

CITY OF HAWTHORNE, FLORIDA

**FINANCIAL STATEMENTS
and
INDEPENDENT AUDITOR'S REPORTS**

AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022

REDDISH & WHITE
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HAWTHORNE, FLORIDA

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INDEPENDENT AUDITOR'S REPORT

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

Disclaimer of Opinions

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hawthorne, Florida (the City) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

We do not express an opinion on the financial statements of the City referred to above. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinions

We were unable to obtain sufficient appropriate audit evidence regarding the fund balances, the interfund balances, and the net position balances. We were unable to obtain sufficient appropriate audit evidence because all of the funds were maintained in one general ledger with no internal controls to prevent from posting one side (debit or credit) of a transaction to one fund and the other side of the same transaction to another fund. In addition, the individual fund balances for each fund were not maintained separately, that is, one general ledger account was used for all of the funds. As a result, we were unable to obtain sufficient appropriate audit evidence regarding the fund balances, the interfund balances, and the net position balances.

Responsibility of Management for the Financial Statements

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue

as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. However, because of the matter described in the Basis for Disclaimer of Opinions section of our report, we were unable to obtain sufficient appropriate audit evidence to provide a basis for opinions on these financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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. Because of the significance of the matter disclosed in the Basis for Disclaimer of Opinion's paragraph, it is inappropriate to, and the auditor does not, express an opinion on the accompanying schedule of federal awards.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2024, on our consideration of the City'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 City's internal control over financial reporting and compliance.

Deborah G. White, CPA

Starke, Florida
March 30, 2024

City of Hawthorne, Florida

Management's Discussion and Analysis
For the Year Ended September 30, 2022

Overview of the Financial Statements

Within this section of the City of Hawthorne's (the City) annual financial report, the City's management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended September 30, 2022. Please read it in conjunction with the City's financial statements which begin on page 9.

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Position. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, and culture and recreation. The business-type activities include the water services, sewer services, and sanitation operation, and the operations of the City cemetery.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are required to be separately reported while all others are combined into a single, aggregated presentation.

Since the government-wide focus includes the long-term view, comparisons between the two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliations to the government-wide statements to assist in understanding the differences between these two perspectives.

Governmental funds All of the City's basic governmental services are reported in governmental funds. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The City currently has two governmental funds, the General fund, and the Community Redevelopment fund (CRA fund). The CRA fund is considered a special revenue fund and was created to enhance the economic development within the City limits. The General fund encompasses the majority of the City's operations.

Proprietary Funds The City maintains a four proprietary funds. These funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses these funds as follows: (1) the Water fund to account for its water utility operations, (2) the Sewer fund to account for its wastewater utility operations, the Sanitation fund to account for its solid waste sanitation operations, and the Cemetery fund to account for the operations of the City's cemetery.

Notes to the Financial Statements The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

Financial Highlights

- The City's net position increased by \$1,512,298 (or 14.9%) overall as a result of this year's operations. While the net position of the government activities increased by \$200,954 (or 2.3 %), the net position of the business-type activities increased by \$1,311,344 (or 107.9 %). The large increase is attributable primarily to the grants received that resulted in waterline infrastructure improvements that were capitalized.

- For the year, the City's \$1,008,286 in governmental expenditures were \$200,954 less than the \$1,209,240 in tax revenues, charges for services, and grants recognized.

Financial Analysis of the City as a Whole

As of September 30, 2022 and 2021, The City's combined net position totaled \$11,655,466 and \$8,138,169, respectively. The capital assets are shown net of depreciation. The following table provides the details:

	Summary of Net Position					
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Assets						
Current assets	\$1,742,524	\$992,633	\$1,947,527	\$819,403	\$3,690,051	\$1,812,036
Capital assets	7,259,586	6,499,481	5,213,796	2,898,485	12,473,382	9,397,966
Other assets	1,078,760	1,085,677	(1,078,760)	1,881,875	0	2,967,552
Total assets	10,080,870	8,577,791	6,082,563	5,599,763	16,163,433	14,177,554
Liabilities						
Current liabilities	864,565	464,776	589,310	2,258,834	1,453,875	2,723,610
Long-term liabilities	87,969	311,298	2,388,254	3,004,477	2,476,223	3,315,775
Total liabilities	952,534	776,074	2,977,564	5,263,311	3,930,098	6,039,385
Deferred Inflows of Resources	0	0	577,869	0	577,869	0
Net position						
Net Investment in capital assets	7,130,062	6,122,459	2,599,127	521,670	9,729,189	6,644,129
Restricted	842,389	410,502	397,473	358,975	1,239,862	769,477
Unrestricted	1,155,885	1,268,756	(469,470)	(544,193)	686,415	724,563
Total net position	\$9,128,336	\$7,801,717	\$2,527,130	\$336,452	\$11,655,466	\$8,138,169

The following is a summary of the City's net change in net position for the years ended September 30, 2022 and 2021:

Summary of Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Program Revenues:						
Charges for Services	\$104,048	\$88,190	\$989,635	\$923,579	\$1,093,683	\$1,011,769
Grants and Contributions	124,039	163,499	1,331,418	669,817	1,455,457	833,316
Fines and Foreitures	0	0	0	0	0	0
General:						
Taxes	887,145	834,107	0	0	887,145	834,107
Other State-Shared	82,693	43,420	0	0	82,693	43,420
Other	11,315	42,595	3,678	54,155	14,993	96,750
Total Revenues	1,209,240	1,171,811	2,324,731	1,647,551	3,533,971	2,819,362
Program Expenses						
General Government	537,529	453,292	0	0	537,529	453,292
Economic Environment	37,841	93,687	0	0	37,841	93,687
Transportation	197,310	207,491	0	0	197,310	207,491
Culture and Recreation	235,606	534,107	0	0	235,606	534,107
Utilities	0	0	1,013,387	2,253,430	1,013,387	2,253,430
Total Expenses	1,008,286	1,288,577	1,013,387	2,253,430	2,021,673	3,542,007
Excess (Deficiency)	200,954	(116,766)	1,311,344	(605,879)	1,512,298	(722,645)
Beginning Net Position	8,927,382	7,918,483	1,215,786	942,331	10,143,168	8,860,814
Ending Net Position	\$9,128,336	\$7,801,717	\$2,527,130	\$336,452	\$11,655,466	\$8,138,169

Note that the beginning net position for the year ended September 30, 2022, was restated. See note 13 to the financial statements for further explanation of the prior period adjustments.

Financial Analysis of the City's Funds

The general fund is reported in the fund financial statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. The general fund reported ending fund balance of \$1,606,620.

The total ending fund balance of the general fund reflects an increase of \$253,277 or a 19% increase from the prior year's ending fund balance.

The proprietary funds net position reflects an increase of \$1,311,344 or over 100% from the prior year's net position. This was primarily due to grants recognized for the water plant infrastructure improvements that were capitalized.

General Fund Budgetary Highlights

The City's actual revenues were less than budgeted revenues by over \$984,000. This was primarily due to the grant funds budgeted but not yet expended.

Total actual expenditures of the City were less than budgeted expenditures by over \$1,285,000. This was also primarily due to the ARPA and other grants budgeted but not expended.

Capital Asset and Debt Administration

Capita Assets

Governmental Funds – The City completed the athletic park improvements with a capitalized cost of \$850,571.

Proprietary Funds – The City continues to make improvements to the water plant, \$1,189,843 in costs were capitalized this year to go with the \$1,158,359 in capitalized costs last year. These projects are funded primarily by grants.

Debt Administration

General Fund - The City continues to make the scheduled payments on the outstanding note payable. See note 7 to the financial statements for more information on the long-term obligations.

Proprietary Funds - The City continues to make the scheduled payments on the revenue bonds and notes payable outstanding. See the note 7 to the financial statements for more information on the long-term obligations.

Economic Environment and Next Year's Budgets and Rates

The State of Florida, by Constitution, does not have a state personal income tax and, therefore, the State operates primarily using sales, gasoline, and corporate income taxes. Local governments primarily rely on property and a limited array of permitted other taxes (sales, gasoline, utilities services, etc.) and fees (franchise, traffic fines, occupational license, etc.) to finance governmental activities. There are a limited number of state-shared revenues and recurring and non-recurring (one-time) grants from both the state and federal governments.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City clerk's office at (352) 481-2432.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

	Governmental Activites	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$419,802	\$403,945	\$823,747
Investments in Time Certificates of Deposits	0	32,527	32,527
Accounts Receivable, Net	17,157	105,465	122,622
Prepaid Expenses	0	10,143	10,143
Due from Other Governments	22,317	0	22,317
Lease Receivable	0	577,869	577,869
Restricted Assets:			
Cash and Cash Equivalents	1,268,914	365,660	1,634,574
Investments in Time Certificates of Deposits	0	107,236	107,236
Accounts Receivable, Net	0	29,250	29,250
Due from Other Governments	0	314,481	314,481
Prepaid Expenses	14,334	0	14,334
Capital Assets Not Being Depreciated:			
Land	4,656,816	114,570	4,771,386
Construction in Progress	43,392	2,468,350	2,511,742
Derpeciable Capital Assets, Net	2,559,378	2,630,876	5,190,254
Bond Costs, net of accumulated amortization	0	951	951
Internal Balances	1,078,760	(1,078,760)	0
TOTAL ASSETS	<u>\$10,080,870</u>	<u>\$6,082,563</u>	<u>\$16,163,433</u>
LIABILITIES			
Accounts Payable and Accrued Expenses	\$30,028	\$38,277	\$68,305
Restricted Liabilities:			
Accounts Payable	0	326,300	326,300
Deposits	4,484	92,854	97,338
Unearned Revenue	742,239	0	742,239
Long Term Obligations, Current Portion	87,814	131,879	219,693
Long Term Obligations, Noncurrent Portion	87,969	2,388,254	2,476,223
TOTAL LIABILITIES	<u>952,534</u>	<u>2,977,564</u>	<u>3,930,098</u>
Deferred Inflows of Resources	0	577,869	577,869
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>952,534</u>	<u>3,555,433</u>	<u>4,507,967</u>
NET POSITION			
Net Investment in Capital Assets	7,130,062	2,599,127	9,729,189
Restricted for:			
Utilities	0	397,473	397,473
Economic Development	744,259	0	744,259
Infrastructure	98,130	0	98,130
Unrestricted	1,155,885	(469,470)	686,415
TOTAL NET POSITION	<u>9,128,336</u>	<u>2,527,130</u>	<u>11,655,466</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$10,080,870</u>	<u>\$6,082,563</u>	<u>\$16,163,433</u>

See accompanying notes to the financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Program Revenues				Net Revenue (Expense) and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Government Activities:							
General Government	\$537,529	\$23,938	\$71,150	\$0	(\$442,441)	\$0	(\$442,441)
Transportation	197,310	12,105	30,190	0	(155,015)	0	(155,015)
Economic Environment	37,841	0	22,699	0	(15,142)	0	(15,142)
Culture and Recreation	235,606	68,005	0	0	(167,601)	0	(167,601)
Total Governmental Activities	<u>1,008,286</u>	<u>104,048</u>	<u>124,039</u>	<u>0</u>	<u>(780,199)</u>	<u>0</u>	<u>(780,199)</u>
Business-type Activities:							
Water	276,376	306,783	0	1,331,418	0	1,361,825	1,361,825
Sanitation	266,391	265,426	0	0	0	(965)	(965)
Sewer	470,620	417,426	0	0	0	(53,194)	(53,194)
Cemetery	0	0	0	0	0	0	0
Total Business-type Activities	<u>1,013,387</u>	<u>989,635</u>	<u>0</u>	<u>1,331,418</u>	<u>0</u>	<u>1,307,666</u>	<u>1,307,666</u>
Total Primary Government	<u>2,021,673</u>	<u>1,093,683</u>	<u>124,039</u>	<u>1,331,418</u>	<u>(780,199)</u>	<u>1,307,666</u>	<u>527,467</u>
General Revenues:							
Taxes:							
Property					354,055	0	354,055
Discretionary Sales Surtax					118,558	0	118,558
Franchise Fees and Utility Taxes					140,388	0	140,388
Half Cent Sales Tax					113,122	0	113,122
Local Option Gas Tax					113,014	0	113,014
Communication Services Tax					48,008	0	48,008
State Revenue Sharing					82,693	0	82,693
Investment Income					0	2,627	2,627
Miscellaneous					11,315	1,051	12,366
Total General Revenues					<u>981,153</u>	<u>3,678</u>	<u>984,831</u>
Change in Net Assets					200,954	1,311,344	1,512,298
Net Position, Beginning of Year, Restated					<u>8,927,382</u>	<u>1,215,786</u>	<u>10,143,168</u>
Net Position, Ending of Year					<u>\$9,128,336</u>	<u>\$2,527,130</u>	<u>\$11,655,466</u>

See accompanying notes to the financial statements.

CITY OF HAWTHORNE, FLORIDA

**BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022**

	General Fund	CRA Fund	Total
Assets			
Cash and Cash Equivalents	\$419,802	\$0	\$419,802
Cash and Cash Equivalents - Restricted	842,389	426,525	1,268,914
Prepaid Expenses	14,335	0	14,335
Accounts Receivable, Net	17,157	0	17,157
Due from Other Governments	22,317	0	22,317
Due from Other Funds	1,734,336	54,991	1,789,327
Total Assets	<u>\$3,050,336</u>	<u>\$481,516</u>	<u>\$3,531,852</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable and Accrued Expenses	30,028	0	30,028
Due to Other Funds	666,965	43,603	710,568
Unearned Revenue	742,239	0	742,239
Deposits	4,484	0	4,484
Total Liabilities	<u>1,443,716</u>	<u>43,603</u>	<u>1,487,319</u>
FUND BALANCES			
Non-Spendable	1,748,671	54,991	1,803,662
Restricted	98,130	426,525	524,655
Assigned	43,396	0	43,396
Unassigned	(283,577)	0	(283,577)
Total Fund Balances	<u>1,606,620</u>	<u>481,516</u>	<u>2,088,136</u>
Total Liabilities and Fund Balances	<u>\$3,050,336</u>	<u>\$525,119</u>	<u>\$3,575,455</u>

CITY OF HAWTHORNE, FLORIDA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

Total Fund Balance - Total Governmental Funds	\$2,044,533
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$9,008,014 net of accumulated depreciation of \$1,748,428, are not financial resources and, therefore, are not reported in the funds.	7,259,586
Long-term liabilities are not due and payable in the current period and accordingly, are not reported in the governmental funds.	<u>(175,783)</u>
Total Net Position of Governmental Activities	<u><u>\$9,128,336</u></u>

See accompanying notes to the financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	General Fund	CRA Fund	Total
Revenues			
Taxes	\$694,625	\$79,398	\$774,023
Licenses and Permits	8,109	0	8,109
Intergovernmental Programs	323,309	0	323,309
Charges for Services	80,380	0	80,380
Fines and Forfeitures	12,105	0	12,105
Miscellaneous Revenue	2,380	28,305	30,685
Interfund Charges	30,000	0	30,000
Total Revenues	<u>1,150,908</u>	<u>107,703</u>	<u>1,258,612</u>
Expenditures			
Current:			
General Government	489,504	38,175	527,679
Transportation	163,356	0	163,356
Economic Environment	22,699	0	22,699
Culture and Recreation	165,190	0	165,190
Capital Outlay:			
Economic Environment	0	58,534	58,534
Debt Service:			
General Government	25,728	0	25,728
Culture and Recreation	53,329	0	53,329
Total Expenditures	<u>919,806</u>	<u>96,709</u>	<u>1,016,514</u>
Revenues Over (Under) Expenditures	<u>231,102</u>	<u>10,994</u>	<u>242,098</u>
Other Financing Sources (Uses)			
Net Proceeds from Line of Credit	22,175	0	22,175
Total Other Financing Sources	<u>22,175</u>	<u>0</u>	<u>22,175</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Financing Uses	253,277	10,994	264,273
Fund Balance, Beginning of Year, Restated	<u>1,353,343</u>	<u>426,919</u>	<u>1,780,262</u>
Fund Balance, End of Year	<u>\$1,606,620</u>	<u>\$437,913</u>	<u>\$2,044,535</u>

See accompanying notes to the financial statements.

CITY OF HAWTHORNE, FLORIDA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2022

Net Change in Fund Balances - Total Governmental Funds	\$264,273
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount depreciation of \$132,519 is more than capital outlays (net of capital retirements) of \$64,697.	(67,822)
Compensated absences are recorded recorded when paid in the governmental funds. This is the amount the compensated absences increased during the year	(22,372)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes current financial resources. This amount is the effect of these differences in the treatment of long-term debt.	<u>26,875</u>
Change in Net Position of Governmental Activities	<u><u>\$200,954</u></u>

See accompanying notes to the financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
SEPTEMBER 30, 2022

	Major Funds			Non-major Fund	Total
	Water	Sanitation	Sewer	Cemetery	
Assets					
Current Assets					
Cash and Cash Equivalents	\$47,968	\$85,336	\$268,540	\$2,101	\$403,945
Investments	0	0	0	32,527	32,527
Accounts Receivable	29,024	28,460	47,981	0	105,465
Lease Receivable, Current Portion	0	0	5,143	0	5,143
Prepaid Expenses	4,680	0	5,463	0	10,143
Due from Other Funds	60,000	47,619	60,000	0	167,619
Restricted Assets:					
Cash and Cash Equivalents	299,622	0	66,038	0	365,660
Investments - Restricted	107,236	0	0	0	107,236
Accounts Receivable - Restricted	29,250	0	0	0	29,250
Due from Other Governments - Restricted	314,481	0	0	0	314,481
Total Current Assets	892,261	161,415	453,165	34,628	1,541,469
Capital Assets:					
Land	0	0	114,570	0	114,570
Construction in Progress	2,468,350	0	0	0	2,468,350
Depreciable Capital Assets, Net	562,114	0	2,068,762	0	2,630,876
Total Capital Assets	3,030,464	0	2,183,332	0	5,213,796
Other Assets					
Due from Other Funds, noncurrent portion	1,246,590	0	198,040	0	1,444,630
Bond Costs, net of accumulated amortization	0	0	951	0	951
Lease Receivable, noncurrent portion	0	0	572,726	0	572,726
Total Other Assets	1,246,590	0	771,717	0	2,018,307
Total Assets	\$5,169,315	\$161,415	\$3,408,214	\$34,628	\$8,773,572
Liabilities, Deferred Inflows of Resources, and Net Position					
Current Liabilities					
Accounts Payable	\$7,940	\$21,928	\$8,409	\$0	\$38,277
Compensated Absences	5,583	1,511	12,940	0	20,034
Due to Other Funds	60,000	745	120,000	40,703	221,448
Restricted Liabilities:					
Accounts Payable	326,300	0	0	0	326,300
Customer Deposits	92,854	0	0	0	92,854
Bond Payable, Current Portion	18,900	0	69,800	0	88,700
Notes Payable, Current Portion	35,679	0	0	0	35,679
Total Current Liabilities	547,256	24,184	211,149	40,703	823,292
Other Liabilities					
Due to Other Funds, Net of Current Portion	1,647,298	0	822,263	0	2,469,561
Bond Payable, Long-term Portion	167,400	0	1,432,900	0	1,600,300
Notes Payable, Long-term Portion	775,420	0	0	0	775,420
Total Other Liabilities	2,590,118	0	2,255,163	0	4,845,281
Total Liabilities	3,137,374	24,184	2,466,312	40,703	5,668,573
Deferred Inflows of Resources	0	0	577,869	0	577,869
Fund Net Position					
Net Investment in Capital Assets	2,033,065	0	566,062	0	2,599,127
Restricted	331,435	0	66,038	0	397,473
Unrestricted (Deficit)	(332,559)	137,231	(268,067)	(6,075)	(469,470)
Total Fund Net Position	2,031,941	137,231	364,033	(6,075)	2,527,130
Total Liabilities, Deferred Inflows of Resources, and Fund Net Position	\$5,169,315	\$161,415	\$3,408,214	\$34,628	\$8,773,572

See accompanying notes to the financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
 NET POSITION - PROPRIETARY FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Major Funds			Non-major Fund	Total
	Water	Sanitation	Sewer	Cemetery	
Operating Revenues					
Charges for Services	\$300,935	\$265,426	\$378,640	\$0	\$945,001
Lease Income	0	0	29,186	0	29,186
Other Operating Revenue	5,848	0	9,600	0	15,448
Total Operating Revenues	306,783	265,426	417,426	0	989,635
Operating Expenses					
Personal Services	116,458	23,150	151,870	0	291,478
Depreciation	21,682	0	131,358	0	153,040
Contract Services	48,418	242,948	49,390	0	340,756
Materials, Supplies, and Other Operating Exp	51,268	293	84,447	0	136,008
Total Operating Expenses	237,826	266,391	417,065	0	921,282
Operating income (Loss)	68,957	(965)	361	0	68,353
Non Operating Revenues and Expenses					
Grant Revenue	1,331,418	0	0	0	1,331,418
Interest Expense	(38,550)	0	(53,555)	0	(92,105)
Other Income	1,051	0	0	0	1,051
Investment Income	2,357	0	0	270	2,627
Total Non Operating Revenues and Expenses	1,296,276	0	(53,555)	270	1,242,991
Net Increase (Decrease) in Fund Net Position	1,365,233	(965)	(53,194)	270	1,311,344
Fund Net Position, Beginning of Year, Restated	666,708	138,196	417,227	(6,345)	1,215,786
Fund Net Position, End of Year	<u>\$2,031,941</u>	<u>\$137,231</u>	<u>\$364,033</u>	<u>(\$6,075)</u>	<u>\$2,527,130</u>

See accompanying notes to the financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022

	Major Funds			Non-major Fund	Total
	Water	Sanitation	Sewer	Cemetery	
Cash Flows from Operating Activities					
Receipts from Customers	\$368,444	\$267,511	\$412,186	\$0	\$1,048,141
Payments to Suppliers of Goods and Services	(257,131)	(239,920)	(130,947)	0	(627,998)
Payments for Personnel Services	(116,458)	(23,150)	(151,870)	0	(291,478)
Other	0	0	0	0	0
Net Cash Provided (Used) by Operating Activities	(5,145)	4,441	129,369	0	128,665
Cash Flows from Noncapital Financing Activities					
Interfund Transfers	29,778	60,396	173,497	11	263,682
Cash Flows from Capital and Related Financing Activities					
Principal Payments on Bonds	(17,900)	0	(66,700)	0	(84,600)
Purchase of Capital Assets	(1,530,775)	0	0	0	(1,530,775)
Interest payments on revenue bonds	(38,550)	0	(53,555)	0	(92,105)
Net Proceeds from Notes Payable and Line of Credit	207,884	0	0	0	207,884
Proceeds from Capital Grant	1,193,536	0	0	0	1,193,536
Net Cash Provided by (Used by) Capital and Related Financing Activities	(185,805)	0	(120,255)	0	(306,060)
Cash Flows from Investing Activities					
Increase in Investments	(2,242)	0	0	(21)	(2,263)
Interest Received	2,357	0	0	270	2,627
Other	1,050	0	0	0	1,050
Net Cash Provided (Used) by Investing Activities	1,165	0	0	249	1,414
Net Increase (Decrease) in Cash and Cash Equivalents	(160,007)	64,837	182,611	260	87,701
Cash and Cash Equivalents, Beginning of Year, Restated	507,597	20,499	151,967	1,841	681,904
Cash and Cash Equivalents, End of Year	\$347,590	\$85,336	\$334,578	\$2,101	\$769,605
Cash and Cash Equivalents, Unrestricted	\$47,968	\$85,336	\$268,540	\$2,101	\$403,945
Cash and Cash Equivalents, Restricted	299,622	0	66,038	0	365,660
	\$347,590	\$85,336	\$334,578	\$2,101	\$769,605
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating Income (Loss)	\$68,956	(\$965)	\$361	\$0	\$68,352
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation Expense	21,682	0	131,358	0	153,040
Change in Current Assets and Current Liabilities					
Accounts Receivable, Net	56,678	2,085	(5,240)	0	53,523
Prepaid Expenses	(4,680)	0	(4,025)	0	(8,705)
Accounts Payable	(152,765)	3,321	6,504	0	(142,940)
Customer Deposits	4,984	0	0	0	4,984
Other	0	0	411	0	411
Net Cash Provided (Used) By Operating Activities	(\$5,145)	\$4,441	\$129,369	\$0	\$128,665

See accompanying notes to the financial statements.

City of Hawthorne, Florida
Notes to the Financial Statements
For the year ended September 30, 2022

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Hawthorne, Florida conform to generally accepted accounting principles for governmental entities. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting principles. The following is a summary of significant accounting policies:

Reporting Entity

The City of Hawthorne, Florida (the City) was created under the provisions of the Laws of Florida, Chapter 8271 (1919). The City is a Florida municipality governed by an elected five-member City Commission. The commissioners select one among themselves to serve as the major. The City provides services to its citizens including water, sanitation, and sewer service, refuse collection, parks and recreation, streets, public safety, and other general governmental activities.

In determining the financial reporting entity, the City complies with the provisions of GASB, and includes all component units of which the City is either able to impose its will on the entity or a financial benefit or burden exists. The Hawthorne Community Redevelopment Agency (the CRA) meets this criterion since the commissioners of the City also serve as the commissioners of the CRA and the City maintains operational responsibility for the CRA's activities.

In 1993, the CRA was established by the City pursuant to Ordinance 94-1, to carry out the community redevelopment purposes of Florida Statute, Chapter 163. Although legally separate, the CRA is considered a blended component unit of the City and is accounted for as a special revenue fund. Separate financial statements for the CRA are prepared and are available by contacting the City.

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Town. Governmental activities, which are normally 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and b) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Note 1 - Summary of Significant Accounting Policies (continued)

Fund Financial Statements

Separate financial statements are provided for governmental funds and for proprietary funds. Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures / expenses. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the financial reporting entity are described below.

Governmental Funds

The City reports two governmental funds, the General Fund and the CRA Fund. The General Fund is the City's primary operating fund. It accounts for all resources traditionally associated with governments, except those required to be accounted for in another fund. The CRA fund, a component unit of the City, is considered part of the primary government and is accounted for as a special revenue fund.

Proprietary Funds

The City reports four proprietary funds: the Water fund, the Sanitation fund, the Sewer Fund, and the Cemetery Fund. All of these funds are considered a major fund except for the Cemetery Fund. These major funds account for the activities of the City's water, solid waste (sanitation), and wastewater (sewer) utilities, respectively. The non major fund accounts for the activities of the City's cemetery.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this period, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. The revenues susceptible to accrual are taxes, franchise fees, and intergovernmental revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt expenditures and compensated absences which are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for services. Operating expenses for the proprietary funds include personnel services, contract services, administrative expenses, and depreciation on capital assets.

Note 1 - Summary of Significant Accounting Policies (continued)

Deposits and Investments

For purposes of the statement of cash flows, highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. The cash balances consist of cash on hand, checking accounts, savings accounts, money market accounts, and time certificates of deposit with an original maturity of three months or less.

Florida Statutes require state and local government units to deposit monies with financial institutions classified as qualified public depositories, a multiple financial institution pool whereby groups of securities pledged by the various financial institutions provide common collateral for their deposits of public funds. This pool is provided as additional assurance to the federal depository insurance (FDIC) and allows for additional assessments against the member institutions providing full insurance for public deposits. The City had deposits with only qualifying institutions as of September 30, 2022.

Investments consist of time certificate of deposits with an original maturity of one year.

Accounts Receivable and Due from Other Governments

Customer accounts receivable are recorded at their net realizable value and reduced by an allowance for uncollectible accounts of zero.

Due from Other Governments represent amounts due from the federal, state or local governments, State of Florida, or Alachua County for shared revenues or costs.

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain resources are set aside for debt reserves, customer deposits, and other purposes. These resources are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants, City ordinances or state and federal regulations.

Capital Assets

Governmental fund capital assets include land, buildings and improvements, vehicles, furniture and equipment. Capital assets used in governmental fund-type operations are reported in the statement of net position rather than in the general fund balance sheet. All purchased capital assets are valued at historical cost. 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. Capital assets are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated acquisition cost at the date of contribution.

Note 1 - Summary of Significant Accounting Policies (continued)

These capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Governmental Fund Assets</u>	<u>Years</u>
Buildings and Improvements	20 – 40
Vehicles and Equipment	5 - 10

Enterprise fund capital expenditures made for revenue-producing assets, which are employed in operations that are accounted for in the proprietary funds, are capitalized at historical costs, and are depreciated using the straight-line method over their estimated useful lives as follows:

<u>Enterprise Fund Assets</u>	<u>Years</u>
Water Plant	25 - 30
Sewer Plant	25 - 30
Machinery and Equipment	5 - 7

Compensated Absences

Accumulated unpaid vacation time, compensatory time, and sick time amounts accrue in the enterprise funds, and appear as increases in salary expenses in the proprietary financial statements. In the governmental funds, these costs are recognized when payments are made to employees or when costs mature as a result of an employee resignation or retirement. All vacation, compensatory, and sick pay accrues when incurred in the government-wide financial statements.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities. Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of bond premium or discount.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources, while the payments to reduce the outstanding long-term obligations are recorded as expenditures when incurred.

Deferred Inflows of Resources

Deferred Inflows of resources represent an acquisition of net assets that applies to future periods and will not be recognized as an inflow or resources until that future time. Deferred inflows has a negative effect on net position, similar to liabilities. The City reports deferred inflows of resources related to the receipt of future lease payments.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds for goods provided or services rendered. These transactions are eliminated on the government-wide financial statements.

Note 1 - Summary of Significant Accounting Policies (continued)

Net Position

Equity is classified as net position in the government-wide financial statements and in the proprietary financial statements and displayed in 3 components:

- **Net investment in capital assets** – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, leases, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted net position** – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The restricted amounts are the same as the restricted fund balance below.
- **Unrestricted net position** – consist of all other net positions that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Balance

Governmental fund balances are reported in five components: non-spendable, restricted, committed, assigned, and unassigned.

- **Non-Spendable**—This component of fund balance consists of amounts that cannot be spent because: a) they are not expected to be converted to cash, or b) they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and advances to other funds. On the general fund balance sheet, the advances to other fund balance reported is offset by a non-spendable fund balance classification, which indicates it does not constitute “available spendable resources” even though it is a component of net current position.
- **Restricted** - This component of fund balance consists of amounts that are constrained either: a) externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments), or b) by law through constitutional provisions or enabling legislation.
- **Committed** - This component of fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (e.g., ordinance or resolution) of the organization’s governing authority (the City Commission). These committed amounts cannot be used for any other purpose unless the City Commission removes or changes the specified use by taking the same type of action (e.g., ordinance or resolution) employed to constrain those amounts.
- **Assigned** – This component of fund balance consists of amounts that the City intends to use for a specific purpose as determined by the City Commission in accordance with the City’s fiscal policies. In addition, residual balances in capital projects and debt service funds are considered assigned for the general purpose of the respective fund, as approved by the City Commission through the budget process.
- **Unassigned** - This classification represents amounts that do not belong in any of the previous classifications, that is, the residual classification of the governmental fund.

Note 1 - Summary of Significant Accounting Policies (concluded)

Use of Restricted and Unrestricted Assets

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use, it is the City's policy to use committed resources first, then assigned, and then unassigned as needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Events

The City has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through March 30, 2024, the date the financial statements were made available. See note 6 for subsequent events disclosed.

Note 2 – Budgeting

The City's procedures in preparing and adopting the annual budget are as follows:

- The City Clerk is responsible for preparing a proposed operating budget for the upcoming year prior to September 30 that includes estimated revenues, proposed expenditures, and other financing sources and uses.
- Public hearings are held to obtain taxpayer comments and suggestions. The budget is enacted through passage of a resolution.
- Budgets are adopted on a basis consistent with generally accepted accounting principles. Appropriations lapse at the end of the year. The general fund budget presented was based upon the original budget. Budget appropriations may not be legally exceeded on a total fund basis.

Note 3 - Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal, and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. Florida Statutes permit cities to levy property taxes at a rate of up to 10 mills for general operations. The tax levy rate for the tax year ended September 30, 2022, was 5.3194 mills.

The tax levy of the Town is established by the City Commission prior to October 1 of each year, and the County Property Appraiser incorporates the City's millage into the total tax levy, which includes the County, various other municipalities, and County School Board tax requirements.

All property is reassessed according to its fair market value January 1 of each year. Each assessment roll is submitted to the Executive Director of the Florida Department of Revenue for

Note 3 - Property Taxes (concluded)

review to determine if the rolls meet all of the appropriate requirements of Florida Statutes.

All taxes are levied on November 1 of each year, or as soon thereafter, as the assessment roll is certified and delivered to the County Tax Collector. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, and 1% in the month of February. The taxes paid in March are without discount.

On or prior to June 1 following the tax year, tax certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest of 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Unsold tax certificates are estimated to be immaterial.

Delinquent taxes on personal property bear interest of 18% per year until the tax is satisfied either by seizure and sale of the property or by the five-year statute of limitations.

The City does not accrue its portion of the County-held tax sale certificates or personal property tax warrants because such amounts are estimated to be immaterial.

Note 4 - Deferred Compensation Plan

Effective January 2000, the City adopted a deferred compensation plan in accordance with Internal Revenue Code, Section 457. Contributions to the plan by the City for the benefit of the participants is discretionary and decided on a year-by-year basis. The City contributes 6% of the regular employee's base compensation and 7.5% of the compensation of the city manager to the plan. For the year ended September 30, 2022, the City contributed \$29,277 to the plan.

Note 5 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. Insurance against losses are provided through the Florida Municipal Insurance Trust for the following types of risk:

- Workers' Compensation and Employer's Liability
- General and Automobile Liability
- Real and Personal Property Damage
- Public Officials' Liability
- Accidental Death and Dismemberment

The City's coverage for workers' compensation is under a retroactively rated policy. Premiums are accrued based on the ultimate cost to-date of the City's experience for this type of risk. There have been no significant reductions in insurance coverage and settlements have not exceeded insurance coverage during the last three years.

Note 6 – Subsequent Events

The City was awarded the following grants after September 30, 2022:

- In December 2022, the City was awarded a \$650,000 from the Florida Dept of Economic Opportunity for the Master Lift station rehab.
- In March 2023, the City was awarded a \$20,000 grant from Duke Energy for revitalization.
- In January 2023, the City was awarded a \$1,000,000 grant from the St John’s Water Management District for wastewater treatment plant rehab.
- In October 2023, the City was awarded a \$50,000 grant from the Florida Department of Environmental Protection for HAP recreation upgrade.

Note 7 - Capital Assets

Governmental Activities

Capital asset activity for the governmental activities for the year ended September 30, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital Assets not being depreciated:				
Land	\$4,656,816	\$0	\$0	\$4,656,816
Construction in Progress	835,621	58,342	(850,571)	43,392
Total	<u>5,492,437</u>	<u>58,342</u>	<u>(850,571)</u>	<u>4,700,208</u>
Capital Assets being depreciated:				
Buildings and Improvements	3,226,554	769,652	(3,813)	3,992,393
Vehicles and Equipment	295,314	81,719	(61,621)	315,412
Total	<u>3,521,868</u>	<u>851,371</u>	<u>(65,434)</u>	<u>4,307,805</u>
Less accumulated depreciation for:				
Buildings and Improvements	(1,360,302)	(119,399)	2,475	(1,477,226)
Vehicles and Equipment	(319,702)	(13,120)	61,621	(271,201)
Total Accumulated Depreciation	<u>(1,680,004)</u>	<u>(132,519)</u>	<u>64,096</u>	<u>(1,748,427)</u>
Total Being Depreciated, Net	<u>1,841,864</u>	<u>718,852</u>	<u>(1,338)</u>	<u>2,559,378</u>

For the year ended September 30, 2022, depreciation expense on governmental fund capital assets charged to function/programs were as follows:

General Government	\$ 33,235
Transportation	31,806
Culture and Recreation	<u>67,478</u>
Total	<u>\$132,519</u>

Note 7 - Capital Assets (concluded)

Business-Type Activities

Capital asset activity for the business-type activities for the year ended September 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type activities:				
Capital assets not being depreciated:				
Land	\$114,570	\$0	\$0	\$114,570
Construction in Progress	<u>1,158,359</u>	<u>1,309,991</u>	<u>0</u>	<u>2,468,350</u>
	<u>1,272,929</u>	<u>1,309,991</u>	<u>0</u>	<u>2,582,920</u>
Capital Assets being depreciated:				
Water Plant and improvements	1,824,704	0	0	1,824,704
Sewer Plant and improvements	8,760,609	0	0	8,760,609
Machinery and Equipment	<u>212,397</u>	<u>0</u>	<u>0</u>	<u>212,397</u>
Total	<u>10,797,710</u>	<u>0</u>	<u>0</u>	<u>10,797,710</u>
Less Accumulated Depreciation for				
Water Plant and improvements	(1,241,819)	(20,773)		(1,262,592)
Sewer Plant and improvements	(6,594,425)	(119,783)		(6,714,208)
Machinery and Equipment	<u>(177,550)</u>	<u>(12,484)</u>		<u>(190,034)</u>
	<u>(8,013,794)</u>	<u>(153,040)</u>	<u>0</u>	<u>(8,166,834)</u>
Capital Assets being depreciated, net	<u>2,783,916</u>	<u>(153,040)</u>	<u>0</u>	<u>2,630,876</u>
Total Capital Assets, Net	<u>\$4,056,845</u>	<u>\$1,156,951</u>	<u>\$0</u>	<u>\$5,213,796</u>

For the year ended September 30, 2022, depreciation expense was \$153,040.

Note 8 - Long-Term Obligations

A summary of changes in long-term obligations for the year ended September 30, 2022 follows:

	Beginning			Final	Due
	Balance	Increases	Decreases	Balance	Within One Year
Governmental Activities					
Compensated Absences	\$23,887	\$22,372		\$46,259	\$15,000
Notes Payable	156,399	0	(49,050)	107,349	50,639
Line of Credit	0	119,550	(97,375)	22,175	22,175
Total	<u>\$180,286</u>	<u>\$141,922</u>	<u>(\$146,425)</u>	<u>\$175,783</u>	<u>\$87,814</u>
Business-type Activities					
Compensated Absences	\$16,826	\$2,143	(\$735)	\$18,234	\$7,500
Notes Payable	521,420	312,843	(23,164)	811,099	35,679
Bonds Payable	1,773,600	0	(84,600)	1,689,000	88,700
Total	<u>\$2,311,846</u>	<u>\$314,986</u>	<u>(\$108,499)</u>	<u>\$2,518,333</u>	<u>\$131,879</u>

Governmental Activities

Notes Payable

The City has a \$200,000 notes payable to a local financial institution, payable in monthly installments of \$4,444, including interest at 3.15% per annum. The note is secured by an assignment of a first priority lien upon and pledge of the City's Wild Spaces Public Places local option sales tax and non-ad valorem revenues. Final payment is due October 1, 2024.

\$107,349

The following is a schedule of the annual debt service requirements for this note payable as of September 30, 2022:

Year	Principal	Interest	Total
2023	\$50,639	\$2,689	\$53,328
2024	52,277	1,051	53,328
2025	4,433	11	4,444
Total	<u>\$107,349</u>	<u>\$3,751</u>	<u>\$111,100</u>

Line of Credit

In June 2022, the City obtained a \$1,165,000 line of credit with a local financial institution. The proceeds were used as a bridge loan to pay for the waterline replacement project costs prior to

Note 8 - Long-Term Obligations (continued)

the City receiving reimbursement from the state pursuant to grants entered into with the state. The line of Credit includes interest at 5.0 % per annum, payable monthly. The principal is due on June 21, 2023. The balance of the line of credit as of September 30, 2022, was \$22,175.

Business-type Activities

Notes Payable

In April, 2014, the City obtained a \$75,000 promissory note with the National Rural Water Association. Terms of the note include monthly payments of \$724, including interest at 3% per annum. Final payment is due May 1, 2024. \$14,111

In February 2019, the City entered into a \$674,200 loan. Of this amount, \$337,100 was forgiven. The total loan was \$345,381 which included \$1,539 in capitalized interest and \$6,742 in service fee charges. Terms include semiannual payments of \$10,114 including interest at 1.590% per annum. Final payment is due August 15, 2030. 315,543

In March 2021, the City entered into a \$2,545,000 revolving fund loan agreement (DW 010411) with the State of Florida, Department of Environmental Protection. The agreement includes forgiveness of \$1,874,312 of the loan for a remaining loan balance of \$670,688 once all of the loan proceeds have been received by the City. As of September 30, 2022, \$1,826,895 has been received with \$1,345,450 forgiven. As of September 30, 2022, terms of the loan include semi-annual payments of \$11,885 commencing on February 15, 2023 for a thirty year period with final payment due August 15, 2053. 481,445

Total \$811,099

The following summarizes the scheduled payments for notes payable the next 5 years and thereafter as of September 30, 2022:

Year	Principal	Interest	Total
2023	\$35,679	\$17,010	\$52,689
2024	31,948	17,844	49,792
2025	26,765	17,233	43,998
2026	27,327	16,671	43,998
2027	27,901	16,096	43,997
2028 - 2032	148,595	73,730	222,325
2033 - 2037	165,064	54,925	219,989
2038 - 2042	142,579	36,955	179,534
2043 - 2047	96,013	22,839	118,852
2048 - 2052	109,228	8,518	117,746
Total	<u>\$811,099</u>	<u>\$281,821</u>	<u>\$1,092,920</u>

Note 8 - Long-Term Obligations (continued)

Bonds Payable

\$450,000 Water Revenue Bond, Series 1991 were issued during the fiscal year ended September 30, 1991. These bonds are payable in annual installments averaging \$30,000 and including interest at 5.875% per annum. The revenues of the water system after deduction of the costs of operation and maintenance are pledged for the payment of these bonds. In addition, to the scheduled payments of interest and principal, the City is required to deposit \$2,990 per year into a reserve account until a minimum balance of \$29,900 which has been achieved. Final payment is due September 1, 2030. \$ 186,300

\$1,262,500 Sewer Revenue Bond, Series 1993, 1993A, and 1993B were issued during the fiscal year ended September 30, 1994. These bonds are payable in annual installments averaging \$57,000 including interest at 5% per annum. 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 is required to deposit \$7,494 per year into a reserve account until the account reaches a minimum balance of \$74,905, which has been achieved. Final payment is due September 1, 2033. 621,700

\$1,187,300 Water and Sewer Revenue Bond, Series 2004 were issued during the fiscal year ended September 30, 2004. These bonds are payable in annual installments averaging \$65,700 including interest at 4.5% per annum. The revenues of the sewer and water system are pledged for payment of these bonds. Final payment is due September 1, 2043. 881,000

Total \$1,689,000

The following summarizes the scheduled payments for the bonds payable the next 5 years and in increments of 5 years thereafter as of September 30, 2022:

Year	Principal	Interest	Total
2023	\$88,700	\$81,675	\$170,375
2024	92,900	77,205	170,105
2025	98,400	72,520	170,920
2026	103,000	67,559	170,559
2027	108,000	62,363	170,363
2028 - 2032	567,700	345,822	913,522
2033 - 2037	292,300	110,260	402,560
2038 - 2042	277,000	52,155	329,155
2043 - 2047	61,000	2,745	63,745
Total	<u>\$1,689,000</u>	<u>\$872,304</u>	<u>\$2,561,304</u>

Note 9 - Other Postemployment Benefit (OPEB) Obligation

Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the City are eligible to participate in the City's healthcare program. The City subsidizes the premium rates paid by retirees by allowing them to participate in the healthcare program at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, the current and future claims are expected to result in higher health insurance costs on average than those of active employees. City management estimates this liability to be immaterial. Accordingly, no OPEB liability has been recorded in the City's financial statements.

Note 10 - Interfund Receivables and Payables

Amounts due to and from other funds in the fund financial statements represent goods and services paid for and grant revenues received by the General Fund for the benefit of the Enterprise Funds in the current or previous years. The outstanding balances between the funds result from the time lag between the dates: that (1) the interfund goods and services are provided, or reimbursable expenditures occur; (2) transactions are recorded in the accounting system; and (3) payments between the funds are made.

Note 11 – Commitments

The following is a summary of the outstanding grant commitments as of September 30, 2022:

<u>Grant</u>	<u>Effective Date</u>	<u>Ext Compl Date</u>	<u>Grant Award</u>	<u>Remaining Commitment</u>
Johnson St Revital. DEO	Dec-24	Apr-26	\$332,743	\$332,743
Disaster Recov Infrast. Repair Prog CDBG	Jul-20	Sep-23	1,165,000	1,165,000
Drinking Water State Revolving Fund DEO	May-19	Sep-23	2,545,000	403,624
CDBG Coronavirus	Mar-22	Sep-24	3,538,035	3,538,035
ARPA Dept Treas	Mar-21	Dec-24	<u>762,299</u>	<u>739,600</u>
Total			<u><u>\$8,343,077</u></u>	<u><u>\$6,179,002</u></u>

Note 12 – Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. 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(s) cannot be determined at this time although the Town expects amounts, if any, to be immaterial.

Note 13 – Leases

The City currently leases parcels of land to two commercial entities.

The first lease was entered into in February 1995 and subsequently amended in May 2017, to extend the term of the lease by adding five additional five-year extensions. Terms of the lease include current monthly payments of \$487 through January 2025, with a 5% increase every five years. The total amount received under the terms of this lease was \$5,844 for the year ended September 30, 2022.

\$116,966

The second lease was entered into in May 2014 and includes six additional five-year extensions. Terms of the lease include current monthly payments of \$1,621 through March 2026, with a 12.5% increase every five years. The total amount received under the terms of this lease was \$19,447 for the year ended September 30, 2022.

460,913

Total

\$577,869

In implementing GASB 87, Leases, effective October 1, 2021, the City recognized a \$582,835 lease receivable and a related deferred inflows of resources for the same amount for these two leases. The lease values were based on a 3.5% incremental borrowing rate as of October 1, 2021, and with expected lease maturity dates of January 2050 for the first lease and March 2051 for the second lease. During the year, \$4,966 was applied to the lease receivable balance (and deferred inflows of resources) balance and the City recognized \$23,820 in related interest income.

The lessee of this second lease is permitting a third party to share its radio tower (on the parcel leased). This third party is paying the City \$325 per month on a month-to-month basis.

Note 14 – Prior Period Adjustments

The beginning fund balance was restated for the following errors:

- The General Fund incorrectly included the notes payable and accrued vacation and sick pay under the modified accrual basis of accounting.
- The CRA fund incorrectly included the notes receivable under the modified accrual basis of accounting.
- The Water Fund accounts payable and accounts receivable were understated.
- Also, for the Water Fund, prior year costs related to the waterline improvement project were not capitalized.
- All of the funds had an unlocated difference in reconciling the beginning fund balance to the prior year balance as previously reported.

Note 14 – Prior Period Adjustments (concluded)

The following table summarizes these adjustments:

	General Fund	CRA Fund	Water Fund	Sanit. Fund	Sewer Fund	Cem. Fund
As previously reported	\$1,302,238	\$648,260	(\$179,507)	\$138,861	\$388,116	\$9,014
Unlocated Differences	(366,530)	639	(356,177)	(665)	29,111	(2,669)
Accounts Payable	0	0	(161,815)	0	0	0
Notes Payable	377,021	0	0	0	0	0
Accrued Vacation	40,614	0	0	0	0	0
Accounts Receivable	0	0	205,848	0	0	0
Notes Receivable	0	(221,980)	0	0	0	0
Capital Assets	0	0	1,158,359	0	0	0
As restated	<u>\$1,353,343</u>	<u>\$426,919</u>	<u>\$666,708</u>	<u>\$138,196</u>	<u>\$417,227</u>	<u>\$6,345</u>

The beginning net position for the governmental activities was restated for the following:

- Costs related to the athletic park improvements were not capitalized.
- A note receivable (CRA fund) and a related note payable (General Fund) should have been eliminated for reporting purposes.
- There was also an unlocated difference.

The beginning net position for the business-type activities was restated for the following:

- Accounts payable was understated.
- Accounts receivable was understated.
- Capital assets related to the waterline improvement project were not capitalized.
- There was also an unlocated difference.

The following table summarizes the adjustments to the beginning statement of net position As of September 30, 2021:

	Governmental Activities	Business-Type Activities
As previously reported	\$7,801,717	\$336,452
Unlocated Difference	291,692	(323,058)
Accounts Payable	0	(161,815)
Notes Payable	220,622	0
Accounts Receivable	0	205,848
Notes Receivable	(222,270)	0
Capital Assets	835,621	1,158,359
As restated	<u>\$8,927,382</u>	<u>\$1,215,786</u>

REQUIRED BUDGETARY SUPPLEMENTAL SCHEDULES

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCE - BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$669,467	\$669,467	\$694,625	\$25,158
Licenses and Permits	5,709	5,709	8,109	2,400
Intergovernmental Programs	1,352,431	1,352,431	323,309	(1,029,122)
Charges for Services	59,230	59,230	80,380	21,150
Fines and Forfeitures	12,000	12,000	12,105	105
Miscellaneous Revenue	6,250	6,250	2,380	(3,870)
Interfund Charges	30,000	30,000	30,000	0
Total Revenues	<u>2,135,087</u>	<u>2,135,087</u>	<u>1,150,908</u>	<u>(984,179)</u>
Expenditures				
Current:				
General Government	1,737,343	1,737,343	489,504	1,247,839
Transportation	204,504	204,504	163,356	41,148
Economic Environment	0	0	22,699	(22,699)
Culture and Recreation	184,732	184,732	165,190	19,543
Debt Service:				
General Government	25,730	25,730	25,728	2
Culture and Recreation	53,329	53,329	53,329	0
Total Expenditures	<u>2,205,638</u>	<u>2,205,638</u>	<u>919,806</u>	<u>1,285,832</u>
Revenues Over (Under) Expenditures	<u>(70,551)</u>	<u>(70,551)</u>	<u>231,102</u>	<u>301,653</u>
Other Financing Sources (Uses)				
Net Proceeds from Line of Credit	<u>0</u>	<u>0</u>	<u>22,175</u>	<u>22,175</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>22,175</u>	<u>22,175</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Financing Uses	(70,551)	(70,551)	253,277	323,828
Fund Balance, Beginning of Year, Restated	<u>1,353,343</u>	<u>1,353,343</u>	<u>1,353,343</u>	
Fund Balance, End of Year	<u>\$1,282,792</u>	<u>\$1,282,792</u>	<u>\$1,606,620</u>	

See accompanying notes to the financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - BUDGET AND ACTUAL - COMMUNITY REDEVELOPMENT FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Tax Increment Revenues	\$72,681	\$72,681	\$79,398	\$6,717
Repayment on Note Receivable				
Principal	16,676	16,676	18,033	1,357
Interest	9,054	9,054	9,840	786
Investment revenue	500	500	432	(68)
Miscellaneous Revenue	0	0	0	0
Total Revenues	98,911	98,911	107,703	8,792
Expenditures				
Current				
General Government	30,400	30,400	38,175	(7,775)
Capital Outlay				
Economic Environment	68,509	68,509	58,534	9,975
Total Expenditures	98,909	98,909	96,709	2,200
Revenues Over (Under) Expenditures	2	2	10,994	10,992
Fund Balance, Beginning of Year, Restated	426,919	426,919	426,919	
Fund Balance, End of Year	\$426,921	\$426,921	\$437,913	

See accompanying notes to the financial statements.

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, UNIFORM
GUIDANCE, AND
THE RULES OF THE AUDITOR GENERAL**

CITY OF HAWTHORNE, FLORIDA

Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended September 30, 2022

Federal / Pass Through Entity <u>Federal Program</u>	<u>Assistance Listing #</u>	<u>Contract / Grant Number</u>	<u>Award / Financial Assistance</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development Through the State of Florida, Department of Economic Opportunity CDBG Disaster Recovery Infrastructure Repair Program (CDBG-DR)	14.228	IR005	\$1,165,000	\$120,150
U.S Environmental Protection Agency Through the State of Florida, Department of Environmental Protection Capitalization Grants for Drinking Water State Revolving Loan Fund FS98452221-0	66.468	DW010411	2,545,000	1,189,843
U.S. Department of the Treasury Through the Florida Division of Emergency Management Coronavirus State and Local Fiscal Recovery Funds	21.027	Y5139	762,299	22,699
			<u>\$4,472,299</u>	<u>\$1,332,692</u>

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal grant activity and state grant activity of the City of Hawthorne, Florida and is presented on the accrual basis of accounting.

NOTE 2 - DE MINIMUS COST RATE

The City has elected not to implement the 10% de minimis cost rate.

REDDISH & WHITE

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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 the City Commission
City of Hawthorne, Florida
Hawthorne, Florida

We were engaged to audit, 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, each major fund, and the aggregate remaining fund information of City of Hawthorne, Florida, (the City) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated March 30, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we did identify a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items: 2022-001, 2022-002, 2022-003, 2022-004, and 2022-005 to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City'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*.

City's Response to Findings

The City's response to the findings identified in our audit are described in the last page of this report labeled auditee's response. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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.

Addish & White, CPAs

Starke, Florida
March 30, 2024

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We were engaged to audit the City of Hawthorne, Florida's (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the fiscal year ended September 30, 2022. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an

opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Reddish & White, CPA's

Starke, Florida
March 30, 2024

CITY OF HAWTHORNE, FLORIDA

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2022

Section I. Summary of Auditor's Results

1. The auditors' report expresses a disclaimer of opinion on the City of Hawthorne, Florida's basic financial statements prepared in accordance with Generally Accepted Account Principles (GAAP).
2. Five material weaknesses were identified.
3. No significant deficiencies were identified.
4. No instance of noncompliance material to the financial statements of the City of Hawthorne, Florida which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
5. No material weaknesses were identified during the audit of the major federal award programs.
6. No significant deficiencies were identified during the audit of the major federal award programs.
7. The auditor's report on compliance for the major federal award programs for the City of Hawthorne, Florida expresses an unmodified opinion.
8. Audit findings that are required to be reported in accordance with 2 CFR section 200516(a) are reported in the Schedule.
9. The program tested as a major program was the U.S. Environmental Protection Agency, Capitalization Grants for Drinking Water State Revolving Loan Fund, assistance living No. 66.468.
10. The threshold for distinguishing Type A and Type B programs was \$750,000 for major federal awards.
11. City of Hawthorne was determined to not be a low-risk auditee.

Schedule of Findings and Questioned Costs (continued)

Section II. Findings Related to the Financial Statements which are required to be Reported in Accordance with *Government Auditing Standards*

There were five findings as follows:

Finding 2022-001: The City maintains one general ledger for all of the funds without tracking equity by fund in the QuickBooks accounting software.

This methodology results in:

- a) The potential for a one sided entry to a fund,
 - 1) General and water fund interfund accounts increased over \$433,000 due to the incorrect accounting for 3 SRF payment transfers between the General Fund and the Water Fund.
 - 2) A journal entry to record a Water Fund receivable for \$\$184,207.77 was classified as a General Fund receivable but the revenue was posted to the Water Fund.
- b) The inability to print a balance sheet by fund without performing additional steps outside of the accounting software QuickBooks, and
- c) The inability to reconcile the equity accounts to the prior year audited balances, and
- d) It also results in difficulty in reviewing one fund's general ledger detail (audit trail) since there are so many other accounts involved that are not pertinent to a given fund.

Recommendations 2022-001: (1) Do not use any one equity account for more than one fund, and (2) Maintain a separate general ledger for the 2 governmental funds, the General Fund and the CRA Fund.

Finding 2022-002: Accounting for Governmental Funds on the Accrual Basis - The General Fund and the CRA Fund were accounted for using the accrual basis of accounting.

Background: Government accounting standards require that governmental funds be accounted for using the modified accrual basis of accounting.

Recommendations 2022-002: we recommend (1) the City maintain a separate general ledger for each of the governmental funds (especially since they are accounted for under a different basis of accounting as the enterprise funds), (2) not including notes receivable, fixed asset accounts, or long-term liability related accounts in the general ledger when accounting under the modified accrual basis of accounting.

Finding 2022-003: Improve the Bank Reconciliation Process

During the year we noted that a material duplicate entry for a \$149,941 EFT disbursement went undetected, there were over \$30,000 in uncleared deposits that were over one month old, and many of the bank accounts were not being reconciled in a timely manner (as of December 2023, the general fund operating account was reconciled through October 2022).

Schedule of Findings and Questioned Costs (concluded)

Section II. Findings Related to the Financial Statements which are required to be Reported in Accordance with *Government Auditing Standards* (concluded)

Recommendation 2022-003: Improve the bank reconciliation process by (1) investigating any material uncleared disbursements in a timely manner (and be mindful on which duplicate entry to void when correcting for a duplicate entry), (2) reviewing any uncleared deposits more than 30 days old, and (3) by performing the reconciliation of the bank accounts within 30 days of receipt of the bank statement.

Finding 2022-004: Financial Close and Reporting

At the commencement of the final fieldwork, the preliminary working trial balance did not reflect all of the required closing entries. As a result, several auditor adjustments were required after we began the audit process. This includes adjustments to the beginning and ending receivable and payable balances, interfund account balances, grant revenue, deferred revenue, and the beginning and ending capital asset accounts.

In addition, the beginning equity accounts in the general ledger could not be reconciled to the prior year audited equity balances.

Recommendation 2022-004: We recommend the City evaluate its annual financial close and reporting process to reduce the risk of inaccurate information at year end. Also, it is imperative that the City ensure that each year the accounting records reconcile to the audited balances after posting the auditor adjusting journal entries.

Finding 2022-005: Monitoring the Increases in the Interfund balances

The interfund balances between the various funds have in some instances become quite large. During a cursory review of the balances for the past few years, it was noted that the balance between the water fund and the general fund increased over \$440,000 this fiscal year and by over \$880,000 in the fiscal year ended September 2013. Upon further review by the City's external accountant, it was determined that these increases were not correct.

Recommendation 2022-005: – The City needs to perform a review, at least annually, of the transactions in the interfund balances and any significant increases need to be analyzed. Also, the prior year's activity for the large interfund balances needs to be reviewed for possible misstatements.

Section III. Findings and Questioned Costs – Major Federal Award Program Audit

There were no new findings or questioned costs.

Section IV. Status of Prior Year Findings

There were no findings from prior years.

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to Federal awards.

REDDISH & WHITE

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 307 • 134 East Call Street • Starke, Florida 32091

Phone (904) 964-7555 • Fax (904) 964-3887

www.reddishandwhite.com

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES

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

We have examined the City of Hawthorne, Florida's compliance with the requirements of Section 218.415, Florida Statutes during the fiscal year ended September 30, 2022. Management is responsible for the City of Hawthorne, Florida's compliance with those requirements. Our responsibility is to express an opinion on the City of Hawthorne, Florida'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 City of Hawthorne, Florida'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 of Hawthorne, Florida's compliance with specified requirements.

In our opinion, the City of Hawthorne, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2022.

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

Reddish & White, CPAs

Starke, Florida
March 30, 2024

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INDEPENDENT AUDITOR'S MANAGEMENT LETTER

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

Report on the Financial Statements

We were engaged to audit the financial statements of the City of Hawthorne, Florida, as of and for the fiscal year ended September 30, 2022, and have issued our report thereon dated March 30, 2024. In our audit report, we issued a disclaimer of an opinion. We were unable to obtain sufficient appropriate audit evidence because all of the funds were maintained in one general ledger with no internal controls to prevent from posting one side (debit or credit) of a transaction to one fund and the other side of the same transaction to another fund. In addition, the individual fund balances for each fund were not maintained separately, that is, one general ledger account was used for all of the funds. As a result, we were unable to obtain sufficient appropriate audit evidence regarding the fund balances, the interfund balances, and the net position balances.

Auditor's Responsibility

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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and Chapter 10.550, Rules of the Florida Auditor General.

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports which are dated March 30, 2024, should be considered in conjunction with this management letter.

Prior Audit Findings

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 audit report. The findings in the preceding financial audit report were corrected.

Official Title and Legal Authority

Section 10.554(1)(i)4., 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 information is disclosed in note 1 in the notes to the financial statements.

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the City of Hawthorne, Florida has met one or more of the conditions described in Section 218.503(1) Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the City of Hawthorne, Florida did not meet any of these conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the City of Hawthorne, Florida. It is management's responsibility to monitor the City of Hawthorne, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we have the following recommendations:

2022-006: Multiple Payments to one Vendor

During the year, we noted that 245 checks were issued to one vendor and 68 checks were issued to another vendor. In some instances, multiple checks were issued to the same vendor on the same day.

We recommend that when the invoices are entered into the accounts payable module, the allocation by fund is performed at this time. Disbursements to recurring vendors should be limited to no more than two times per month.

Finding 2022-007: Multiple Utility Funds

By maintaining multiple utility funds, additional time and effort is spent allocating receivables and payables and tracking interfund transactions between the Water fund, Sewer fund, and the Sanitation funds. Also, in many instances, the receivable and payable detail did not agree with the related general ledger balance. That is, there were errors in assigning the appropriate fund (class in QuickBooks) to a transaction.

We recommend combining these 3 funds into one fund, a Utility Fund, to streamline the accounting process. The level of detail on the income statement by these departments should still be maintained but the balance sheet accounts would no longer require separate accounting.

Finding 2022-008: processing invoices received from vendors for payment.

During the audit we noted that the City generates an invoice to assist in processing invoices for payment received from vendors.

We recommend avoiding this step and just entering the invoice in the AP system. If the invoice is for multiple funds, then attach a preprinted worksheet that illustrates the allocation to each fund. The account number(s) should be written on the invoice by the person who approves the invoice for payment.

Special District Component Units

Section 10.554(1)(i)5.c, Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes.

In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39 (3) (b), Florida Statutes.

As required by Section 218.39 (3)(c), Florida Statutes, and Section 10.554(1)(i)6, *Rules of the Auditor General*, the Hawthorne Community Redevelopment Agency reported:

- a. The total number of district employees compensated in the last pay period of the Agency's fiscal year was 0. The Agency has no employees but receives administrative, engineering, and project management support from the City staff.
- b. The total number of independent contractors to whom nonemployee compensation was paid in the last month of the Agency's fiscal year was 1.
- c. All compensation earned by or awarded to employees, whether paid or accrued, regardless of contingency was \$0.
- d. All compensation earned or awarded to employee independent contractors, whether paid or accrued, regardless of contingency was \$51,392.
- e. Each construction project with a total costs of at least \$65,000 approved by the Agency that is scheduled to begin on or after October 1 of the fiscal year being reported, together with total expenditures for such project - none.
- f. A budget variance based on the budget adopted under Section 189.016(4), Florida Statutes, before the beginning of the fiscal year being reported if the district amends a final adopted budget under Section 189.016(6), Florida Statutes, as \$10,992.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

Purpose of This Letter

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

Bedderly & White, CPA's

Starke, Florida
March 30, 2024

AFFIDAVIT OF IMPACT FEE COMPLIANCE

STATE OF FLORIDA
COUNTY OF ALACHUA

BEFORE ME, the undersigned authority, personally appeared John Martin who, being duly sworn, deposes and says on oath that:

- 1) I am the Chief Financial Officer of the City of Hawthorne, Florida, which is a local governmental entity of the State of Florida.
- 2) The governing body of the City of Hawthorne adopted Ordinance No. 2006-04 implementing an impact fee or authorized City of Hawthorne to receive and expend proceeds of an impact fee implemented by City Commission.
- 3) The City of Hawthorne, Florida has complied with Section 163.31801, Florida Statutes regarding accounting and reporting of impact fees collections and expenditures for fiscal year ended September 30, 2022.

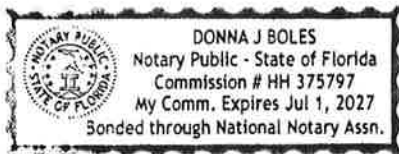
FURTHER AFFIANT SAYETH NAUGHT.



 Signature of chief financial officer

STATE OF FLORIDA
COUNTY OF ALACHUA

SWORN TO AND SUBSCRIBED before me this 2nd day of March, 2024.



Donna J. Boles

 NOTARY PUBLIC

Print Name Donna J. Boles

Personally known or produced identification _____

Type of identification produced: _____

My Commission Expires: July 1, 2027



City of Hawthorne
PO Box 1270
Hawthorne, FL 32640

March 30, 2024

Dear Sirs,

I would like to take this opportunity to respond to the internal control comments made by the auditors in the City of Hawthorne, Florida's audit report for the fiscal year ended September 30, 2022. The following is our response to the comment included in the audit report.

Finding 2022-001: The City maintains one general ledger for all of the funds without tracking equity by fund in the QuickBooks accounting software.

This methodology results in:

- a) The potential for one sided entries to a fund,
 - 1) General and water fund interfund accounts increased over \$433,000 due to the incorrect accounting for 3 SRF payment transfers between the General Fund and the Water Fund.
 - 2) A journal entry to record a water fund receivable for \$184,207.77 was classified as a General Fund receivable but the revenue was posted to the Water Fund.
- b) The inability to print a balance sheet by fund without performing additional steps outside of the accounting software QuickBooks, and
- c) The inability to reconcile the equity accounts to the prior year audited balances, and
- d) It also results in difficulty in reviewing one fund's general ledger detail (audit trail) since there are so many other accounts involved that are not pertinent to a given fund.

Recommendations 2022-001: (1) Do not use any one equity account for more than one fund, and (2) Maintain a separate general ledger for the 2 governmental funds, the General Fund and the CRA Fund.

Response 2022-001:

The City will be separating the General Ledger by Fund (CRA, General Fund, & Enterprise Fund).

Finding 2022-002 Accounting for Governmental Funds on the Accrual Basis - The General Fund and the CRA Fund were accounted for using the accrual basis of accounting.

Background: Government accounting standards require that governmental funds be accounted for using the modified accrual basis of accounting.

Recommendations 2022-002: we recommend (1) the City maintain a separate general ledger for each of the governmental funds (especially since they are accounted for under a different basis of accounting as the enterprise funds), (2) not including notes receivable, fixed asset accounts, or long-term liability related accounts in the general ledger when accounting under the modified accrual basis of accounting.

Response 2022-002:

The City will be separating the General Ledger by Fund (CRA, General Fund, & Enterprise Fund). Additional training for staff will take place on a different accounting basis and thereby fixing this finding.

Finding 2022-003: Improve the Bank Reconciliation Process

During the year we noted that a material duplicate entry for a \$149,941 EFT disbursement went undetected, there were over \$30,000 in uncleared deposits that were over one month old, and many of the bank accounts were not being reconciled in a timely manner (as of December 2023, the general fund operating account was reconciled through October 2022).

Recommendation 2022-003: Improve the bank reconciliation process by (1) investigating any material uncleared disbursements in a timely manner (and be mindful on which duplicate entry to void when correcting for a duplicate entry), (2) reviewing any uncleared deposits more than 30 days old, and (3) by performing the reconciliation of the bank accounts within 30 days of receipt of the bank statement.

Response 2022-003:

Bank reconciliations are current through February 29, 2024. The City Manager is reviewing bank reconciliation for questionable uncleared items. All bank reconciliations are required to be completed and review within 30 days of the closing of the period.

Finding 2022-004: Financial Close and Reporting

At the commencement of the final fieldwork, the preliminary working trial balance did not reflect all of the required closing entries. As a result, several auditor adjustments were required after we began the audit process. This includes adjustments to the beginning and ending receivable and payable balances, interfund account balances, grant revenue, deferred revenue, and the beginning and ending capital asset accounts.

In addition, the beginning equity accounts in the general ledger could not be reconciled to the prior year audited equity balances.

Recommendation 2022-004: We recommend the City evaluate its annual financial close and reporting process to reduce the risk of inaccurate information at year end. Also, it is imperative that the City ensure that each year the accounting records reconcile to the audited balances after posting the auditor adjusting journal entries.

Response 2022-004:

Monthly Closing Review of General Ledger is taking place. All Balance Sheet accounts are now reconciled monthly. Adjusting Journal Entries will be posted and compared to adjusted trial balance after which the file will be lock and password protected to prevent accidental changes.

Finding 2022-005: Monitoring the Increases in the Interfund balances

The interfund balances between the various funds have in some instances become quite large. During a cursory review of the balances for the past few years, it was noted that the balance between the water fund and the general fund increased over \$440,000 this fiscal year and by over \$880,000 in the fiscal year ended September 2013. Upon further review by the City's external accountant, it was determined that these increases were not correct.

Recommendation 2022-005: – The City needs to perform a review, at least annually, of the transactions in the interfund balances and any significant increases need to be analyzed. Also, the prior year's activity for the large interfund balances needs to be reviewed for possible misstatements.

Response 2022-005:

The city will develop a policy for Interfund reimbursement, and each account will be reconciled through the monthly closing review process.

Recommendation 2022-006: Multiple Payments to one Vendor

During the year, we noted that 245 checks were issued to one vendor and 68 checks were issued to another vendor. In some instances, multiple checks were issued to the same vendor on the same day.

We recommend that when the invoices are entered into the accounts payable module, the allocation by fund is performed at this time. Disbursements to recurring vendors should be limited to no more than two times per month.

Response 2022-006:

The number of checks issued is due to Vendor invoices being allocated to different funds based upon the budget. Management agrees that reducing the number of payments is important, however the City Manager will need to review the process to determine what the best approach would be based upon staffing and control issues.

Recommendation 2022-007: Multiple Utility Funds

By maintaining multiple utility funds, additional time and effort is spent allocating receivables and payables and tracking interfund transactions between the Water Fund, Sewer Fund, and the Sanitation Funds. Also, in many instances, the receivable and payable detail did not agree with the related general ledger balance. That is, there were errors in assigning the appropriate fund (class in QuickBooks) to a transaction.

We recommend combining these 3 funds into one fund, a Utility Fund, to streamline the accounting process. The level of detail on the income statement by these departments should still be maintained but the balance sheet accounts would no longer require separate accounting.

Response 2022-007:

Management will review the City's current contracts to determine if separation of funds is required. If not, the City Manager will make the recommendation to the City Commission that the three Fund (Water, Wastewater and Sanitation) be combined into one Fund.

Finding 2022-008: processing invoices received from vendors for payment.

During the audit we noted that the City generates an invoice to assist in processing invoices for payment received from vendors.

We recommend avoiding this step and just entering the invoice in the AP system. If the invoice is for multiple funds, then attach a preprinted worksheet that illustrates the allocation to each fund. The account number(s) should be written on the invoice by the person who approves the invoice for payment.

Response 2022-008:

The City Manager will review the suggested changes and implement changes if appropriate.

If you have any questions concerning our response to the audit comments, please contact our office at (352) 481-2432.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Martin', with a long horizontal flourish extending to the right.

John Martin
City manager