

CITY OF HAWTHORNE, FLORIDA

ANNUAL FINANCIAL REPORT

September 30, 2007

CITY OF HAWTHORNE, FLORIDA

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INTRODUCTORY SECTION

CITY OF HAWTHORNE, FLORIDA

LIST OF PRINCIPAL OFFICIALS

September 30, 2007

MAYOR

Deloris Roberts

VICE MAYOR

John Martin

CITY COMMISSION

Eleanor Randall

Patricia Bouie

Michael E. Rutledge, Sr.

CITY MANAGER

Chad M. Shryock

CITY CLERK

Donna R. Mayes

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor
and City Commission
City of Hawthorne, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of the City of Hawthorne, Florida, (City) as of and for the fiscal year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hawthorne, Florida's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of the City of Hawthorne, Florida, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 18, 2008, on our consideration of the City of Hawthorne's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 38 through 41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hawthorne, Florida's basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



POWELL & JONES
Certified Public Accountants
January 18, 2008

CITY OF HAWTHORNE, FLORIDA
Management's Discussion and Analysis

This discussion and analysis is intended to be an easily readable analysis of the City of Hawthorne (City) financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

Report Layout

The City has implemented Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This statement requires governmental entities to report finances in accordance with specific guidelines. Among those guidelines are the components of this section dealing with management's discussion and analysis. Besides this Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, and the notes to the financial statements. The first two statements are condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized as applicable, and reported as either governmental or business-type activities. Governmental activities include basic services such as police, fire control, public works, parks and recreation, community development and general governmental administration. The City's water, sewer, and solid waste management services are reported as business-type activities. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the City.

Basic Financial Statements

- The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snap-shot view of the assets the City owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. For the first time, governmental activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long been reported capital assets and long-term liabilities. Also, for the first time, governmental activities are reported on the accrual basis of accounting.
- The Statement of Activities focuses gross and net costs of the City's programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on governmental and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The City's has one major governmental fund, the General Fund. A budgetary comparison is presented for each of the governmental funds. Statements for the City's proprietary funds follow the governmental funds and include net assets, revenue, expenses and changes in net assets, and cash flows.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

- The MD&A is intended to serve as an introduction to the City's basic financial statements and to explain the significant changes in financial position and differences in operations between the current and prior years.

City as a Whole

Government-wide Financial Statements

Net Assets at September 30, 2007

	Governmental	Business-type	Total Government	
	Activities	Activities	2007	2006
Cash and cash equivalents	\$ 432,183	\$ 202,073	\$ 634,256	\$ 552,658
Other assets	512,623	233,785	746,408	726,279
Capital assets	1,589,909	4,751,716	6,341,625	6,684,859
Total assets	<u>2,534,715</u>	<u>5,187,574</u>	<u>7,722,289</u>	<u>7,963,796</u>
Other current liabilities	215,336	622,740	838,076	825,057
Long term outstanding	52,275	2,568,061	2,620,336	2,680,090
Total liabilities	<u>267,611</u>	<u>3,190,801</u>	<u>3,458,412</u>	<u>3,505,147</u>
Net assets:				
Invested in capital assets, net of related debt	1,573,412	2,131,758	3,705,170	3,991,685
Restricted	79,111	139,291	218,402	208,199
Unrestricted	614,581	(274,276)	340,305	258,764
Total net assets	<u>\$ 2,267,104</u>	<u>\$ 1,996,773</u>	<u>\$ 4,263,877</u>	<u>\$ 4,458,648</u>

87% of the City's net assets reflect its investment in capital assets (land, buildings, infrastructure, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional 5% of the City's net assets represent resources that are dedicated or subject to restriction on how they may be used. The remaining balance of unrestricted net assets \$340,305 may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net assets decreased \$194,771 or 4% over the year, which was primarily the result of recording depreciation in the proprietary funds.

The following schedule provides a summary of the changes in net assets. The increase in Governmental Activities net assets is due primarily to ongoing operations. The decrease during the year through Business-type Activities net assets is due to ongoing operations, depreciation and interest expense.

A condensed version of the Statement of Activities follows:

Change in Net Assets
For the fiscal year ended September 30, 2007

	Governmental Activities	Business-type Activities	Total Government	
			2007	2006
Revenues:				
Program revenues				
Charges for services	\$ 94,647	\$ 716,848	\$ 811,495	\$ 830,793
Grants and contributions	240,537	-	240,537	80
General revenues				
Taxes	489,729	-	489,729	366,678
Franchise fees	57	-	57	43
Licenses	13,892	-	13,892	22,533
Tax increment	46,708	-	46,708	35,184
State shared revenues	147,888	-	147,888	145,232
Interest	3,916	4,642	8,558	6,309
Miscellaneous	11,802	74	11,876	6,732
Total revenues	<u>1,049,176</u>	<u>721,564</u>	<u>1,770,740</u>	<u>1,413,584</u>
Expenses:				
General government	388,205	-	388,205	356,045
Public safety	193,208	-	193,208	112,242
Transportation	207,150	-	207,150	200,417
Economic environment	196,042	-	196,042	-
Culture/recreation	37,165	-	37,165	70,100
Interest on long-term debt	3,026	129,920	132,946	137,064
Water	-	138,825	138,825	132,029
Garbage services	-	188,803	188,803	185,511
Sewer	-	523,087	523,087	544,027
Total expenses	<u>1,024,796</u>	<u>980,635</u>	<u>2,005,431</u>	<u>1,737,435</u>
Changes in net assets	24,380	(259,071)	(234,691)	(323,851)
Transfers	(7,200)	7,200	-	-
Beginning net assets	2,210,004	2,248,644	4,458,648	4,782,499
Prior period adjustment	39,920	-	39,920	-
Ending net assets	<u>\$ 2,267,104</u>	<u>\$ 1,996,773</u>	<u>\$ 4,263,877</u>	<u>\$ 4,458,648</u>

Governmental activities:

Taxes provide 47% of the revenues for Governmental Activities, while State Shared Revenues provided 14% and Grants and Contributions provided 23%. Most of the Governmental Activities resources are spent for General Government (38%), Public Safety (19%), and Transportation (20%).

Business-type activities:

Business-type activities decreased the City's net assets by (\$259,071). Key elements of this decrease are as follows:

- Charges for services decreased by 4 percent or \$26,460. This is a result of decrease in collection of sewer and water impact fees.
- Expenses decreased 2 percent, or \$15,676, as a result of reduction in repairs.

Budgetary Highlights

At the end of the year there were several individual departments with budget shortfalls due to unexpected events. In total, the general fund's expenditures and transfers out were \$52,493 less than was budgeted. However, the general fund's revenues and transfers in were \$45,287 less than was budgeted, resulting in a net variance of \$7,206.

Capital Assets and Debt Administration

Capital Assets

At September 30, 2007, the City had \$6.3 million invested in capital assets, including police and fire equipment, park and recreation facilities, buildings, roads, bridges and water and sewer facilities. This amount represents a net decrease (additions, deductions, and depreciation) of \$343,234 or 5% less than last year.

Capital Assets at September 30, 2007

	Governmental Activities		Business-type Activities		Totals	
	2006	2007	2006	2007	2006	2007
Land	\$ 185,947	\$ 185,947	\$ 114,300	\$ 114,300	\$ 300,247	\$ 300,247
Buildings	704,345	704,345	4,851,775	4,851,775	5,556,120	5,556,120
Improvements	1,419,090	1,469,090	3,615,162	3,640,162	5,034,252	5,109,252
Equipment	251,811	255,711	41,461	41,461	293,272	297,172
Subtotal	2,561,193	2,615,093	8,622,698	8,647,698	11,183,891	11,262,791
Accumulated depreciation	(951,457)	(1,025,184)	(3,548,575)	(3,895,982)	(4,499,032)	(4,921,166)
Capital assets, net	<u>\$ 1,609,736</u>	<u>\$ 1,589,909</u>	<u>\$ 5,074,123</u>	<u>\$ 4,751,716</u>	<u>\$ 6,684,859</u>	<u>\$ 6,341,625</u>

Debt Outstanding

At year-end, the City had \$2.68 million in bonds and notes outstanding versus \$2.76 million last year, a decrease of \$80,212.

Debt Outstanding at September 30, 2007

	Governmental Activities		Business-type Activities		Totals	
	2006	2007	2006	2007	2006	2007
Line of credit	\$ 20,255	\$ -	\$ -	\$ -	\$ 20,255	\$ -
USDA bonds	-	-	2,650,000	2,609,300	2,650,000	2,609,300
Loan payable	88,030	68,773	-	-	88,030	68,773
Total bonds and notes	<u>\$ 108,285</u>	<u>\$ 68,773</u>	<u>\$ 2,650,000</u>	<u>\$ 2,609,300</u>	<u>\$ 2,758,285</u>	<u>\$ 2,678,073</u>

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

OTHER FINANCIAL INFORMATION

Economic Factors and Rates

- The current unemployment rate for Alachua County was 2.8%. This is slightly higher than the prior year.
- The official population for the City in 2007 was 1,450 and is estimated to be approximately the same in 2008.
- The ad valorem tax millage rate for the City was 6.5 mills in 2007.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City Manager at P.O. Box 1270, Hawthorne, Florida 32640.

BASIC FINANCIAL STATEMENTS

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF NET ASSETS
September 30, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 432,183	\$ 62,782	\$ 494,965
Accounts receivable-net	973	88,024	88,997
Due from other funds	481,831	139,448	621,279
Due from other governmental units	29,819	-	29,819
Total current assets	<u>944,806</u>	<u>290,254</u>	<u>1,235,060</u>
Restricted assets:			
Cash	-	139,291	139,291
Total restricted assets	<u>-</u>	<u>139,291</u>	<u>139,291</u>
Non-current assets:			
Bond costs, net	-	6,313	6,313
Capital assets, net	1,589,909	4,751,716	6,341,625
Total non-current assets	<u>1,589,909</u>	<u>4,758,029</u>	<u>6,347,938</u>
Total assets	<u>2,534,715</u>	<u>5,187,574</u>	<u>7,722,289</u>
LIABILITIES			
Current liabilities (payable from current assets):			
Accounts payable	76,779	-	76,779
Due to other funds	112,466	508,813	621,279
Due to other government units	1,760	-	1,760
Loan payable (current portion)	16,497	-	16,497
Accrued compensated absences	7,834	4,460	12,294
Total current liabilities (payable from current assets)	<u>215,336</u>	<u>513,273</u>	<u>728,609</u>
Current liabilities (payable from restricted assets):			
Accrued interest payable	-	10,658	10,658
Deposits	-	55,709	55,709
Bonds payable-current portion	-	43,100	43,100
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>109,467</u>	<u>109,467</u>

(continued)

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF NET ASSETS
September 30, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Non-current liabilities:			
Loan payable	\$ 52,275	\$ -	\$ 52,275
Revenues collected in advance	-	1,861	1,861
Bonds payable	-	2,566,200	2,566,200
Total long-term liabilities	<u>52,275</u>	<u>2,568,061</u>	<u>2,620,336</u>
Total liabilities	<u>267,611</u>	<u>3,190,801</u>	<u>3,458,412</u>
 NET ASSETS			
Invested in capital assets, net of related debt	1,573,412	2,398,864	3,972,276
Restricted	79,111	139,291	218,402
Unrestricted	614,581	(541,382)	73,199
Total net assets	<u>\$ 2,267,104</u>	<u>\$ 1,996,773</u>	<u>\$ 4,263,877</u>

See notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General government	\$ 388,205	\$ -	\$ -	-	\$ (388,205)	\$ -	\$ (388,205)
Public safety	193,208	85,719	-	-	(107,489)	-	(107,489)
Transportation	207,150	8,928	-	-	(198,222)	-	(198,222)
Economic environment	196,042	-	-	190,537	(5,505)	-	(5,505)
Culture/recreation	37,165	-	-	50,000	12,835	-	12,835
Interest on long-term debt	3,026	-	-	-	(3,026)	-	(3,026)
Total governmental activities	1,024,796	94,647	-	240,537	(689,612)	-	(689,612)
Business-type Activities							
Water utility	138,825	142,286	-	-	-	3,461	3,461
Garbage services	188,803	199,198	-	-	-	10,395	10,395
Sewer utility	523,087	375,364	-	-	-	(147,723)	(147,723)
Interest on long-term debt	129,920	-	-	-	-	(129,920)	(129,920)
Total business-type activities	980,635	716,848	-	-	-	(263,787)	(263,787)
Total government	\$ 2,005,431	\$ 811,495	\$ -	\$ 240,537	(689,612)	\$ (263,787)	\$ (953,399)
General revenues							
Property taxes					288,693	-	288,693
Sales and use taxes					79,849	-	79,849
Franchise fees					57	-	57
Utility services taxes					76,409	-	76,409
Communications surtax					44,778	-	44,778
Licenses and permits					13,892	-	13,892
State shared revenues					147,888	-	147,888
Tax increment funds					46,708	-	46,708
Interest					3,916	4,642	8,558
Miscellaneous					11,802	74	11,876
Total general revenues					713,992	4,716	718,708

(continued)

CITY OF HAWTHORNE, FLORIDA

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Change in net assets Transfers					\$ 24,380	\$ (259,071)	\$ (234,691)
Net assets - beginning					(7,200)	7,200	-
Prior period adjustment (See notes)					2,210,004	2,248,644	4,458,648
Net assets - ending					39,920	-	39,920
					<u>\$ 2,267,104</u>	<u>\$ 1,996,773</u>	<u>\$ 4,263,877</u>

See notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

GOVERNMENTAL FUNDS
BALANCE SHEET

For the Fiscal Year Ended September 30, 2007

	<u>General Fund</u>
ASSETS	
Current Assets	
Cash	\$ 432,183
Accounts receivable	973
Due from other funds	481,831
Due from other governmental units	29,819
Total assets	<u>\$ 944,806</u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 76,779
Due to other funds	112,466
Due to other governmental units	1,760
Accrued compensated absences	7,834
Total liabilities	<u>198,839</u>
FUND BALANCES	
Reserved:	
Library	455
Downtown	80,206
Unreserved	665,306
Total fund balances	<u>745,967</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	\$ 1,589,909
Long-term liabilities are not due in the current period and, therefore, are not reported in the funds	(68,772)
Net assets of governmental activities	<u>\$ 2,267,104</u>

See notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

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

For the Fiscal Year Ended September 30, 2007

	<u>General Fund</u>
REVENUES	
Taxes	\$ 536,494
Licenses and permits	13,892
Intergovernmental revenue	388,425
Charges for services	8,928
Fines and forfeitures	33,256
Miscellaneous	<u>68,181</u>
Total revenues	<u>1,049,176</u>
 EXPENDITURES	
Current Expenditures	
General government	385,550
Public safety	181,163
Transportation	162,584
Economic environment	196,042
Culture/recreation	21,705
Capital Outlay	
Public safety	1,100
Transportation	2,800
Culture/recreation	11,080
Debt Service	
Public safety	3,164
Transportation	<u>19,119</u>
Total expenditures	<u>984,307</u>
 Excess of revenues over (under) expenditures	 <u>64,869</u>
 OTHER FINANCING SOURCES (USES)	
Interfund transfers out	<u>(7,200)</u>
Total other financing sources (uses)	<u>(7,200)</u>
 Net change in fund balances	 57,669
 Fund balances at beginning of year	 <u>688,298</u>
Fund balances at end of year	<u><u>\$ 745,967</u></u>

See notes to 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**

For the Fiscal Year Ended September 30, 2007

Net change in fund balances - total governmental funds \$ 57,669

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Expenditures for capital assets	\$ 14,980	
Less current year depreciation	<u>(74,726)</u>	(59,746)

Debt proceeds are financing sources in the governmental funds, but debt increases long-term liabilities in the statement of net assets.

Repayments of loan principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Loan principal payments	<u>19,257</u>	<u>19,257</u>
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Change in net assets of governmental activities \$ 17,180

See notes to financial statements.

CITY OF HAWTHORNE, FLORIDA

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS**

For the Fiscal Year Ended September 30, 2007

	Business-Type Activities - Enterprise Funds			
	Solid Waste	Sewer	Water	Totals
ASSETS				
Current assets				
Cash	\$ -	\$ 53,904	\$ 8,878	\$ 62,782
Accounts receivable (net of allowance for uncollectible)	26,408	44,011	17,605	88,024
Due from other funds	21,314	-	118,134	139,448
Restricted assets				
Cash	-	-	139,291	139,291
Fixed Assets				
Land	-	114,300	-	114,300
Buildings	-	4,255,269	596,506	4,851,775
Improvements other than buildings	-	3,443,776	196,386	3,640,162
Equipment	-	37,335	4,126	41,461
Allowance for depreciation	-	(3,190,677)	(705,305)	(3,895,982)
Other Assets				
Bond costs	-	12,295	-	12,295
Accumulated amortization of bond cost	-	(5,982)	-	(5,982)
Total assets	<u>\$ 47,722</u>	<u>\$ 4,764,231</u>	<u>\$ 375,621</u>	<u>\$ 5,187,574</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current Liabilities				
Due to other funds	\$ -	\$ 508,146	\$ 667	\$ 508,813
Current Liabilities Payable from restricted assets				
Accrued interest payable	-	8,840	1,818	10,658
Deposits	-	-	55,709	55,709
Serial bonds payable current	-	35,100	8,000	43,100
Deferred Revenue				
Revenue collected in advance	-	-	1,861	1,861
Other Liabilities				
Accrued compensated absences	-	3,447	1,013	4,460
Long-Term Liabilities				
Serial bonds payable	-	1,148,000	363,400	1,511,400
Bonds payable FMHA	-	1,054,800	-	1,054,800
Total liabilities	<u>-</u>	<u>2,758,333</u>	<u>432,468</u>	<u>3,190,801</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	2,413,263	(281,505)	2,131,758
Restricted for debt service	-	-	139,291	139,291
Unrestricted	47,722	(407,365)	85,367	(274,276)
Total net assets	<u>47,722</u>	<u>2,005,898</u>	<u>(56,847)</u>	<u>1,996,773</u>
Total liabilities and net assets	<u>\$ 47,722</u>	<u>\$ 4,764,231</u>	<u>\$ 375,621</u>	<u>\$ 5,187,574</u>

See notes to financial statements.

CITY OF HAWTHORNE, FLORIDA
 PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended September 30, 2007

	Business-Type Activities - Enterprise Funds			
	Solid Waste	Sewer	Water	Totals
Operating Revenues				
Physical environment				
Water utility revenue				
Installation fees	\$ -	\$ -	\$ 2,350	\$ 2,350
Impact Fees	-	-	9,100	9,100
Water sales	-	-	120,905	120,905
Reconnect fees	-	-	2,500	2,500
Water later fees	-	-	7,431	7,431
Total water utility revenue	-	-	142,286	142,286
Garbage/solid waste revenue				
Operating income	199,198	-	-	199,198
Total garbage/solid waste revenue	199,198	-	-	199,198
Sewer utility revenues				
Sewer receipts	-	331,872	-	331,872
Installations	-	3,000	-	3,000
Impact Fees	-	10,500	-	10,500
Sewer late fees	-	7,431	-	7,431
Total sewer utility revenues	-	352,803	-	352,803
Total physical environment	199,198	352,803	142,286	694,287
Other miscellaneous	74	-	-	74
Total operating revenues	199,272	352,803	142,286	694,361
Operating Expenses				
Water utility services				
Personal services				
Regular salaries	-	-	25,023	25,023
FICA	-	-	1,824	1,824
Retirement	-	-	2,509	2,509
Life and health insurance	-	-	4,468	4,468
Worker's compensation	-	-	2,692	2,692
Total personal services	-	-	36,516	36,516
Operating expenses				
Depreciation	-	-	23,068	23,068
Accounting and auditing	-	-	2,000	2,000
Other contractual services	-	-	9,821	9,821
Communication services	-	-	620	620
Transportation	-	-	480	480
Utility services	-	-	11,643	11,643
Insurance	-	-	5,795	5,795
Repair and maintenance	-	-	33,317	33,317
Other current charges and obligations	-	-	302	302
Operating supplies	-	-	4,383	4,383

(continued)

**CITY OF HAWTHORNE, FLORIDA
PROPRIETARY FUNDS**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended September 30, 2007

	Business-Type Activities - Enterprise Funds			Totals
	Solid Waste	Sewer	Water	
Books, publications, subscriptions	\$ -	\$ -	\$ 1,005	\$ 1,005
Tests	-	-	9,875	9,875
Total operating expenses	-	-	102,309	102,309
Total water utility services	-	-	138,825	138,825
Garbage and solid waste services				
Operating expenses				
Other contractual services	188,603	-	-	188,603
Office supplies	200	-	-	200
Total garbage and solid waste services	188,803	-	-	188,803
Sewer services				
Personal services				
Regular salaries	-	37,932	-	37,932
FICA	-	2,775	-	2,775
Retirement	-	2,014	-	2,014
Life and health insurance	-	4,397	-	4,397
Worker's compensation	-	2,692	-	2,692
Total personal services	-	49,810	-	49,810
Operating expenses				
Depreciation	-	325,339	-	325,339
Accounting and auditing	-	2,000	-	2,000
Other contractual services	-	6,651	-	6,651
Communications services	-	1,206	-	1,206
Transportation	-	120	-	120
Utility services	-	30,996	-	30,996
Impact Fees	-	-	-	-
Repair and maintenance	-	16,971	-	16,971
Other current charges and obligations	-	7,118	-	7,118
Office supplies	-	555	-	555
Operating supplies	-	4,632	-	4,632
Gas and oil	-	2,076	-	2,076
Water services	-	727	-	727
Residual contract	-	48,759	-	48,759
Amortization	-	443	-	443
Diesel plant generator	-	2,626	-	2,626
Tests	-	23,058	-	23,058
Total operating expenses	-	473,277	-	473,277
Total sewer services	-	523,087	-	523,087
Total operating expenses	188,803	523,087	138,825	850,715
Operating income (loss)	10,469	(170,284)	3,461	(156,354)

(continued)

**CITY OF HAWTHORNE, FLORIDA
PROPRIETARY FUNDS**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended September 30, 2007

	Business-Type Activities - Enterprise Funds			
	Solid Waste	Sewer	Water	Totals
Nonoperating Revenues (Expenses)				
Interest earnings				
Interest on investments	\$ -	\$ 1,449	\$ 3,193	\$ 4,642
Rents and royalties				
Gator Tower	-	4,992	-	4,992
American Tower	-	13,669	-	13,669
FPL	-	3,900	-	3,900
Total rents and royalties	-	22,561	-	22,561
Water utility services				
Debt service				
Interest	-	-	(22,229)	(22,229)
Sewer services				
Debt service				
Interest	-	(107,691)	-	(107,691)
Total nonoperating revenues (expenses)	-	(83,681)	(19,036)	(102,717)
Income(loss) before operating transfers	10,469	(253,965)	(15,575)	(259,071)
Operating transfers				
Interfund transfers in	-	-	7,200	7,200
Total operating transfers	-	-	7,200	7,200
Change in net assets	10,469	(253,965)	(8,375)	(251,871)
Net assets beginning of year	37,253	2,259,863	(48,472)	2,248,644
Net assets end of year	\$ 47,722	\$ 2,005,898	\$ (56,847)	\$ 1,996,773

See notes to financial statements.

CITY OF HAWTHORNE, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2007

	Business-Type Activities - Enterprise Funds			
	Solid Waste	Sewer	Water	Totals
Cash flows from operating activities				
Cash received from customers	\$ 188,803	\$ 344,482	\$ 146,290	\$ 679,575
Cash payments to employees	-	(37,681)	(25,586)	(63,267)
Cash payments for employee benefits	-	(11,878)	(11,493)	(23,371)
Cash paid to vendors	(188,803)	(150,734)	(79,241)	(418,778)
Net cash provided by operating activities	<u>-</u>	<u>144,189</u>	<u>29,970</u>	<u>174,159</u>
Cash flows from capital and related financing activities				
Interest paid on bonds payable	-	(107,824)	(22,268)	(130,092)
Principal paid on bonds payable	-	(33,100)	(7,600)	(40,700)
Net cash used for capital and related financing activities	<u>-</u>	<u>(140,924)</u>	<u>(29,868)</u>	<u>(170,792)</u>
Cash flows from noncapital financing activities				
Rents and royalties	-	22,561	-	22,561
Transfers	-	-	7,200	7,200
Net cash provided by noncapital financing activities	<u>-</u>	<u>22,561</u>	<u>7,200</u>	<u>29,761</u>
Cash flows from investing activities				
Purchase of fixed assets	-	(25,000)	-	(25,000)
Interest	-	1,449	3,193	4,642
Net cash provided by (used for) investing activities	<u>-</u>	<u>(23,551)</u>	<u>3,193</u>	<u>(20,358)</u>
Net increase in cash and cash equivalents	<u>-</u>	<u>2,275</u>	<u>10,495</u>	<u>12,770</u>
Cash and cash equivalents, beginning of year	-	51,629	137,674	189,303
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 53,904</u>	<u>\$ 148,169</u>	<u>\$ 202,073</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	<u>\$ 10,469</u>	<u>\$ (170,284)</u>	<u>\$ 3,461</u>	<u>\$ (156,354)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	-	325,782	23,068	348,850
(Increase) decrease in assets:				
Accounts receivable, net	(4,993)	(8,321)	(3,330)	(16,644)
Due from other funds	(5,476)	-	1,794	(3,682)
Increase (decrease) in liabilities:				
Due to other funds	-	(3,239)	-	(3,239)
Customer deposits payable	-	-	5,540	5,540
Accrued compensated absences	-	251	(563)	(312)
Total adjustments	<u>(10,469)</u>	<u>314,473</u>	<u>26,509</u>	<u>330,513</u>
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ 144,189</u>	<u>\$ 29,970</u>	<u>\$ 174,159</u>

See notes to financial statements.

CITY OF HAWTHORNE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Hawthorne (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting principles. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB Statement 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement 34-Basic Financial Statement and Management's Discussion and Analysis – for State and Local Governments. As provided by GASB 34, the City has elected not to report retroactive infrastructure improvements in its financial statements due to the fact that its annual revenues are less than ten million. The City has implemented all other applicable provisions of this Statement.

A. Reporting Entity - The City of Hawthorne, Florida is a municipal, political subdivision of the State of Florida created under the provisions of *Laws of Florida*, Chapter 8271 (1919). Accordingly, it is controlled by the Florida Constitution and various *Florida Statutes* as well as its own local charter, ordinances and policies. It is governed by a City Commission of five members, all individually elected, who select from among themselves one member to serve as Mayor/ Commissioner.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, management determined that the following component unit existed which should be included within the reporting entity.

City of Hawthorne Community Redevelopment Agency - This dependent special district was established for the fostering of economic development within the downtown district, by City Ordinance 94-1. The governing board is the City Commission which also establishes the agency's budget. Because this component unit is a substance part of the City's operations, it has been reported on a blended basis in the City's financial statements.

B. Measurement Focus and Basis of Accounting - The basic financial statements of the City are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

1. Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from any legally separate component unit for which the primary government is financially accountable.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and agency fund financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement 33 - Accounting and Financial Reporting for Nonexchange Transactions.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. As applicable, the City also chooses to eliminate the indirect costs between governmental activities to avoid the "doubling up" effect.

2. Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for

which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the City's governmental and proprietary funds are presented after the government-wide financial statements. These statements display information about major funds individually, and nonmajor funds in the aggregate for governmental and enterprise funds.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 40 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Franchise fees, licenses, sales taxes, gas taxes, operating and capital grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the City.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be measure of "available spendable resources." Governmental funds operating statements present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Any non-current portions of long-term receivables (special assessments) due to governmental funds are reported on their balance sheets in spite of their spending measurement focus.

Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Because of their spending measurement focus, expenditure recognition for governmental fund types exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary Funds - The City's Solid Waste, Water, and Sewer Enterprise Funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods and services are delivered. In the fund financial statements, proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets. The City applies all GASB pronouncements as well as all FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins, issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

Proprietary fund operation revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, taxes, and investment earnings, result from nonexchange transactions or ancillary activities.

Amounts paid to acquire capital assets are capitalized as assets in the fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liabilities, rather than as an expense.

C. Basis of Accounting - GASB Statement 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures, expenses of either fund category and the governmental and enterprise combined) for the determination of major funds. The City has used GASB 34 minimum criteria for major fund determination.

1. Governmental Major Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

2. Proprietary Major Funds:

The City maintains its utility services in the following Enterprise Funds, each of which is classified as a major fund:

- Solid Waste Fund
- Water Fund
- Sewer Fund

3. Non-current Governmental Assets/Liabilities:

GASB Statement 34 requires non-current governmental assets, such as land and building, and noncurrent governmental liabilities, such as general obligation bonds and capital leases, be reported in the governmental activities column in the government-wide statement of net assets.

D. Assets, Liabilities and Net Assets or Equity

1. Cash and Investments - Cash includes amounts in demand deposits as well as short-term money market investment accounts. Investments, consisting of certificates of deposit, are stated at cost which approximates market value. All such deposits and investments are insured and collateralized as required by state law.

2. Cash Equivalents - For purposes of the statement of cash flows, the City considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. As of September 30, 2007, the City's cash consisted solely of checking accounts and money market accounts, it has no other cash equivalents.

3. Allowance for Doubtful Accounts - As applicable year-to-year, the City provides an allowance for Enterprise Fund accounts receivable that may become uncollectible. At September 30, 2007, there were no amounts exceeding 180 days, therefore no allowance for doubtful accounts was reported. No other allowances for doubtful accounts are maintained since other fund accounts receivable are considered collectible as reported at September 30, 2007.

4. Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for doubtful accounts. Any receivables in excess of 180 days would comprise the trade accounts receivable allowance for doubtful accounts.

5. **Restricted Assets** - Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond current debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond reserve" account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account, and to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.
6. **Encumbrances** - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not utilized by the City.
7. **Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets, bridges, right-of-ways, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$500 or more and an estimated useful life in excess of one year. Except for roads and bridges constructed prior to October 1, 1981, assets are recorded at historical cost. Roads and bridges constructed prior to October 1, 1981 are reported at estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donations.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City, as well as component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	10-50
Machinery and equipment	5-12
Street and related infrastructure	20-40

8. **Capitalization of Interest** - Interest related to bond issues are capitalized during the construction period. These costs are netted against applicable interest earnings on construction fund investments. During the current period, the City did not have any capitalized interest.
9. **Deferred Revenues** - Deferred revenues reported in government-wide financial statements represent unearned revenues. The deferred revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in proprietary fund financial statements represent unearned revenues which are measurable but not available and, in

accordance with the modified accrual basis of accounting, are reported as deferred revenues.

10. **Accrued Compensated Absences** - The City accrues accumulated unpaid vacation and sick leave when earned by the employee. The current portion is the amount estimated to be used in the following year. The non-current portion is the amount estimated to be used in subsequent fiscal years. Both the current and non-current estimated accrued compensated absences amounts for governmental funds are maintained separately and represent a reconciling item between the fund and government-wide presentation.
11. **Capital Contributions** - Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.
12. **Proprietary Activity Accounting and Financial Reporting** - The City applies all applicable Government Accounting Standards (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements; Financial Accounting Standards (FASB) Statements and Interpretations. Accounting Principles Board (APB) Opinion and Account Research Bulletins (ARB's).

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide State of Net Assets.

“Total fund balances” of the City’s governmental funds \$745,967 differs from “net assets” of governmental activities \$2,267,104 reported in the statement of net assets. This difference primarily results from the long-term economical focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheet.

Capital related items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets included those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 2,615,094
Accumulated depreciation	(1,025,185)
Total	<u>\$ 1,589,909</u>

Long-term debt transactions

Long-term liabilities applicable to the City’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets. Balances at September 30, 2007, were:

Loan payable	<u>\$ (68,772)</u>
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CITY OF HAWTHORNE, FLORIDA

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

	Total Governmental Governmental Funds	Capital Related Items	Long-Term Debt Transactions	Statement of Net Assets
ASSETS				
Cash and cash equivalents	\$ 432,183	\$ -	\$ -	\$ 432,183
Accounts receivable	973	-	-	973
Due from other funds	481,831	-	-	481,831
Due from other governmental units	29,819	-	-	29,819
Capital assets - net	<u>1,589,909</u>	<u>1,589,909</u>	-	<u>1,589,909</u>
Total assets	<u>\$ 944,806</u>	<u>\$ 1,589,909</u>	<u>-</u>	<u>\$ 2,534,715</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 76,779	\$ -	\$ -	\$ 76,779
Due to other funds	112,466	-	-	112,466
Due to other governmental units	1,760	-	-	1,760
Accrued compensated absences	7,834	-	-	7,834
Loan payable	<u>198,839</u>	<u>-</u>	<u>68,772</u>	<u>68,772</u>
Total liabilities	<u>745,967</u>	<u>1,589,909</u>	<u>(68,772)</u>	<u>2,267,104</u>
Fund balances/net assets				
	<u>944,806</u>	<u>1,589,909</u>	<u>(68,772)</u>	<u>2,267,104</u>
Total liabilities and fund balance/net assets	<u>\$ 944,806</u>	<u>\$1,589,909</u>	<u>-</u>	<u>\$ 2,534,715</u>

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

The “net change in fund balances” for governmental funds (\$57,669) differs from the “change in net assets” for governmental activities (\$17,180) reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Capital related items

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

Capital outlay	\$ 14,980
Depreciation expense	(74,726)
Difference	<u>\$ (59,746)</u>

Long-term debt transactions

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

Conversely, repayment of debt principal is reported as an expenditure in the governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. However, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.

Debt principal payments made	<u>\$ 19,257</u>
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NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

	Total Governmental Funds	Capital Related Items	Long-Term Debt Transactions	Statement of Activities
REVENUES				
Taxes	\$ 536,494	\$ -	\$ -	\$ 536,494
Licenses and permits	13,892	-	-	13,892
Intergovernmental	388,425	-	-	388,425
Charges for services	8,928	-	-	8,928
Fines and forfeitures	33,256	-	-	33,256
Miscellaneous	68,181	-	-	68,181
Total revenues	<u>1,049,176</u>	<u>-</u>	<u>-</u>	<u>1,049,176</u>
EXPENDITURES				
Current Expenditures				
General government	385,550	2,655	-	388,205
Public safety	181,163	12,045	-	193,208
Transportation	162,584	44,566	-	207,150
Economic environment	196,042	-	-	196,042
Culture/recreation	21,705	15,460	-	37,165
Capital Outlay				
Public safety	1,100	(1,100)	-	-
Transportation	2,800	(2,800)	-	-
Culture/recreation	11,080	(11,080)	-	-
Debt Service				
Principal	19,257	-	(19,257)	-
Interest	3,026	-	-	3,026
Total Expenditures	<u>984,307</u>	<u>59,746</u>	<u>(19,257)</u>	<u>1,024,796</u>
Excess of revenues over (under) expenditures	64,869	(59,746)	19,257	24,380
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(7,200)	-	-	(7,200)
Total other financing sources (uses)	<u>(7,200)</u>	<u>-</u>	<u>-</u>	<u>(7,200)</u>
Net change in fund balance	57,669	(59,746)	19,257	17,180
Fund balance at beginning of year	688,298	1,609,735	(88,029)	2,210,004
Prior period adjustment (See notes)	-	39,920	-	39,920
Fund balances at end of year	<u>\$ 745,967</u>	<u>\$ 1,589,909</u>	<u>\$ (68,772)</u>	<u>\$ 2,267,104</u>

NOTE 3. LEGAL COMPLIANCE--BUDGETS

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the City Manager develops a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 30, the budget is legally enacted by the City Commission through passage of an ordinance.
4. Any revision that alters the total expenditures of any fund or transfers budgeted amounts between departments within any fund must be approved by the City Commission.
5. Budgets for all City funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Commission. Individual amendments were not material in relation to the original appropriations which were amended.

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits. The bank balances of the City deposits were fully insured by federal depository insurance or pledged collateral under state law.

Investments. Under state law, the City is allowed to invest surplus funds in guaranteed obligations of the U.S. government, interest bearing accounts of financial institutions which are legally secured, and the Local Government Surplus Funds Trust Fund. At year end, there were no investments.

NOTE 5. PROPERTY TAX REVENUES

Taxable values for all property are established as of January 1, which is the date of lien, for the fiscal year starting October 1. Property tax revenues recognized for the 2006-2007 fiscal year were levied in October 2006. All taxes are due and payable on November 1 or as soon as the assessment roll is certified and delivered to the Tax Collector. Discounts are allowed for early payment at the rate of 4% in November, 3% in December, 2% in January, and 1% in February. Taxes paid in March are without discount. All unpaid taxes become delinquent as of April 1. Virtually all unpaid taxes are collected via the sale of tax certificates on or prior to June 1; therefore, there were no material taxes receivable at fiscal year end.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, was as follows:

Governmental Activities:	Beginning Balance	Prior Period Adjustment	Additions	Deletions	Ending Balance
Capital assets:					
Land	\$ 185,947	\$ -	\$ -	\$ -	\$ 185,947
Buildings	704,345	-	-	-	704,345
Improvements	1,419,090	38,920	11,080	-	1,469,090
Equipment and vehicles	251,811	-	3,900	-	255,711
Total capital assets	2,561,193	38,920	14,980	-	2,615,093
Less accumulated depreciation	(951,457)	1,000	(74,727)	-	(1,025,184)
Governmental activities: capital assets, net.	\$ 1,609,736	\$ 39,920	\$ (59,747)	\$ -	\$ 1,589,909
Business-type Activities:					
Land	\$ 114,300	\$ -	\$ -	\$ -	\$ 114,300
Buildings	4,851,775	-	-	-	4,851,775
Improvements other than buildings	3,615,162	-	25,000	-	3,640,162
Equipment	41,461	-	-	-	41,461
Total capital assets	8,622,698	-	25,000	-	8,647,698
Less accumulated depreciation	(3,547,575)	-	(348,407)	-	(3,895,982)
Business-type activities: capital assets, net.	\$ 5,075,123	\$ -	\$ (323,407)	\$ -	\$ 4,751,716

Based upon a comprehensive inventory of fixed assets, the following adjustments reported as prior period adjustment, were made to the fixed assets account balances:

Governmental Activities	
Improvements	\$ 38,920
Accumulated depreciation	1,000
	<u>\$ 39,920</u>

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

Governmental activities:	
General government	\$ 2,655
Public safety	12,045
Transportation	44,567
Culture/recreation	15,460
Total depreciation expense - governmental activities	<u>\$ 74,727</u>
Business-type activities:	
Water utility	\$ 23,068
Sewer utility	325,339
Total depreciation expense - business-type activities	<u>\$ 348,407</u>

NOTE 7. INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of interfund receivables and payables at September 30, 2007.

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 481,831	\$ 112,466
Water	118,134	667
Solid waste	21,314	-
Sewer	-	508,146
	<u>\$ 621,279</u>	<u>\$ 621,279</u>

The balance of \$481,831 due to General Fund from Sewer Fund is not scheduled to be collected in the subsequent year.

NOTE 8. INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2007, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 7,000
Water	7,000	-
	<u>\$ 7,000</u>	<u>\$ 7,000</u>

NOTE 9. RECEIVABLE AND PAYABLE BALANCES

Receivables

Receivables at September 30, 2007, were as follows:

	<u>Accounts</u>	<u>Due from Other Governmental Units</u>	<u>Total Receivables</u>
Governmental activities:			
General	\$ 973	\$ 28,819	\$ 29,792
Business-type activities:			
Enterprise	88,024	-	88,024
	<u>\$ 88,997</u>	<u>\$ 28,819</u>	<u>\$ 117,816</u>

Payables

Payables at September 30, 2007, were as follows:

	<u>Vendors</u>
Governmental activities:	
General	<u>\$ 76,779</u>

NOTE 10. LONG TERM DEBT – BUSINESS-TYPE ACTIVITIES**A. Water Revenue Bonds Payable**

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

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 8,000	\$ 21,820	\$ 29,820
2009	8,500	21,350	29,850
2010	9,000	20,850	29,850
2011	9,500	20,322	29,822
2012	10,100	19,763	29,863
2013-2017	60,100	89,188	149,288
2018-2022	79,900	69,354	149,254
2023-2027	106,300	42,952	149,252
2028-2030	80,000	9,576	89,576
	<u>\$ 371,400</u>	<u>\$ 315,175</u>	<u>\$ 686,575</u>

B. Sewer Revenue Bonds Payable

Sewer revenue bonds for construction of the City's sewer system were issued during the fiscal year ended September 30, 1994, in the total amount of \$1,262,500. These bonds bear interest at the rate of 5% per annum, with different denominations maturing September 1, 1997 through the year 2033. The revenues of the sewer system after deduction of the costs of operation and maintenance are pledged for payment of these bonds. In addition to the scheduled payments of interest and principal, the City is required to deposit \$7,494 per year into a reserve account until it reaches a minimum balance of \$74,905. Future debt service and reserve requirements of the Sewer Revenue Bonds, including interest, are as follows:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 21,100	\$ 53,795	\$ 74,895
2009	22,000	52,740	74,740
2010	23,200	51,640	74,840
2011	24,400	50,480	74,880
2012	25,600	49,260	74,860
2013-2017	148,500	225,775	374,275
2018-2022	189,400	184,755	374,155
2023-2027	241,700	132,430	374,130
2028-2032	308,700	65,630	374,330
2033	71,300	3,565	74,865
	<u>\$ 1,075,900</u>	<u>\$ 870,070</u>	<u>\$ 1,945,970</u>

C. Water and Sewer Revenue Bonds, Series 2004

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

from sewer revenues. Future debt service of the Water and Sewer Revenue Bonds, including interest are as follows:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 14,000	\$ 52,290	\$ 66,290
2009	14,000	51,660	65,660
2010	15,000	51,030	66,030
2011	15,000	50,355	65,355
2012	16,000	49,680	65,680
2013-2017	92,000	236,835	328,835
2018-2022	115,000	214,200	329,200
2023-2027	143,000	185,940	328,940
2028-2032	179,000	150,615	329,615
2033-2037	221,000	106,695	327,695
2038-2042	277,000	52,155	329,155
2043	61,000	2,745	63,745
	<u>\$ 1,162,000</u>	<u>\$ 1,204,200</u>	<u>\$ 2,366,200</u>

The following is a schedule of changes in proprietary fund long-term debt for the year ended September 30, 2007:

	<u>Balance</u> <u>September 30</u> <u>2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>September 30</u> <u>2007</u>	<u>Due Within</u> <u>One Year</u>
Water revenue bonds	\$ 379,000	\$ -	\$ (7,600)	\$ 371,400	\$ 8,000
Sewer revenue bonds	2,271,000	-	(33,100)	2,237,900	35,100
	<u>\$ 2,650,000</u>	<u>\$ -</u>	<u>\$ (40,700)</u>	<u>\$ 2,609,300</u>	<u>\$ 43,100</u>

NOTE 11. LONG-TERM DEBT - GOVERNMENTAL ACTIVITIES

A. Loan Payable - Truck

On June 28, 2004, the City entered into a loan agreement with Merchants and Southern Bank to purchase a 2004 Ford F250 Truck. The loan agreement totaling \$18,838 requires 48 payments of \$423 per month, including interest at 3.75%.

A summary of minimum debt requirements are as follows:

<u>Year Ending</u> <u>September 30,</u> <u>2008</u>	<u>\$ 3,809</u>
Total payments	
Less interest	<u>(58)</u>
	<u>\$ 3,751</u>

B. Loan Payable - Backhoe

On October 14, 2004, the City entered into a loan agreement with John Deere Credit, Inc. to purchase a 2004 Wheel Loader Backhoe. The loan agreement totaling \$41,804 requires three payments of \$2,000, then 44 payments of \$896 per month, including interest at 4.75%.

A summary of minimum debt requirements are as follows:

Year Ending September 30, <u>2008</u>	<u>9,855</u>
Total payments	9,855
Less interest	(230)
	<u>\$ 9,625</u>

C. Loan Payable - Lawn Mower

On April 13, 2005, the City entered into a loan agreement with Sheffield Financial Corp. to purchase a lawn mower. The loan agreement totaling \$8,521 requires 36 payments of \$274 per month, including interest at 9.80%.

A summary of minimum debt requirements are as follows:

Year Ending September 30, <u>2008</u>	<u>3,289</u>
Total payments	3,289
Less interest	(168)
	<u>\$ 3,121</u>

D. Note Payable - Interlocal Agreement with Alachua County

On October 4, 2004, the City entered into an agreement with Alachua County for the payment of fire service from Alachua County in 2003. The agreement totaling \$80,961 requires one payment of \$11,400 and then eight payments of \$11,171 per year, including interest at 2.20%.

A summary of minimum debt requirements are as follows:

Year Ending September 30, <u>2008</u>	\$ 11,171
2009	11,171
2010	11,171
2011	11,171
2012	11,171
2013	<u>11,171</u>
Total payments	67,026
Less interest	<u>(4,975)</u>
	62,051
Recorded in general fund	<u>(9,775)</u>
	<u>\$ 52,276</u>

The following is a schedule of changes in general long-term debt for the year ended September 30, 2007:

	Balance September 30, 2006	Additions	Retirements	Balance September 30, 2007	Due Within One Year
Loans payable	\$ 34,200	\$ -	\$ (17,703)	\$ 16,497	\$ 16,497
Notes payable	53,829	-	(1,553)	52,276	-
	<u>\$ 88,029</u>	<u>\$ -</u>	<u>\$ (19,256)</u>	<u>\$ 68,773</u>	<u>\$ 16,497</u>

NOTE 12. INCOME FROM LEASED PROPERTY

The parcel of land acquired by the City for its sewer plant site is larger than the City presently needs for its sewer plant operations. Therefore, the City has allowed two commercial entities to build radio towers on the site in exchange for monthly rentals of the land.

The first lease is for a period of ten years expiring February 14, 2015, with a renewal option for an additional ten years. It provides for \$416 per month, with a 4% increase every five years, and provision to the City of seven digital pagers at no charge, to be replaced every ten years while the lease is in effect.

The second lease is for a period of five years expiring March 31, 2011, with two more renewal options for five years each. It provides for \$1,139 per month, with a 12.5% increase with each lease renewal, and three Motorola portable phones given to the City with up to five hundred minutes of free use per month.

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

The City also has entered into a lease on its Scout building for a period of five years expiring February 6, 2007. The lease requires the Gateway Girl Scout Council to maintain and insure the property. No rent is charged by the City to the Girl Scouts for the use of this building.

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

Year Ending September 30,	
2008	\$ 18,660
2009	18,660
2010	18,660
2011	18,660
2012	18,660
2013-2017	93,300
2018-2022	72,798
2023-2025	10,009
	<u>\$ 269,407</u>

NOTE 13. DEFERRED COMPENSATION PLAN

Effective January, 2000, the City adopted a deferred compensation plan for employees who had been employed for at least six months. The plan is intended to provide retirement income and other deferred benefits to the City's employees in accordance with the provisions of Section 457 of the Internal Revenue Code of 1986.

The City contributes 6% of the regular employee's base compensation and 10% of the compensation of the City Manager to the plan; in addition to amounts elected by the employees to be deferred from their current compensation. For the year ended September 30, 2007, the City contributed \$16,213 to the plan.

The City utilizes ICMA Retirement Corporation (RC) as its plan administrator. All contributions, whether from the City as employer or the City as agent for the employees, are remitted by the City to the ICMA Retirement Trust (the Trust) for commingled investment with the retirement contributions of other government employers. It is the responsibility of RC to maintain the plan in compliance with the requirements for eligible deferred compensation plans under Section 457 of the Internal Revenue Code, and to act as investment adviser to the Trust. It is the City's responsibility to furnish on a timely basis information needed by RC to fulfill its duties as plan administrator, and to remit the plan contributions on a timely basis to the Trust.

Taxes and fees related to the Trust's activity are paid directly out of the Plan's assets. No part of the corpus or income of the Trust may be reverted to the employer or be used for or diverted to any purpose other than the exclusive benefit of the participating employees or their beneficiaries.

NOTE 14. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State and Federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 15. RISK MANAGEMENT

The City is exposed to various risks of loss related to theft of, damage to and destruction of assets; and injury or death on the job of all employees. These risks are primarily covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial or workers' compensation insurance coverage for the past three years. There has been no reduction in insurance coverage from the previous year.

NOTE 16. SUBSEQUENT EVENT

In November, 2007, subsequent to year end, the City entered into a promissory note with the Florida Department of Transportation in the amount of \$253,085. The note carries no interest and is payable over fifteen years in annual installments of \$16,872. The loan was made to reimburse the Department for costs associated with City utility relocations on a state highway project.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HAWTHORNE, FLORIDA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended September 30, 2007

	Budgeted Amounts	Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes				
Ad valorem taxes				
Current ad valorem taxes	\$ 274,249	\$ 285,000	\$ 287,474	\$ 2,474
Delinquent ad valorem taxes	2,500	1,200	1,219	19
Hawthorne redevelopment funds	35,000	35,000	46,708	11,708
Sales and use taxes				
Local option gas tax/alternative fuel	81,835	80,000	79,849	(151)
Franchise fees				
CATV	-	-	57	57
Utility service taxes				
Electricity	64,500	65,000	65,855	855
Telecommunications	45,287	44,000	44,778	778
Water	9,750	9,750	10,554	804
Total taxes	<u>513,121</u>	<u>519,950</u>	<u>536,494</u>	<u>16,544</u>
Licenses and permits				
Professional and occupational	3,840	3,000	3,085	85
Old Tyme Park permits	250	75	84	9
Building permits	200	200	405	205
Other licenses and permits				
Rezoning fees	8,500	8,500	2,400	(6,100)
Annexation fees	5,000	2,500	2,650	150
Temporary plat fees	2,000	2,000	-	(2,000)
Special exception permit	500	500	500	
Variance fee	-	-	-	-
Special temp use permits	225	225	-	(225)
Site plan review fees	4,000	4,000	4,768	768
Total licenses and permits	<u>24,515</u>	<u>21,000</u>	<u>13,892</u>	<u>(7,108)</u>
Intergovernmental revenue				
State grants				
FRDAP grant	10,000	50,000	50,000	-
State shared revenues				
General government				
State revenue sharing	56,300	56,300	57,271	971
Alcoholic beverage licenses	600	600	585	(15)
Local government half-cent sales tax	89,093	89,093	90,032	939
Grants from other local units				
Economic environment				
SHIP Alachua County	58,000	190,000	190,537	537
Total intergovernmental revenue	<u>213,993</u>	<u>385,993</u>	<u>388,425</u>	<u>2,432</u>

(continued)

CITY OF HAWTHORNE, FLORIDA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended September 30, 2007

	<u>Budgeted Amounts</u>	<u>Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Charges for services				
Transportation				
Other transportation services	\$ -	\$ 9,000	\$ 8,928	\$ (72)
Fines and forfeitures				
Court cases				
Fine revenue Sheriff	70,000	12,000	11,881	(119)
Code enforcement fines	5,000	21,000	21,375	375
Total fines and forfeitures	<u>75,000</u>	<u>33,000</u>	<u>33,256</u>	<u>256</u>
Miscellaneous				
Interest earnings				
Interest on investments	1,300	3,500	3,916	416
Special Assessment-Fire	54,000	52,000	52,463	463
Other miscellaneous	5,120	10,120	11,802	1,682
Total miscellaneous	<u>60,420</u>	<u>65,620</u>	<u>68,181</u>	<u>2,561</u>
Total revenues	<u>887,049</u>	<u>1,034,563</u>	<u>1,049,176</u>	<u>14,613</u>
EXPENDITURES				
General Government				
Legislative				
Personal services	20,700	22,800	22,425	375
Operating expenses	16,800	25,800	26,180	(380)
Total legislative	<u>37,500</u>	<u>48,600</u>	<u>48,605</u>	<u>(5)</u>
Financial and administrative				
Personal services	191,599	186,100	184,473	1,627
Operating expenses	88,500	111,400	108,531	2,869
Capital outlay	14,000	-	-	-
Total financial and administrative	<u>294,099</u>	<u>297,500</u>	<u>293,004</u>	<u>4,496</u>
Legal counsel				
Operating expenses	37,000	42,000	43,941	(1,941)
Total general government	<u>368,599</u>	<u>388,100</u>	<u>385,550</u>	<u>2,550</u>
Public Safety				
Law enforcement				
Personal services	-	24,500	24,404	96
Operating expenses	185,000	32,500	31,538	962
Capital outlay	-	1,500	1,100	400
Total law enforcement	<u>185,000</u>	<u>58,500</u>	<u>57,042</u>	<u>1,458</u>

(continued)

CITY OF HAWTHORNE, FLORIDA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended September 30, 2007

	<u>Budgeted Amounts</u>	<u>Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Fire control				
Personal services	\$ -	\$ 2,700	\$ 2,583	\$ 117
Operating expenses	77,898	120,100	114,492	5,608
Debt service	11,400	11,400	3,164	8,236
Total fire control	<u>89,298</u>	<u>134,200</u>	<u>120,239</u>	<u>13,961</u>
Protective inspections				
Operating expenses	6,000	9,000	8,146	854
Total public safety	<u>280,298</u>	<u>201,700</u>	<u>185,427</u>	<u>7,920</u>
Transportation				
Roads and streets				
Personal services	59,740	53,600	52,418	1,182
Operating expenses	92,700	112,200	110,166	2,034
Capital outlay	23,000	3,000	2,800	200
Debt service	-	-	19,119	(19,119)
Total transportation	<u>175,440</u>	<u>168,800</u>	<u>184,503</u>	<u>(15,703)</u>
Economic environment				
Downtown redevelopment				
Operating expenses	35,000	35,000	7,171	27,829
Housing and urban development				
Operating expenses	58,000	190,000	188,871	1,129
Total economic environment	<u>93,000</u>	<u>225,000</u>	<u>196,042</u>	<u>28,958</u>
Culture/recreation				
Parks and recreation				
Operating expenses	21,900	23,000	21,705	1,295
Capital outlay	3,000	12,000	11,080	920
Total culture/recreation	<u>24,900</u>	<u>35,000</u>	<u>32,785</u>	
Total expenditures	<u>942,237</u>	<u>1,018,600</u>	<u>984,307</u>	<u>34,293</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	32,900	59,900	-	(59,900)
Interfund transfers out	(18,400)	(25,400)	(7,200)	18,200
Total other financing sources (uses)	<u>14,500</u>	<u>34,500</u>	<u>(7,200)</u>	<u>(41,700)</u>

(continued)

CITY OF HAWTHORNE, FLORIDA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended September 30, 2007

	Budgeted Amounts	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Net change in fund balances	\$ (40,688)	\$ 50,463	\$ 57,669	\$ 7,206
Fund balance at beginning of year	688,298	688,298	688,298	-
Fund balance at end of year	<u>\$ 647,610</u>	<u>\$ 738,761</u>	<u>\$ 745,967</u>	<u>\$ 7,206</u>

COMPLIANCE SECTION

CITY OF HAWTHORNE, FLORIDA

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

For the Fiscal Year Ended September 30, 2007

Program	CFDA#/CSFA#	Grant Number	Award Amount	Reported in Prior Year	Balance October 1, 2006	Revenue Received	Expenditures	Balance Receivable (Deferred) September 30, 2007
State Financial Assistance								
Nonmajor Programs								
Department of Environmental Protection								
FRDAP	37.017	F6016	\$ 50,000	-	\$ -	\$ 50,000	\$ 50,000	\$ -
Total state financial assistance			\$ 50,000	-	\$ -	\$ 50,000	\$ 50,000	\$ -

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hawthorne, Florida, as of and for the year ended September 30, 2007, which collectively comprise the City of Lake Butler, Florida's basic financial statements, and have issued our report thereon dated January 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the City of Hawthorne, Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hawthorne, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether the City of Hawthorne, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

However, we noted certain matters that we reported to management of the City of Hawthorne, Florida in a separate letter dated January 18, 2008 on pages 43-44.

This report is intended solely for the information and use of management and the City Commission, the Auditor General of the State of Florida, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



POWELL & JONES
January 18, 2008

MANAGEMENT LETTER

Honorable Mayor and
City Commission
City of Hawthorne, Florida

In planning and performing our audit of the financial statements of the City of Hawthorne, Florida, for the year ended September 30, 2007, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiencies. In addition to furnishing information required by Chapter 10.550, *Rules of the Auditor General*, and other compliance matters, the remaining sections of this report letter discuss these findings.

PRIOR YEAR FINDINGS

Bank Deposits – From our tests of selected receipts in the prior and current years, we found instances where related bank deposits were made in excess of seven days from being received. To increase internal control over cash receipts, we recommend that deposits be made daily if possible, and always by the end of each work week.

Cash Disbursements - From our test of selected cash disbursements in the prior and current years, we found that there often was no written evidence of approval on the support documentation. To increase internal control over cash disbursements, we recommend that all original support documentation be reviewed and signed or initialed upon being approved for payment.

All other prior year findings were substantially corrected during the current year.

CURRENT YEAR FINDINGS

There were no additional reportable findings in the current year.

USDA RURAL DEVELOPMENT DEPARTMENT OF AGRICULTURE REQUIREMENTS

We are providing the following additional information relative to our examination of the financial statements of the City of Hawthorne, Florida, for the year ended September 30, 2007, as provided in the audit requirements for USDA borrowers.

1. Generally accepted auditing procedures were performed in this audit.
2. Internal controls were evaluated and are discussed in the prior sections of this audit report.
3. Accounting records and physical control over assets were adequate, except as discussed in prior sections of this audit report.
4. The accounting records of the City have been adjusted to agree with the audited financial statements.

5. The City's funds are in institutions insured by the Federal Government or pledged collateral.
6. A summary of the City's insurance coverage is appended to the annual Form RD 442-2, filed for the City.
7. The City is exempt from Federal Income Tax.
8. We found nothing to indicate that financial compliance with the loan agreements had not occurred, except as discussed in prior sections of this audit report.

AUDITOR GENERAL COMPLIANCE MATTERS

Annual Local Government Financial Report - The Financial Report filed with the Department of Financial Services pursuant to Sections 218.32(1)(a), *Florida Statutes*, is in agreement with the accompanying financial statements of the City of Hawthorne, Florida, for the fiscal year ended September 30, 2007.

Investment of Public Funds - The City complied with Section 218.415, *Florida Statutes*, regarding the investment of public funds during the fiscal year.

Financial Emergency Status - Nothing came to our attention that caused us to believe that the City had met any of the conditions described in Section 218.503(1)(a), *Florida Statutes*, that might result in a financial emergency.

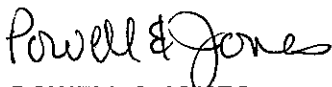
Financial Condition Assessment - As required by the *Rules of the Auditor General* (Sections 10.554(7)(c) and 10.556(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information they provided.

Our audit did not disclose any further items that would be required to be reported under the *Rules of the Auditor General*, Chapter 10.550.

CONCLUSION

We have reviewed each of our specific findings with appropriate officials or employees and have provided them with documentation as requested. We very much enjoyed the challenges and experiences associated with our audit of the City.

We appreciate the helpful assistance and courtesy afforded us by all City employees and look forward to working with you in the future.



POWELL & JONES
Certified Public Accountants
January 18, 2008