more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans. The statement will also enhance the relevance, consistency, and comparability of (1) the information related to Section 457 plans that meet the definition of a pension plan and the benefits provided through those plans and (2) investment information for all Section 457 plans. The requirements in (1) paragraph 4 of Statement 97 as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of Statement 97 are effective immediately. The other requirements of Statement 97 will be effective for the fiscal year ending September 30, 2022.

The City of Hawthorne will implement new GASB pronouncements no later than the required effective date. The City is currently evaluating whether or not the above listed new GASB pronouncements will have a significant impact to the City's financial statements and component unit.

**CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021**

NOTE 3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

3.1 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.

	2021	2020
Cost of capital assets	\$ 8,179,484	\$ 8,816,100
Accumulated depreciation	(1,680,004)	(1,582,555)
Total Government Assets	\$ 6,499,481	\$ 6,586,545

See next page.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 3. 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

	<u>Total Governmental</u> Fund	<u>Capital</u> Related Items	<u>Long-Term</u> Debt Transactions	<u>2021</u> Statement of Net Assets	<u>2020</u> Statement of Net Assets
ASSETS					
Cash	\$ 992,633	\$ -	\$ -	\$ 992,633	\$ 766,207
Accounts receivable	35,204	-	-	35,204	32,588
Due from other funds	806,734	-	-	806,734	1,158,859
Due from other governmental units	222,270	-	-	222,270	236,603
Note receivable	-	-	-	-	-
Prepaid expenses	21,469	-	-	21,469	13,089
Capital assets - net	-	6,499,481	-	6,499,481	6,586,545
Total assets	<u>2,078,310</u>	<u>6,499,481</u>	<u>-</u>	<u>8,577,791</u>	<u>8,793,893</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	39,886	-	-	39,886	11,587
Deposits	3,275	-	-	3,275	763
Sales tax payable	741	-	-	741	299
Accrued compensation	40,614	-	-	40,614	43,630
Deferred Revenue	-	-	-	-	2,286
Due to other funds	314,538	-	-	314,538	577,030
Notes Payable	377,021	-	-	377,021	239,813
Total Liabilities	<u>776,074</u>	<u>-</u>	<u>-</u>	<u>776,074</u>	<u>875,407</u>
Fund Balance - Net Assets	1,302,236	6,499,481	-	7,801,717	7,918,485
Total liabilities and fund balance/net assets	<u>\$ 2,078,310</u>	<u>\$ 6,499,481</u>	<u>\$ -</u>	<u>\$ 8,577,791</u>	<u>\$ 8,793,893</u>

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(Continued)

3.2 Explanation of Differences between the Governmental Fund Operating Statements and the Statement of Activities

The "net change in fund balances" for governmental funds of \$(29,701) differs from the "change in net assets" for governmental activities \$(116,766) 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	\$	10,384
Depreciation Expense		<u>(97,449)</u>
Difference	\$	<u>(87,065)</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, 2021.

Accrued compensation

The City's employees have accrued wages payable as of September 30, 2021, in the amount of \$51,283. 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, 2021

NOTE 3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

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

	Total Governmental Fund	Capital Related Items	Long-Term Debt Transactions	2021 Statement of Net Assets	2020 Statement of Net Assets
REVENUES					
Taxes	\$ 754,062	\$ -	\$ -	\$ 754,062	\$ 724,870
Intergovernmental	109,844	-	-	109,844	100,828
Charges for Services	88,190	-	-	88,190	78,803
Miscellaneous	219,715	-	-	219,715	666,870
Total revenues	<u>1,171,811</u>	<u>-</u>	<u>-</u>	<u>1,171,811</u>	<u>1,571,371</u>
EXPENDITURES					
Current Expenditures					
General government	439,947	-	-	439,947	453,157
Public safety	-	-	-	-	-
Transportation	207,491	-	-	207,491	150,069
Economic environment	93,687	-	-	93,687	104,009
Culture /recreation	534,107	-	-	534,107	722,921
Capital Outlay/(disposals)	-	-	-	-	-
Debt Service					
Principal	(19,191)	-	19,191	-	-
Interest	13,345	-	-	13,345	10,411
Total Expenditures	<u>1,269,385</u>	<u>-</u>	<u>19,191</u>	<u>1,288,576</u>	<u>1,440,566</u>
Excess of revenues over (under) expenditure	(97,574)	-	(19,191)	(116,765)	130,805
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	(97,574)	-	(19,191)	(116,765)	130,805
Fund balance at beginning of year	1,610,820	5,503,866	803,801	7,918,487	7,787,682
Fund balance at end of year	<u>\$ 1,513,246</u>	<u>\$ 5,503,866</u>	<u>\$ 784,609</u>	<u>\$ 7,801,721</u>	<u>\$ 7,918,487</u>

**CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021**

NOTE 4. 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 2020-2021 was adopted by the City Commission in September 2020.

NOTE 5. 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, 2021, the carrying amount of the City's bank balance was \$1,812,037. 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 6. DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units at September 30, 2021 and 2020, consists of the following:

	2021	2020
Hawthorne Community Redevelopment Agency	\$ 222,270	\$ 236,603
Total	\$ 222,270	\$ 236,603

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 7. 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 2020-2021 fiscal year were levied in October 2020. 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.

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2021 was as follows:

	2020 Beginning Balance	2021 Additions	2021 Disposals	2021 Ending Balance
Governmental Capital assets:				
Land	\$ 4,656,816	\$ -	\$ -	\$ 4,656,816
Buildings	1,322,482	-	-	1,322,482
Improvements	1,763,126	-	-	1,763,126
Equipment and vehicles	426,677	10,384	-	437,061
Total capital assets	8,169,101	10,384	-	8,179,485
Less accumulated depreciation	(1,582,555)	(97,449)	-	(1,680,004)
Governmental Activities			-	
Capital assets, net	<u>\$ 6,586,546</u>	<u>\$ (87,065)</u>	<u>-</u>	<u>\$ 6,499,481</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	(7,856,134)	(157,600)	-	(8,013,794)
Business-type Activities				
Capital assets, net	<u>\$ 3,056,146</u>	<u>\$ (157,600)</u>	<u>\$ -</u>	<u>\$ 2,898,486</u>

**CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021**

NOTE 8. CAPITAL ASSETS (Continued)

Depreciation expense was charged the following functions as follows:

Governmental activities	2021
General government	\$ 33,360
Transportation	31,806
Culture/recreation	32,283
Total governmental activities depreciation expense	<u>\$ 97,449</u>
Business-type activities	
Water utility	\$ 21,958
Sewer utility	135,701
Total business-type activities depreciation expense	<u>\$ 157,659</u>

NOTE 9. INTERFUND RECEIVABLES / PAYABLES

The following schedule of inter-fund receivables and payables at September 30, 2021 and 2020.

Fund	2021 Interfund Receivables	2020 Interfund Receivables	2021 Interfund Payables	2020 Interfund Payables
General	\$ 806,734	\$ 1,158,859	\$ 314,538	\$ 577,030
Water	1,256,870	1,387,598	1,274,803	1,431,464
Solid Waste	105,936	48,803	-	-
Sewer	357,284	389,529	897,121	932,935
Cemetary	-	-	46,361	46,361
	<u>\$ 2,526,824</u>	<u>\$ 2,984,790</u>	<u>\$ 2,526,824</u>	<u>\$ 2,984,790</u>

NOTE 10. INTERFUND TRANSFERS

No Interfund transfers for the year ended September 30, 2021.

NOTE 11. LINE OF CREDIT

On May 2021, the City obtained a line-of-credit from Capital City Bank for a maximum amount of \$500,000. The Capital City Line of Credit was used to pay invoices for the Water Line Replacement Phase III project SJRWMD portion for reimbursement by the State. At September 30, 2021, the outstanding balance was \$59,281.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 12. LONG TERM DEBT - BUSINESS-TYPE

12.1 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
2022	17,900	11,997	29,897
2023	18,900	10,945	29,845
2024	20,000	9,835	29,835
2025	21,200	8,660	29,860
2026	22,400	7,414	29,814
2027-2030	103,800	15,675	119,475
	<u>\$ 204,200</u>	<u>\$ 64,525</u>	<u>\$ 268,725</u>

12.2 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:

September 30	Principal	Interest	Total
2022	41,700	33,170	74,870
2023	43,800	31,085	74,885
2024	45,900	28,895	74,795
2025	48,200	26,600	74,800
2026	50,600	24,190	74,790
2027-2031	294,000	80,330	374,330
2032-2033	139,200	10,525	149,725
	<u>\$ 663,400</u>	<u>\$ 234,795</u>	<u>\$ 898,195</u>

**CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021**

NOTE 12. LONG TERM DEBT - BUSINESS-TYPE (Continued)

12.3 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
2022	25,000	40,770	65,770
2023	26,000	39,645	65,645
2024	27,000	38,475	65,475
2025	29,000	37,260	66,260
2026	30,000	35,955	65,955
2027-2031	171,000	158,310	329,310
2032-2036	212,000	116,235	328,235
2037-2041	265,000	64,080	329,080
2042-2043	121,000	8,190	129,190
	<u>\$ 906,000</u>	<u>\$ 538,920</u>	<u>\$ 1,444,920</u>

12.4 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 carried an interest of 3% and was payable over a ten-year term in annual installments of \$8,690. Payments commenced in June of 2014, and future debt service of this revolving loan is as follows:

September 30	Principal	Interest	Total
2022	8,134	556	8,691
2023	8,382	309	8,691
2024	5,729	65	5,794
	<u>\$ 22,245</u>	<u>\$ 929</u>	<u>\$ 23,175</u>

12.5 Promissory Note – Drinking Water State Revolving Fund Loan Agreement

In February 2019, the City entered into a Revolving Fund Loan Agreement with the State of Florida Department of Environmental Protection, authorizing a Loan amount of \$674,200, excluding Capitalized Interest and including Principal Forgiveness in the amount of \$337,100.

The total amount of loan is \$345,381, which consists of \$337,100 disbursed to the City, \$1,539 of accrued Capitalized Interest and \$6,742 of service fee charges all at an interest rate of 1.59 percent per annum.

**CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021**

NOTE 12. LONG TERM DEBT - BUSINESS-TYPE (Continued)

12.5 Promissory Note – Drinking Water State Revolving Fund Loan Agreement (Continued)

September 30	Principal	Interest	Total
2022	15,031	5,197	20,227
2023	15,271	4,957	20,227
2024	15,514	4,713	20,227
2025	15,762	4,465	20,227
2026	16,014	4,214	20,227
2027-2031	83,986	17,151	101,137
2032-2036	90,907	10,230	101,137
2037-2040	78,090	2,819	80,910
	<u>\$ 330,574</u>	<u>\$ 53,746</u>	<u>\$ 384,320</u>

12.6 Promissory Note – DW 010411

In March 2021, the City entered into a Revolving Fund Loan Agreement with the State of Florida Department of Environmental Protection, authorizing a Loan amount of \$2,545,000. Of this amount, the agreement includes principal forgiveness in the amount of \$1,874,312.

The remaining balance of \$670,688 will ultimately be disbursed. In addition, fees of \$50,900 will bring the loan balance to a total of \$721,588. As of September 30, 2021, \$191,115 had been disbursed.

As of September 30, 2021, the loan was payable over a 30-year term in a semiannual payment of \$12,026. Payments will commence on August 15, 2022, and semiannually thereafter on February 15 and August 15 of each year.

September 30	Principal	Total
2022	\$ 12,026	\$ 12,026
2023	24,052	24,052
2024	24,052	24,052
2025	24,052	24,052
2026	24,052	24,052
2027-2030	82,881	82,881
	<u>\$ 191,115</u>	<u>\$ 191,115</u>

**CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021**

NOTE 12. LONG TERM DEBT - BUSINESS-TYPE (Continued)

The following is a schedule of changes in proprietary fund long-term debt for the year ended September 30, 2021:

Long-term Debt	2021 Beginning Balance	2021 Additions	2021 Retirements	2021 Ending Balance	Due Within One Year
NRWA Loan	\$ 30,140	\$ -	\$ (7,895)	\$ 22,245	\$ 8,135
Florida DEP - DW010410	345,381	-	(14,807)	330,574	15,031
Florida DEP - DW010411	-	191,115	-	191,115	12,026
Water Revenue Bonds	221,100	-	(16,900)	204,200	17,900
Sewer Revenue Bonds	1,633,000	-	(63,600)	1,569,400	66,700
	<u>\$ 2,229,621</u>	<u>\$ 191,115</u>	<u>\$ (103,202)</u>	<u>\$ 2,694,555</u>	<u>\$ 119,792</u>

NOTE 13. LONG-TERM DEBT - GOVERNMENTAL ACTIVITIES

13.1 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 carried 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.

September 30	Principal	Interest	Total
2022	16,674	9,054	25,728
2023	17,396	8,332	25,728
2024	18,150	7,578	25,728
2025	18,937	6,791	25,728
2026	19,758	5,970	25,728
2027 - 2031	112,398	16,241	128,639
2031 - 2032	17,309	284	17,593
	<u>\$ 220,622</u>	<u>\$ 54,250</u>	<u>\$ 274,872</u>

**CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021**

NOTE 13. LONG-TERM DEBT - GOVERNMENTAL ACTIVITIES (Continued)

13.2 Promissory Note – Capital City

In June 2020, the City executed a promissory note from Capital City Bank in the amount of \$200,000. The note carried 3.15% interest and is payable over 47 monthly installments of \$4,444. The agreement was for Hawthorne Athletic Park Improvements.

September 30	Principal	Interest	Total
2022	49,050	4,279	53,329
2023	50,639	2,689	53,329
2024	52,277	1,051	53,329
2025	4,432	12	4,444
	<u>\$ 156,399</u>	<u>\$ 8,031</u>	<u>\$ 164,430</u>

The following is a schedule of changes in general long-term debt for the year ended September 30, 2021:

Note Payables	2021 Beginning Balance	2021 Additions	2021 Retirements	2021 Ending Balance	Due Within One Year
CRA	\$ 236,603	\$ -	\$ 15,981	\$ 220,622	\$ 16,674
Logan's Way	3,210		3,210	-	-
Capital City	-	156,399	-	156,399	156,399
	<u>\$ 239,813</u>	<u>\$ 156,399</u>	<u>\$ 19,191</u>	<u>\$ 377,021</u>	<u>\$ 377,021</u>

All debt service payments were budgeted and paid from General Fund revenue.

NOTE 14. 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, 2025. It provides for \$487 per month, with a 5% increase every five years.

The second lease is for a period of five years expiring March 31, 2026. It provides for \$1,621 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.

**CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021**

NOTE 14. INCOME FROM LEASED PROPERTY (Continued)

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

Year Ending September 30	Principal
2022	29,196
2023	29,196
2024	29,196
2025	25,787
2026	11,676
	\$ 125,051

NOTE 15. 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 7.5% 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, 2021, the City contributed \$28,613 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 16. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Retirees and their dependents are permitted to remain covered under the City's respective health care plans as long as they pay a full premium applicable to the coverage elected. This conforms to the minimum required of Florida governmental employers per Chapter 112.08 of Florida Statutes.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 16. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

The City has yet to engage in an actuary to calculate the outstanding liability for certain postemployment healthcare benefits provided by the City. There have been no changes to the City's policies or state statutes since that time which management believes would impact this determination as of September 30, 2021. As such, no OPEB liability has been recorded.

NOTE 17. 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 18. 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 19. COVID-19 IMPACT AND CONSIDERATIONS

Since December 31, 2019, the spread of Covid-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to business worldwide, resulting in an economic slowdown.

The duration and impact of the Covid-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear currently. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the City for future periods.

NOTE 20. SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through June 21, 2021, 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, 2021

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive / (Negative)
REVENUES				
Taxes				
Ad valorem taxes	\$ 289,773	\$ 289,773	\$ 264,466	\$ (25,306)
Sales tax - local option gas tax	133,578	133,578	122,712	(10,866)
Sales tax - 1/2 cent tax	90,685	90,685	95,925	5,240
Sales Tax- local discretionary	81,791	81,791	83,053	1,261
Electricity	100,625	100,625	105,358	4,732
Telecommunications	40,350	40,350	51,412	11,062
Water	27,474	27,474	25,272	(2,201)
Occupational tax	5,900	5,900	5,864	(36)
Total taxes	<u>770,176</u>	<u>770,176</u>	<u>754,062</u>	<u>(16,114)</u>
Licenses and permits				
Alcoholic Beverage Licenses	2,700	2,700	447	(2,253)
Permits	1,700	1,700	1,775	75
Total licenses and permits	<u>4,400</u>	<u>4,400</u>	<u>2,222</u>	<u>(2,178)</u>
Intergovernmental revenue				
State municipal revenue sharing	59,027	59,027	66,424	7,397
Hawthorne Redevelopment	44,251	44,251	43,420	(831)
CRA Administration	30,000	30,000	30,000	-
Total intergovernmental revenue	<u>133,278</u>	<u>133,278</u>	<u>139,844</u>	<u>6,566</u>
Charges for Services				
Zoning Fees	2,250	2,250	5,030	2,780
Traffic signal & lighting	28,525	28,525	29,340	815
LOC rentals	12,000	12,000	14,086	2,086
Recreation fees	48,050	48,050	39,735	(8,316)
Total charges for services	<u>90,825</u>	<u>90,825</u>	<u>88,191</u>	<u>(2,635)</u>
Fines and forfeitures				
Fine revenue/sheriff	7,500	7,500	10,848	3,348
Code enforcement fines	1,000	1,000	550	(450)
Total fines and forfeitures	<u>8,500</u>	<u>8,500</u>	<u>11,398</u>	<u>2,898</u>
Miscellaneous				
Grant Revenue from CDBG	1,372,097	1,372,097	104,238	(1,267,859)
Other Grants	100,000	100,000	-	(100,000)
Miscellaneous non-operating	6,000	6,000	71,856	65,856
Total miscellaneous	<u>1,478,097</u>	<u>1,478,097</u>	<u>176,094</u>	<u>(1,302,003)</u>
Total Revenues	<u>2,485,276</u>	<u>2,485,276</u>	<u>1,171,811</u>	<u>(1,313,465)</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, 2021**

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive / (Negative)
EXPENDITURES				
General government				
Personnel services	350,262	350,262	347,393	(2,869)
Operating expenses	1,905,669	1,905,669	431,232	(1,474,437)
Grant Expense		-	399,131	399,131
*Debt Service	258,006	258,006	13,372	(244,635)
Total General Government	<u>2,513,938</u>	<u>2,513,938</u>	<u>1,191,128</u>	<u>(1,322,811)</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	30,000	30,000	-	(30,000)
Interfund transfers out	(30,000)	(30,000)	-	30,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(28,662)	(28,662)	(19,317)	9,345
Reconciling Items				
Capital expenditure	-	-	(10,384)	(10,384)
Depreciation Expense	-	-	97,449	97,449
Total Reconciling Items			<u>87,065</u>	<u>87,065</u>
Fund balance at beginning of year	1,695,340	1,695,340	1,331,939	(363,401)
Fund balance at end of year	<u>\$ 1,666,678</u>	<u>\$ 1,666,678</u>	<u>\$ 1,302,238</u>	<u>\$ (364,440)</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, 2021**

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive / (Negative)
REVENUES				
Water Fund				
Charges for Services	\$ 304,000	\$ 304,000	\$ 299,527	\$ (4,473)
Penalties	18,000	18,000	-	(18,000)
Miscellaneous revenue	502,250	502,250	678,727	176,477
Total water revenues	<u>824,250</u>	<u>824,250</u>	<u>978,254</u>	<u>154,004</u>
Sewer Fund				
Sales of sewer services	405,550	405,550	380,076	(25,474)
Land Lease Rents	36,552	36,552	30,863	(5,689)
Other Income	-	-	14,359	14,359
Total sewer revenues	<u>442,102</u>	<u>442,102</u>	<u>425,298</u>	<u>(16,804)</u>
Sanitation Fund				
Sanitation income	235,758	235,758	243,727	7,969
Total sanitation revenues	<u>235,758</u>	<u>235,758</u>	<u>243,727</u>	<u>7,969</u>
Cemetery Fund				
Sales	-	500	-	(500)
Interest income	500	500	249	(251)
Miscellaneous revenue	1,000	1,000	23	(977)
Total cemetery revenues	<u>1,500</u>	<u>2,000</u>	<u>272</u>	<u>(1,728)</u>
Total proprietary revenues	<u>1,503,610</u>	<u>1,504,110</u>	<u>1,647,551</u>	<u>143,441</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, 2021**

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive / (Negative)
EXPENSES				
Water Fund				
Personnel services	110,401	110,401	114,102	(3,702)
** Operating expenses	620,500	620,500	1,347,443	(726,943)
*Debt Service	166,483	166,483	19,760	146,723
Total water expenditures	<u>897,384</u>	<u>897,384</u>	<u>1,481,305</u>	<u>(583,921)</u>
Sewer Fund				
Personnel services	145,008	145,008	153,223	(8,215)
** Operating expenses	182,500	182,500	304,183	(121,683)
*Debt Service	107,675	107,675	77,000	30,675
Total sewer expenditures	<u>435,184</u>	<u>435,184</u>	<u>534,406</u>	<u>(99,222)</u>
Sanitation Fund				
Personnel services	19,134	19,134	18,755	380
Operating expenses	216,373	216,373	218,523	(2,150)
Total sanitation expenditures	<u>235,507</u>	<u>235,507</u>	<u>237,277</u>	<u>(1,769)</u>
Cemetery Fund				
Operating expenses	1,500	1,500	440	1,061
Total cemetery expenditures	<u>1,500</u>	<u>1,500</u>	<u>440</u>	<u>1,061</u>
Total expenditures	<u>1,569,575</u>	<u>1,569,575</u>	<u>2,253,427</u>	<u>(683,852)</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	-	-	-
Interfund transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(65,965)	(65,465)	(605,879)	540,414
Fund balance at beginning of year	1,881,425	1,881,425	942,331	(939,094)
Fund balance at end of year	<u>\$ 1,815,460</u>	<u>\$ 1,815,960</u>	<u>\$ 336,452</u>	<u>\$ (398,680)</u>

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

Report on the Financial Statements

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, 2021, 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 June 21, 2022.

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.

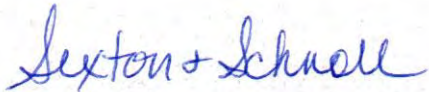
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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
June 21, 2022

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, 2021 and have issued our report thereon dated June 21, 2022.

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 June, 2022. 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, 2021, 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, 2021, 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 Wendy Sapp, City Manager and staff for the assistance and courtesy afforded us.



Sexton & Schnoll
Certified Public Accountants
June 21, 2022

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, 2021 and have issued our report thereon dated May 6 2021, 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 June 21, 2022. 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:

Schedule of Findings and Response

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.

2020 Response: The end of month procedure now includes reconciling utility billing to bring receivables into the current period, as appropriate.

Current Year Findings- Financial Statements:

2021-1: The City was not aware of the recent changes in accounting rules requiring the Postemployment benefits other than pensions (OPEB) liability to be reported on the balance sheet similar to pension liabilities. Statement No. 75 requires state and local governments to report liability on financial statements.

Florida Statutes 112.0801 requires that "any state agency, county, municipality, special district, community college, or district school board that provides life, health, accident, hospitalization, or annuity insurance, or all of any kinds of such insurance, for its officers and employees and their dependents upon a group insurance plan or self-insurance plan shall allow all former personnel who retired before October 1, 1987, as well as those who retire on or after such date, and their eligible dependents, the option of continuing to participate in the group insurance plan or self-insurance plan. Retirees and their eligible dependents shall be offered the same health and hospitalization insurance coverage as is offered to active employees at a premium cost of no more than the premium cost applicable to active employees. For retired employees and their eligible dependents, the cost of continued participation may be paid by the employer or by the retired employees."

We recommend the City to review the current OPEB policy, prepare a GASB 75 compliant OPEB valuation and develop a plan of action to address the liability.



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, 2021. 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, 2021.

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
June 21, 2022



City of _____
HAWTHORNE
_____ **Florida**

October 4, 2022

Auditor General,
Local Government Audits/342
Claude Pepper Building, Room 401
111 West Madison Street
Tallahassee, Florida 32399-1450

RE: FY 2021 City of Hawthorne Audit rebuttal and recommendations

In response to the August 10, 2022 letter from your office, we are providing a Resolution to amend our Personnel Policy and Procedures Manual to include a OPEB policy to include a GASB 75 compliant OPEB valuation and develop a plan of action to address the liability. Please find attached Resoltuion 2022-33.

If you have any questions or need additional information, please let me know.

Sincerely,

Wendy Sapp
City Manager

Preserving Nature - Cultivating Business

Post Office Box 1270
Hawthorne, Florida 32640

Telephone: 352-481-2432
Facsimile: 352-481-2437

RESOLUTION NO. 2022- 33

A RESOLUTION OF THE CITY COMMISSION OF THE CITY OF HAWTHORNE, FLORIDA AUTHORIZING AN AMENDMENT TO THE EMPLOYEE PERSONNEL POLICY AND PROCEDURES MANUAL TO INCORPORATE A POLICY REGARDING POSTEMPLOYMENT BENEFITS; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, the City of Hawthorne, Florida, maintains a Personnel Policy and Procedures Manual for the operation of City business; and

WHEREAS, in the City's last financial audit, it was recommended the City review current accounting rules requiring postemployment benefits other than pensions ("OPEB"); prepare a GASB (Governmental Accounting Standards Board) 75 compliant OPEB valuation; and develop a plan of action to address the liability; and

WHEREAS, to ensure legal and accounting compliance, the City Commission seeks to amend its Personnel Policy and Procedures Manual to include a GASB 75 compliant OPEB valuation and plan of action; and

NOW THEREFORE, BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF HAWTHORNE, FLORIDA:

THAT the City's Employee Personnel Policy and Procedures Manual shall be amended to include the following policy Section V Compensation Plan, subsection 5.14 shall be added to provide as follows:

5.14 Other Postemployment Benefits (other than pensions)

Upon retirement from employment with the City, employee shall be entitled to continue their health insurance under COBRA at the employee's expense. No other benefits are available postemployment.


THAT this resolution shall become effective immediately upon adoption.

PASSED AND ADOPTED by the City Commission of the City of Hawthorne, Florida, at a regular meeting held the 17th day of September 2022.



Mayor

ATTEST:



City Manager