

**CITY OF HAWTHORNE, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**JUNE 30, 2006**

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JUNE 30, 2006

CITY OF HAWTHORNE

JUNE 30, 2006

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
City of Hawthorne, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hawthorne, California, as of and for the year ended June 30, 2006, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

The City has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hawthorne, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison of the General Fund, the Housing Authority Fund and the South Bay Workforce Investment Board Fund 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 our report dated November 3, 2006, on our consideration of the City of Hawthorne's internal control over financial reporting and our tests of its compliance with certain 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 the internal control over financial reporting or on 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.



To the Honorable Mayor and Members of the City Council  
City of Hawthorne, California

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 introductory section, the combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The accompanying introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Lance, Soll & Lunghard, LLP*

November 3, 2006

CITY OF HAWTHORNE

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and investments	\$ 10,124,226	\$ 505,601	\$ 10,629,827
Receivables:			
Accounts	5,988,113	159,914	6,148,027
Taxes	1,748,595	-	1,748,595
Contract and notes	6,677,497	-	6,677,497
Accrued interest	160,981	-	160,981
Internal balances	648,748	(648,748)	-
Prepaid costs	733,683	-	733,683
Inventories	87,640	-	87,640
Unamortized debt issuance costs	500,956	-	500,956
Deposits	167,263	-	167,263
Due from other governments	15,412,715	103,901	15,516,616
Land held for resale	1,103,920	-	1,103,920
Net pension asset	25,902,659	-	25,902,659
Restricted assets:			
Cash with fiscal agent	2,476,509	-	2,476,509
Capital assets not being depreciated	8,424,052	37,314	8,461,366
Capital assets, net of depreciation	61,825,885	2,876,334	64,702,219
<b>Total Assets</b>	<b>\$ 141,983,442</b>	<b>\$3,034,316</b>	<b>\$145,017,758</b>
<b>Liabilities:</b>			
Accounts payable	\$ 3,106,869	\$ 387,201	\$ 3,494,070
Accrued liabilities	1,173,837	11,193	1,185,030
Accrued interest	1,014,022	-	1,014,022
Unearned revenue	899,201	-	899,201
Deposits payable	17,485	694	18,179
Due to other governments	1,590,381	83	1,590,464
Noncurrent liabilities:			
Due within one year	6,253,268	20,865	6,274,133
Due in more than one year	90,901,615	14,799	90,916,414
<b>Total Liabilities</b>	<b>104,956,678</b>	<b>434,835</b>	<b>105,391,513</b>
<b>Net Assets:</b>			
Invested in capital assets,			
Invested in capital assets, net of related debt	13,502,094	2,913,648	16,415,742
Restricted for:			
Community development projects	1,415,579	-	1,415,579
Public safety	753,904	-	753,904
Capital projects	1,793,842	-	1,793,842
Debt service	4,991,519	-	4,991,519
Unrestricted	14,569,826	(314,167)	14,255,659
<b>Total Net Assets</b>	<b>\$ 37,026,764</b>	<b>\$2,599,481</b>	<b>\$ 39,626,245</b>



CITY OF HAWTHORNE

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Contributions and Grants	
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 14,736,223	\$ 2,968,785	\$ 9,640,884	\$ -
Public safety	33,361,306	3,060,510	2,572,088	-
Community development	36,360,924	434,279	30,733,651	250,000
Parks and recreation	3,693,143	535,678	717,194	-
Public works	7,046,351	2,406,793	4,168,725	844,474
Interest on long-term debt	9,256,664	-	-	-
<b>Total Governmental Activities</b>	<b>104,454,611</b>	<b>9,406,045</b>	<b>47,832,542</b>	<b>1,094,474</b>
<b>Business-Type Activities:</b>				
Airport	1,061,957	218,612	203,974	-
Sewer and storm drain	484,210	1,044,625	-	-
<b>Total Business-Type Activities</b>	<b>1,546,167</b>	<b>1,263,237</b>	<b>203,974</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 106,000,778</b>	<b>\$ 10,669,282</b>	<b>\$ 48,036,516</b>	<b>\$ 1,094,474</b>

**General Revenues:**

Taxes:

Property taxes, levied for general purpose

Transient occupancy taxes

Sales taxes

Franchise taxes

Business licenses taxes

Other taxes

Intergovernmental unrestricted:

Motor vehicle in lieu

Use of money and property

Gain on sale of assets

Other

**Total General Revenues**

Changes in Net Assets

Net Assets at Beginning of Year

Restatement of Net Assets

**Net Assets at End of Year**

CITY OF HAWTHORNE

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
<u>Primary Government</u>		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (2,126,554)	\$ -	\$ (2,126,554)
(27,728,708)	-	(27,728,708)
(4,942,994)	-	(4,942,994)
(2,440,271)	-	(2,440,271)
373,641	-	373,641
(9,256,664)	-	(9,256,664)
<b>(46,121,550)</b>	<b>-</b>	<b>(46,121,550)</b>
-	(639,371)	(639,371)
-	560,415	560,415
-	<b>(78,956)</b>	<b>(78,956)</b>
<b>(46,121,550)</b>	<b>(78,956)</b>	<b>(46,200,506)</b>
14,989,181	-	14,989,181
1,937,226	-	1,937,226
11,578,056	-	11,578,056
1,375,927	-	1,375,927
4,307,429	-	4,307,429
6,668,952	-	6,668,952
388,602	-	388,602
5,822,131	372,878	6,195,009
5,482	-	5,482
2,246,844	90,097	2,336,941
<b>49,319,830</b>	<b>462,975</b>	<b>49,782,805</b>
3,198,280	384,019	3,582,299
37,426,167	2,215,462	39,641,629
(3,597,683)	-	(3,597,683)
<b>\$ 37,026,764</b>	<b>\$ 2,599,481</b>	<b>\$ 39,626,245</b>

CITY OF HAWTHORNE

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	Special Revenue Funds		
	General	Housing Authority	South Bay Workforce Invest. Board
<b>Assets:</b>			
Cash and investments	\$ 841,723	\$ -	\$ 614,791
Receivables:			
Accounts	4,575,463	-	-
Accrued interest	48,619	-	-
Taxes	288,587	-	-
Contract and notes	-	-	-
Prepaid costs	-	733,683	-
Due from other governments	-	-	13,413,425
Due from other funds	3,759,089	-	-
Advances to other funds	59,392,142	-	-
Inventories	73,329	-	-
Land held for resale	-	-	-
Restricted assets:			
Cash and investments with fiscal agents	-	-	-
<b>Total Assets</b>	<b>\$ 68,978,952</b>	<b>\$ 733,683</b>	<b>\$ 14,028,216</b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 916,854	\$ 18,099	\$ 896,478
Accrued liabilities	530,205	14,876	584,814
Due to other funds	-	1,122,507	-
Deferred revenues	39,154,346	-	26,427,119
Advances from other funds	-	-	-
Unearned revenues	-	-	-
Deposits payable	-	-	-
Due to other governments	6,273	-	390,076
<b>Total Liabilities</b>	<b>40,607,678</b>	<b>1,155,482</b>	<b>28,298,487</b>
<b>Fund Balances:</b>			
Reserved:			
Reserved for encumbrances	32,481	-	8,870
Reserved for inventory	73,329	-	-
Reserved for prepaid costs	-	733,683	-
Reserve for compensated absences	-	-	41,224
Reserved for land held for resale	-	-	-
Reserved for advances to other funds	21,349,856	-	-
Unreserved:			
Unreserved, reported in nonmajor:			
Special revenue funds	-	-	-
Capital projects funds	-	-	-
Debt service funds	-	-	-
Undesignated	6,915,608	(1,155,482)	(14,320,365)
<b>Total Fund Balances</b>	<b>28,371,274</b>	<b>(421,799)</b>	<b>(14,270,271)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 68,978,952</b>	<b>\$ 733,683</b>	<b>\$ 14,028,216</b>

CITY OF HAWTHORNE

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<b>Capital Projects Funds Community Redevelopment Agency</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Cash and investments	\$ 1,472,992	\$ 6,500,237	\$ 9,429,743
Receivables:			
Accounts	-	1,403,023	5,978,486
Accrued interest	61,324	51,038	160,981
Taxes	244,541	1,215,467	1,748,595
Contract and notes	250,000	6,117,497	6,367,497
Prepaid costs	-	-	733,683
Due from other governments	-	1,999,290	15,412,715
Due from other funds	-	-	3,759,089
Advances to other funds	-	-	59,392,142
Inventories	-	-	73,329
Land held for resale	1,103,920	-	1,103,920
Restricted assets:			
Cash and investments with fiscal agents	-	2,476,509	2,476,509
<b>Total Assets</b>	<b>\$ 3,132,777</b>	<b>\$ 19,763,061</b>	<b>\$106,636,689</b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 6,887	\$ 1,000,046	\$ 2,838,364
Accrued liabilities	-	32,996	1,162,891
Due to other funds	-	1,925,788	3,048,295
Deferred revenues	250,000	7,500,962	73,332,427
Advances from other funds	59,392,142	-	59,392,142
Unearned revenues	-	899,201	899,201
Deposits payable	1,100	16,385	17,485
Due to other governments	-	1,194,032	1,590,381
<b>Total Liabilities</b>	<b>59,650,129</b>	<b>12,569,410</b>	<b>142,281,186</b>
<b>Fund Balances:</b>			
Reserved:			
Reserved for encumbrances	-	22,500	63,851
Reserved for inventory	-	-	73,329
Reserved for prepaid costs	-	-	733,683
Reserve for compensated absences	-	-	41,224
Reserved for land held for resale	1,103,920	-	1,103,920
Reserved for advances to other funds	-	-	21,349,856
Unreserved:			
Unreserved, reported in nonmajor:			
Special revenue funds	-	74,595	74,595
Capital projects funds	-	666,795	666,795
Debt service funds	-	6,429,761	6,429,761
Undesignated	(57,621,272)	-	(66,181,511)
<b>Total Fund Balances</b>	<b>(56,517,352)</b>	<b>7,193,651</b>	<b>(35,644,497)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,132,777</b>	<b>\$ 19,763,061</b>	<b>\$106,636,689</b>

CITY OF HAWTHORNE

GOVERNMENTAL FUNDS  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

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Fund balances of governmental funds	\$ (35,644,497)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of depreciation, have not been included as financial resources in governmental fund activity.	68,910,358
Net pension asset relates to long-term liabilities, which are recorded when expended in the governmental fund statement, but these are accrued over the life of the pension obligation bond for government-wide statements.	25,902,659
Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:	
Debt issuance costs on bonds issued	539,232
Amortization over life of bonds through end of fiscal year	(38,276)
Long-term debt and compensated absences have not been included in the governmental fund activity:	
Notes payable	(389,265)
Lease payable	(509,121)
Lease payable - police facility	(19,142,080)
Loan payable - Section 108	(7,435,000)
Certificates of participation payable	(8,085,000)
Tax allocation bond payable	(16,583,754)
Pension obligation bond	(29,870,000)
SBRPCA 2001 Series B Bond	(3,765,000)
Compensated absences	(7,723,914)
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.	(1,014,022)
Grant revenue not received within 90 days are recorded as deferred revenue in the governmental funds. These revenues are included as intergovernmental revenue in the governmental fund activity.	73,332,427
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.	(1,457,983)
<b>Net assets of governmental activities</b>	<b>\$ 37,026,764</b>

CITY OF HAWTHORNE

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Special Revenue Funds	
		Housing Authority	South Bay Workforce Invest. Board
<b>Revenues:</b>			
Taxes	\$ 35,675,729	\$ -	\$ -
Licenses and permits	1,448,002	-	-
Intergovernmental	2,104,487	11,884,496	16,271,260
Charges for services	4,788,856	-	-
Use of money and property	47,034	3,382	-
Fines and forfeitures	1,885,258	-	-
Contributions	-	-	-
Miscellaneous	482,843	94,078	-
<b>Total Revenues</b>	<b>46,432,209</b>	<b>11,981,956</b>	<b>16,271,260</b>
<b>Expenditures:</b>			
Current:			
General government	11,141,622	-	-
Public safety	25,406,641	-	-
Community development	1,095,632	11,204,286	16,271,260
Parks and recreation	3,540,469	-	-
Public works	1,318,782	-	-
Capital outlay	659,827	-	-
Debt service:			
Principal retirement	187,235	-	-
Interest and fiscal charges	35,381	-	-
Cost of issuance	-	-	-
<b>Total Expenditures</b>	<b>43,385,589</b>	<b>11,204,286</b>	<b>16,271,260</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,046,620	777,670	-
<b>Other Financing Sources (Uses):</b>			
Transfers in	2,580,000	-	-
Transfers out	(2,486,127)	-	-
Long term debt issued	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>93,873</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	\$ 3,140,493	\$ 777,670	\$ -
<b>Fund Balances</b>			
Beginning of year, as originally reported	\$ 26,103,888	\$ (1,199,469)	\$ (15,143,378)
Restatements	(873,107)	-	873,107
Beginning of year, as restated	25,230,781	(1,199,469)	(14,270,271)
Net change in fund balances	3,140,493	777,670	-
<b>End of Year</b>	<b>\$ 28,371,274</b>	<b>\$ (421,799)</b>	<b>\$ (14,270,271)</b>

CITY OF HAWTHORNE

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	<u>Capital Projects Funds Community Redevelopment Agency</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Taxes	\$ 1,344,520	\$ 4,331,352	\$ 41,351,601
Licenses and permits	-	434,279	1,882,281
Intergovernmental	-	11,927,593	42,187,836
Charges for services	-	561,806	5,350,662
Use of money and property	221,041	194,573	466,030
Fines and forfeitures	-	672,140	2,557,398
Contributions	250,000	844,474	1,094,474
Miscellaneous	590	1,882,774	2,460,285
<b>Total Revenues</b>	<b><u>1,816,151</u></b>	<b><u>20,848,991</u></b>	<b><u>97,350,567</u></b>
<b>Expenditures:</b>			
Current:			
General government	2,337,237	4,510,025	17,988,884
Public safety	-	18,576,765	43,983,406
Community development	3,274,123	11,597,305	43,442,606
Parks and recreation	-	1,846,222	5,386,691
Public works	-	5,912,285	7,231,067
Capital outlay	-	2,270,975	2,930,802
Debt service:			
Principal retirement	112,086	2,187,515	2,486,836
Interest and fiscal charges	5,393,703	3,809,809	9,238,893
Cost of issuance	-	280,000	280,000
<b>Total Expenditures</b>	<b><u>11,117,149</u></b>	<b><u>50,990,901</u></b>	<b><u>132,969,185</u></b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(9,300,998)</u>	<u>(30,141,910)</u>	<u>(35,618,618)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	1,645,000	3,541,127	7,766,127
Transfers out	-	(2,855,000)	(5,341,127)
Long term debt issued	-	30,480,000	30,480,000
<b>Total Other Financing Sources (Uses)</b>	<b><u>1,645,000</u></b>	<b><u>31,166,127</u></b>	<b><u>32,905,000</u></b>
Net Change in Fund Balances	<u>\$ (7,655,998)</u>	<u>\$ 1,024,217</u>	<u>\$ (2,713,618)</u>
<b>Fund Balances</b>			
Beginning of year, as originally reported	\$ (48,861,354)	\$ 5,857,117	\$ (33,243,196)
Restatements	-	312,317	312,317
Beginning of year, as restated	(48,861,354)	6,169,434	(32,930,879)
Net change in fund balances	<u>(7,655,998)</u>	<u>1,024,217</u>	<u>(2,713,618)</u>
<b>End of Year</b>	<b><u>\$ (56,517,352)</u></b>	<b><u>\$ 7,193,651</u></b>	<b><u>\$ (35,644,497)</u></b>

CITY OF HAWTHORNE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

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Net change in fund balances - total governmental funds	\$ (2,713,618)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(620,678)
The issuance of long-term debt provides current financial resource to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds.	(1,854,079)
Accrued interest for long-term debt. This is the net change in accrued interest for the current period.	25,803
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	454,406
The revenues not received within 90 days are deferred in the governmental funds. These revenues are fully recognized in the governmental activities.	4,946,223
The accrued interest on interfund loans between the City and Redevelopment Agency were recorded as deferred revenue in the governmental funds. They are included as interest revenue in the governmental fund activity.	5,356,101
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities.	<u>(2,395,878)</u>
<b>Change in net assets of governmental activities</b>	<b><u><u>\$ 3,198,280</u></u></b>



CITY OF HAWTHORNE

BUDGETARY COMPARISON STATEMENT  
 GENERAL FUND  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary Fund Balance, July 1 as restated	\$ 25,230,781	\$ 25,230,781	\$ 25,230,781	\$ -
<b>Resources (Inflows):</b>				
Taxes	33,725,000	35,166,725	35,675,729	509,004
Licenses and permits	1,395,000	1,550,000	1,448,002	(101,998)
Intergovernmental	2,037,878	2,385,717	2,104,487	(281,230)
Charges for services	1,941,750	2,105,150	4,788,856	2,683,706
Use of money and property	1,810,000	1,790,000	47,034	(1,742,966)
Fines and forfeitures	1,550,000	1,650,000	1,885,258	235,258
Other	3,628,635	3,104,540	482,843	(2,621,697)
Transfers in	-	2,580,000	2,580,000	-
<b>Amounts Available for Appropriation</b>	<b>71,319,044</b>	<b>75,562,913</b>	<b>74,242,990</b>	<b>(1,319,923)</b>
<b>Charges to Appropriation (Outflow):</b>				
General government				
Mayor and city council	12,309,238	12,349,219	8,523,705	3,825,514
City clerk	169,062	171,172	131,331	39,841
City manager	470,535	586,389	618,429	(32,040)
City treasurer	17,729	17,229	16,152	1,077
City attorney	711,641	724,092	745,260	(21,168)
Finance	351,234	375,979	368,400	7,579
Personnel	270,721	235,105	219,331	15,774
Licensing and code enforcement	521,526	527,251	519,014	8,237
Public safety				
Police	24,742,036	25,100,986	25,406,641	(305,655)
Public Works				
Planning	442,723	395,421	369,442	25,979
Building and safety	666,148	740,958	726,190	14,768
Parks and recreation	3,674,655	3,778,144	3,540,469	237,675
Public works	1,347,272	1,430,546	1,318,782	111,764
Capital outlay	684,078	664,078	659,827	4,251
Debt service:				
Interest and fiscal charges	35,381	35,381	35,381	-
Principal retirement	182,190	182,190	187,235	(5,045)
Transfers out	2,144,740	2,144,740	2,486,127	(341,387)
<b>Total Charges to Appropriations</b>	<b>48,740,909</b>	<b>49,458,880</b>	<b>45,871,716</b>	<b>3,587,164</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 22,578,135</b>	<b>\$ 26,104,033</b>	<b>\$ 28,371,274</b>	<b>\$ 2,267,241</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON STATEMENT  
 HOUSING AUTHORITY  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (1,199,469)	\$ (1,199,469)	\$ (1,199,469)	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	12,683,400	7,483,400	11,884,496	4,401,096
Use of money and property	1,000	1,000	3,382	2,382
Other	-	-	94,078	94,078
<b>Amounts Available for Appropriation</b>	<b>11,484,931</b>	<b>6,284,931</b>	<b>10,782,487</b>	<b>4,497,556</b>
<b>Charges to Appropriation (Outflow):</b>				
Community development	12,944,077	12,841,717	11,204,286	1,637,431
<b>Total Charges to Appropriations</b>	<b>12,944,077</b>	<b>12,841,717</b>	<b>11,204,286</b>	<b>1,637,431</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (1,459,146)</b>	<b>\$ (6,556,786)</b>	<b>\$ (421,799)</b>	<b>\$ 6,134,987</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON STATEMENT  
 SOUTH BAY WORKFORCE INVESTMENT BOARD  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	<u>\$(14,270,271)</u>	<u>\$ (14,270,271)</u>	<u>\$(14,270,271)</u>	<u>\$ -</u>
<b>Resources (Inflows):</b>				
Intergovernmental	<u>22,994,192</u>	<u>25,189,219</u>	<u>16,271,260</u>	<u>(8,917,959)</u>
<b>Amounts Available for Appropriation</b>	<u><b>8,723,921</b></u>	<u><b>10,918,948</b></u>	<u><b>2,000,989</b></u>	<u><b>(8,917,959)</b></u>
<b>Charges to Appropriation (Outflow):</b>				
Community development	<u>22,994,192</u>	<u>25,236,189</u>	<u>16,271,260</u>	<u>8,964,929</u>
<b>Total Charges to Appropriations</b>	<u><b>22,994,192</b></u>	<u><b>25,236,189</b></u>	<u><b>16,271,260</b></u>	<u><b>8,964,929</b></u>
<b>Budgetary Fund Balance, June 30</b>	<u><b>\$(14,270,271)</b></u>	<u><b>\$ (14,317,241)</b></u>	<u><b>\$(14,270,271)</b></u>	<u><b>\$ 46,970</b></u>

CITY OF HAWTHORNE

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 JUNE 30, 2006

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
<b>Assets:</b>		
Current:		
Cash and investments	\$ 505,601	\$ 694,483
Receivables:		
Accounts	159,914	9,627
Contracts and loans	-	310,000
Due from other governments	103,901	-
Inventories	-	14,311
Deposits	-	167,263
<b>Total Current Assets</b>	<b>769,416</b>	<b>1,195,684</b>
Noncurrent:		
Capital assets - net of accumulated depreciation	2,913,648	1,339,579
<b>Total Noncurrent Assets</b>	<b>2,913,648</b>	<b>1,339,579</b>
<b>Total Assets</b>	<b>\$ 3,683,064</b>	<b>\$ 2,535,263</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Current:		
Accounts payable	\$ 387,201	\$ 268,505
Accrued liabilities	11,193	10,946
Deposits payable	694	-
Due to other governments	83	-
Due to other funds	327,701	383,093
Leases payable	-	160,816
<b>Total Current Liabilities</b>	<b>726,872</b>	<b>823,360</b>
Noncurrent:		
Claims and judgments	-	3,323,774
Compensated absences	35,664	57,269
Leases payable	-	109,890
<b>Total Noncurrent Liabilities</b>	<b>35,664</b>	<b>3,490,933</b>
<b>Total Liabilities</b>	<b>762,536</b>	<b>4,314,293</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	2,913,648	1,068,873
Unrestricted	6,880	(2,847,903)
<b>Total Net Assets</b>	<b>2,920,528</b>	<b>(1,779,030)</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,683,064</b>	<b>\$ 2,535,263</b>
<b>Reconciliation of Net Assets to the Statement of Net Assets</b>		
Net assets per Statement of Net Assets - Proprietary Funds	\$ 2,920,528	
Prior years' accumulated adjustment to reflect the consolidation of internal service funds activities related to enterprise funds	(354,354)	
Adjustments to reflect the consolidation of current year internal service funds activities related to enterprise funds	33,307	
<b>Net Assets per Statement of Net Assets</b>	<b>\$ 2,599,481</b>	

CITY OF HAWTHORNE

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

	<u>Nonmajor Enterprise Funds</u>	<u>Governmental Activities- Internal Service Funds</u>
<b>Operating Revenues:</b>		
Sales and service charges	\$ 1,263,237	\$ 4,932,216
Miscellaneous	50,097	111,611
<b>Total Operating Revenues</b>	<u>1,313,334</u>	<u>5,043,827</u>
<b>Operating Expenses:</b>		
Source of supply	175,392	640,630
Cost of sales and services	314,693	-
Contractual services	-	3,425,253
Administration and general	908,560	687,878
Depreciation	180,829	557,760
<b>Total Operating Expenses</b>	<u>1,579,474</u>	<u>5,311,521</u>
Operating Income (Loss)	<u>(266,140)</u>	<u>(267,694)</u>
<b>Nonoperating Revenues (Expenses):</b>		
Intergovernmental	203,974	-
Interest revenue	372,878	-
<b>Total Nonoperating Revenues (Expenses)</b>	<u>576,852</u>	<u>-</u>
Income (Loss) Before Contributions and Transfers	310,712	(267,694)
Contributions from developer	40,000	330,123
Transfers out	-	(2,425,000)
Changes in Net Assets	350,712	(2,362,571)
<b>Net Assets:</b>		
Beginning of Fiscal Year	<u>2,569,816</u>	<u>583,541</u>
<b>End of Fiscal Year</b>	<u>\$ 2,920,528</u>	<u>\$ (1,779,030)</u>
<b>Reconciliation of Changes in Net Assets to the Statement of Activities</b>		
Changes in Net Assets, Enterprise Funds	\$ 350,712	
Adjustment to reflect the consolidation of the internal service activities related to enterprise funds	<u>33,307</u>	
<b>Changes in Net Assets of Business-Type Activities</b>	<u>\$ 384,019</u>	

CITY OF HAWTHORNE

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 YEAR ENDED JUNE 30, 2006

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers and users	\$ 1,240,772	\$ 4,991,937
Cash paid to supplies for good and services	(483,488)	(3,586,747)
Cash paid to employees for services	(1,012,131)	(679,508)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(254,847)</b>	<b>725,682</b>
<b>Cash Flows from Non-Capital Financing Activities:</b>		
Cash transfer to other funds	-	(2,425,000)
Contributions from developer	40,000	-
Due to other funds	259,674	383,093
Subsidy from grants	100,073	-
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>	<b>399,747</b>	<b>(2,041,907)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Capital contributions	-	330,123
Purchases of capital assets	(57,299)	(680,619)
Principal paid on capital debt	-	159,958
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(57,299)</b>	<b>(190,538)</b>
<b>Cash Flows from Investing Activities:</b>		
Interest received	372,878	-
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>372,878</b>	<b>-</b>
<b>Investing Activities</b>		
Net Increase (Decrease) in Cash and Cash Equivalents	460,479	(1,506,763)
Cash and Cash Equivalents at Beginning of Year	45,122	2,201,246
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 505,601</b>	<b>\$ 694,483</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating income (loss)	\$ (266,140)	\$ (267,694)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	180,829	557,760
(Increase) decrease in accounts receivable	(72,562)	(9,627)
(Increase) decrease in deposits	-	(42,263)
Increase (decrease) in accounts payable	42,671	(36,201)
Increase (decrease) in accrued liabilities	(138)	-
Increase (decrease) in deposits payable	(36,074)	1,917
Increase (decrease) in compensated absences payable	(103,433)	6,453
Increase (decrease) in claims and judgments payable	-	515,337
<b>Total Adjustments</b>	<b>11,293</b>	<b>993,376</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (254,847)</b>	<b>\$ 725,682</b>
<b>Non-Cash Investing, Capital, and Financing Activities:</b>		
There were no non-cash activities during the year.		

CITY OF HAWTHORNE  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

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**Assets:**

Cash and investments	\$ 2,737,360
Restricted assets:	
Cash with fiscal agent	<u>5,145,228</u>
<b>Total Assets</b>	<b><u>\$ 7,882,588</u></b>

**Liabilities:**

Accounts payable	\$ 22,870
Accrued liabilities	621,000
Deposits	970,807
Due to bondholders	<u>6,267,911</u>
<b>Total Liabilities</b>	<b><u>\$ 7,882,588</u></b>

**CITY OF HAWTHORNE**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**I. SIGNIFICANT ACCOUNTING POLICIES**

**Note 1: Organization and Summary of Significant Accounting Policies**

**a. Description of the Reporting Entity**

The City of Hawthorne was incorporated on July 25, 1922, as a general law city and operates under a Council/City Manager form of government. It is governed by an elected five-member council.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Hawthorne (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. These entities are legally separate from each other. However, the City of Hawthorne elected officials have a continuing full or partial accountability for fiscal matters of the other entities. The financial reporting entity consist of: 1) the City, 2) organizations for which the City is financially accountable, and 3) organizations for which the nature and significance of their relationship with the City are such that exclusions would cause the City's financial statements to be misleading or incomplete.

An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government. In a blended presentation, component units balances and transactions are reported in a manner similar to the balances and transactions of the City. Component units are presented on a blended basis when the component unit's governing body is substantially the same as the City's or the component unit provides services almost entirely to the City. The following component units of the City have been included in the financial reporting entity as blended component units.

A description of these component units and the method of incorporating their financial information in the accompanying general purpose financial statements are summarized as follows:

**Housing Authority of the City of Hawthorne (Housing Authority)**

The Housing Authority is a public agency created by the City in 1984 to administer housing assistance programs for qualified low-income residents. The Housing Authority is governed by the City Council. The Housing Authority's administrative functions are performed by City employees. The financial activity of the Housing Authority is included in the City's financial statements as the Housing Authority Special Revenue Fund. Separate financial statements were not prepared for the Housing Authority of the City of Hawthorne.

**Community Redevelopment Agency of the City of Hawthorne (Agency)**

The Redevelopment Agency was established by the City in 1968, under the Community Redevelopment Act of the California Health and Safety Code. The City Council acts as the governing board for the Redevelopment Agency. The City provides all administrative services to the Agency. The financial activity of the



**City of Hawthorne**  
**Notes to Financial Statements (Continued)**

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

Redevelopment Agency is reported in the City's financial statements as the Redevelopment Capital Projects Fund and the Redevelopment Debt Service Fund. Separate financial statements for the Community Redevelopment Agency of the City of Hawthorne can be obtained by contacting the City of Hawthorne City Clerk.

**Parking Authority of the City of Hawthorne (Parking Authority)**

The Parking Authority is a public financing agency created by the City to provide parking facilities for the City's Redevelopment Plaza Project. The City Council serves as the Parking Authority's governing board and is, therefore, responsible for the fiscal and administrative activities of this related entity. The financial activity of the Parking Authority is reported in the City's financial statements in the Community Facilities District as an agency fund. Separate financial statements were not prepared for the Parking Authority.

**Hawthorne Public Financing Authority (Authority)**

The Authority was formed as a result of a joint powers agreement between the City of Hawthorne (City) and the Redevelopment Agency of the City of Hawthorne (Agency). The purpose of the Authority is to provide financing for the acquisition, construction and improvements, working capital requirements, or liability or other insurance programs of any local Agency. The Authority is governed by a Board of Directors, comprised of the five members of the City's City Council. The financial activity of the Authority is reported in the City's financial statements as the Hawthorne Public Financing Authority Debt Service Fund. Separate financial statements were not prepared for the Hawthorne Public Financing Authority.

**b. Government-Wide and Fund Financial Statements**

The government-wide financials statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. 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 certain legally separate component units for which the primary government is financially accountable.

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: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**City of Hawthorne  
Notes to Financial Statements (Continued)**

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

**c. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Measurement focus is commonly used to describe the types of transactions and events that are reported in a fund's operating statement. Once it has been determined whether a fund is to measure changes in total economic resources or changes in current financial resources, the next issue to be addressed is the timing of the recognition of transactions and events. The technical term that describes the criteria governing the timing of the recognition of transactions and events is basis of accounting.

The governmental-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City's fiduciary fund financial statements only report agency funds. Agency funds are used to account for situations where the government's role is purely custodial. All assets reported in an agency fund are offset by a liability to the party on whose behalf they are held. Agency funds have no measurement focus.

Property taxes, franchise taxes, licenses 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Grants, entitlements or shared revenues recorded in governmental funds are recognized as revenue in the accounting period when they become susceptible to accrual, i.e., both measurable and available (modified accrual basis). Grants received before the revenue recognition criteria has been met are reported as deferred revenue, a liability account. Such resources not received are reported as a receivable if the revenue recognition criteria has been met.

Private-sector standards of accounting and financial reporting issued prior to December 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

**City of Hawthorne**  
**Notes to Financial Statements (Continued)**

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

The City reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Housing Authority Fund accounts for the federal grant revenues and program expenditures related to the housing assistance programs. These programs are administered by the City's Housing Authority under the regulations established by the Department of Housing and Urban Development (HUD).
- The South Bay Workforce Investment Board Fund is a Job Training Partnership Act fund that accounts for federal, state and local grants received to assist the participants in job training and development.
- The Community Redevelopment Agency Capital Projects Fund accounts for revenues and expenditures associated with the acquisition or construction of capital items for the Hawthorne Redevelopment Agency.

Additionally, the City reports the following fund types:

- Enterprise Funds report activities for which a fee is charged to external users for goods or services.
- Internal Service Funds account for financial transactions related to repair, replacement and maintenance of City-owned equipment and the City's self-insurance programs. These services are provided to other departments or agencies of the City on a cost reimbursement basis.
- The Agency Funds are used to report resources held by the City in a purely custodial capacity, which involves only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations or other governments.

**d. Other Accounting Policies**

**Cash and Cash Equivalents**

For purpose of the statement of cash flows, the City considered cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The City follows the practice of pooling cash and investments of all funds. Since cash and investments are pooled, the City utilizes the assumption that cash and investments in the Enterprise and Internal Service Funds are cash and cash equivalents.

**Investments**

Investments for the City as well as for its component units are reported at fair value, which is the quoted market price at June 30, 2006. The City's policy is generally to hold investments until maturity or until market values equal or exceed cost. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**City of Hawthorne  
Notes to Financial Statements (Continued)**

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

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 either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported 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.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Inventories

Inventories of materials and supplies are carried at cost on a first-in, first-out basis. The City uses the consumption method of accounting for inventories. Special reporting treatments are also applied to governmental fund inventories to indicate that they do not represent available spendable resources, even though they are a component of net current assets. Such amounts are generally offset by fund balance reserve accounts.

Land Held for Resale

Land held for resale is recorded at the lower of cost or net realizable value. Fund balances are reserved in amounts equal to the carrying value of the land held for resale because such assets are not available to the City's current operations.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In accordance with GASB Statement No. 34, the City has reported general infrastructure assets acquired in the current year. As the City is still in the process of compiling the necessary data, and as permitted under GASB Statement No. 34, the City has not reported any infrastructure assets retroactively.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives 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.

**City of Hawthorne  
Notes to Financial Statements (Continued)**

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

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

<u>Assets</u>	<u>Years</u>
Curbs and gutters	40
Parks	50
Sewer	40
Sidewalks	40
Streets	50
Traffic signs and signals	30
Machinery and equipment	5-50
Vehicles	5
Buildings	40

**Claims and Judgments**

The City is partially self-insured for general liability and workers' compensation claims. The City records estimated liabilities for such claims filed or estimated to be filed for incidents which have occurred. The City's claims and judgments payable are recorded in the City's Self-Insurance Internal Service Fund.

**Employee Compensated Absences**

City employees receive from 10 to 24 days vacation each year, depending upon job classification and length of service. An employee may not accumulate earned vacation time beyond the year following the year in which it is earned. Upon termination, employees with more than one year of service are paid the full value of their unused vacation time.

City employees also receive 12 personal necessity/sick leave days each year. An employee may accumulate earned personal necessity/sick leave time until termination. Upon termination, depending upon job classification and length of service, employees are entitled to receive from 50% to 100% of their unused accumulated personal necessity/sick leave time. Upon retirement, all employees are entitled to receive the full value of their accumulated personal necessity/sick leave time.

Certain City employees may accrue up to a maximum of 100 hours of compensatory time in lieu of overtime pay. Upon termination, these employees are entitled to receive the full value paid on a straight time basis of their unused compensatory time.

**Property Tax Revenue**

Property tax revenue is recognized on the basis of NCGA Interpretation No. 3 (adopted by GASB); that is, in the fiscal year for which the taxes have been levied providing they become available. Available means then due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of Los Angeles collects property taxes for the City. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. Taxes are levied on both real and personal property as it exists on that date. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the

**City of Hawthorne  
Notes to Financial Statements (Continued)**

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on March 1 each year and are delinquent, if unpaid, on August 31.

**f. Reconciliation of Government-Wide and Fund Financial Statements**

1. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures and changes in fund balances include a reconciliation between net changes in fund balances - of total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$620,678 difference are as follows:

Capital outlay	\$ 2,399,261
Depreciation expense	<u>(3,019,939)</u>
Net adjustment to increase net changes in fund balance of total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (620,678)</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds." Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The detail of this \$1,854,079 difference is as follows:

Debt issued or incurred:	
Pension obligation bonds issued	\$(30,480,000)
Net pension asset	25,902,659
Interest expense on bond loss on defeasance	(9,367)
Principal repayments:	
Tax allocation bonds	430,000
Notes payable	112,086
COP bonds payable	300,000
Pension obligation bonds	610,000
SBRPCA 2001 bond	145,000
Loans payable	702,515
Capital leases payable	187,235
Bond discount	(2,578)
Debt issuance costs	<u>248,371</u>
Net adjustment to decrease net changes in fund balance of total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ (1,854,079)</u>

**City of Hawthorne  
Notes to Financial Statements (Continued)**

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

Another element of that reconciliation states “the net effect of accrued interest for long-term debt.” The details of this \$25,803 difference are as follows:

Net accrued interest for the current year:

Tax allocation bonds current year accrued interest	\$ (326,610)
COP bonds current year accrued interest	(205,124)
Tax allocation bonds prior year accrued interest	334,714
COP bonds prior year accrued interest	211,874
Loans payable - police Facility current year accrued interest	(324,618)
Loans payable - section 108 current year accrued interest	(156,369)
Capital leases payable current year accrued interest	(1,301)
Loans payable - police facility prior year accrued interest	332,037
Loans payable - section 108 prior year accrued interest	159,062
Capital leases payable prior year accrued interest	<u>2,138</u>

Net adjustment to decrease net changes in fund balance  
of total governmental funds to arrive at changes in net  
assets of governmental activities.

\$ 25,803

**II. STEWARDSHIP**

**Note 2: Stewardship, Compliance and Accountability**

**a. General Budget Policies**

The City Council approves each year's budget submitted by the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Council. Supplemental appropriations, where required during the period, are also approved by the Council. Intradepartmental budget changes are approved by the City Manager. Expenditures may not exceed appropriations at the departmental level, which is the legal level of control. During the year, several supplementary appropriations were necessary. At fiscal year-end, all operating budget appropriations lapse.

**b. Encumbrances**

Encumbrances are estimations of costs related to unperformed contracts for goods and services. Encumbrances outstanding at year-end are reported as a reservation of fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts-in-process at year-end are completed. They do not constitute expenditures or estimated liabilities.

**c. Budget Basis of Accounting**

Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles. For fiscal year 2005-2006, the following funds had no adopted budgets:

- Local Law Enforcement Block Grant
- COPS in School Grant
- California Law Enforcement Equipment Grant
- Safe Route to Schools Grant

City of Hawthorne  
Notes to Financial Statements (Continued)

Note 2: Stewardship, Compliance and Accountability (Continued)

- California Office of Traffic Safety Grant
- 2005 PERS Obligation Bonds
- SBRPCA 2001 Series B Bond

d. The following funds contained deficits in the fund balance or retained earnings accounts:

<u>Fund</u>	<u>Amount</u>
Major Governmental Funds:	
Housing Authority	\$ (421,799)
South Bay Workforce Investment Board	(14,270,271)
Community Redevelopment Agency	(56,517,352)
Nonmajor Governmental Funds:	
Special Revenue Funds:	
Anti Drug Abuse Grant	(1,263,132)
High Intensity Drug Trafficking	(1,259,328)
Rosecrans/Aviation Project	(552,498)
California Used Oil Recycling	(33,450)
Home Grant	(91,027)
Internal Service Funds:	
Insurance Reserve	(3,719,238)

The City intends to fund these with transfers and reduction of expenditures/expenses in future years.

e. Excess of expenditures over appropriations by department or function are as follows:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
Major Governmental Funds:			
General Fund:			
City manager	\$ 618,429	\$ 586,389	\$ 32,040
City attorney	745,260	724,092	21,168
Police	25,406,641	25,100,986	305,655



**City of Hawthorne  
Notes to Financial Statements (Continued)**

**Note 2: Stewardship, Compliance and Accountability (Continued)**

Fund	Expenditures	Appropriations	Excess
Nonmajor Governmental Funds:			
Special Revenue Funds:			
Street:			
Public works	1,466,057	1,448,811	17,246
COPS:			
Public safety	225,522	201,569	23,953
Capital Projects Funds:			
Development Impact:			
Community development	153,463	31,062	122,401
Community Redevelopment Agency:			
General government	2,337,237	865,290	1,471,947

**III. DETAILED NOTES ON ALL FUNDS**

**Note 3: Cash and Investments**

As of June 30, 2006, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	\$ 12,600,735
Business-type activities	505,601
Fiduciary funds	<u>7,882,588</u>
Total Cash and Investments	<u><u>\$ 20,988,924</u></u>

The City of Hawthorne maintains a cash and investment pool that is available for use for all funds. Each fund type's position in the pool is reported on the combined balance sheet as cash and investments. The City has adopted an investment policy, which authorizes it to invest in various investments.

**Deposits**

At June 30, 2006, the carrying amount of the City's deposits was \$(3,062,582) and the bank balance was \$2,631,264. The \$5,693,846 difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits. The City Treasurer may waive the collateral requirement for deposits which are fully insured up to \$100,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an

**City of Hawthorne**  
**Notes to Financial Statements (Continued)**

**Note 3: Cash and Investments (Continued)**

undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

**Investments**

Under provision of the City's investment policy, and in accordance with the California Government Code, the following investments are authorized:

- Bankers Acceptances
- U.S. Treasury Issues
- Certificate of Deposit
- Negotiable Certificate of Deposit
- Commercial Paper
- Local Agency Investment Fund (State Pool) Demand Deposits
- Repurchase Agreements

**Investments Authorized by Debt Agreements**

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy.

**Investments in State Investment Pool**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

**GASB Statement No. 31**

The City adopted GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

**City of Hawthorne**  
**Notes to Financial Statements (Continued)**

**Note 3: Cash and Investments (Continued)**

Credit Risk

The City's investment policy limits investments in commercial paper to those rated "A-1" or higher by Standard and Poor's (S&P) or by Moody's. As of June 30, 2006, the City's investment in commercial paper consisted of investments with General Electric Corporation. At June 30, 2006, General Electric's commercial paper was rated "A-1" by Moody's and by S&P. All securities were investment grade and were legal under state and city law. Investments in U.S. government securities are not considered to have credit risk and, therefore, their credit quality is not disclosed. As of June 30, 2006, the City's investments in external investment pools and money market mutual funds are unrated.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2006, none of the City's deposits or investments were exposed to custodial credit risk.

Concentration of Credit Risk

The City's investment policy imposes restrictions on the percentage that the City can invest in certain types of investments. In addition, GASB 40 requires a separate disclosure if any single issuer comprises more than 5% of the total investment value. As of June 30, 2006, the City has investments with Investment Agreements which exceeds 5% of the total investments. Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

Interest Rate Risk

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk.

As of June 30, 2006, the City had the following investments and original maturities:

	Remaining Investment Maturities		
	6 Months or Less	More Than 5 Years	Fair Value
Local Agency Investment Fund	\$ 15,429,770	\$ -	\$ 15,429,770
Federal Home Loan Note	1,000,000	-	1,000,000
Cash with Fiscal Agents:			
Money Market Mutual Funds	3,225,060	-	3,225,060
Investment agreement	-	3,775,676	3,775,676
Commercial Paper	621,000	-	621,000
	<u>\$ 20,275,830</u>	<u>\$ 3,775,676</u>	<u>\$ 24,051,506</u>

**City of Hawthorne**  
**Notes to Financial Statements (Continued)**

**Note 3: Cash and Investments (Continued)**

The investment agreements are monies held by the fiscal agent and are not subject to the risks noted above. However, the funds' investment policies and practices with regard to the credit and market risks have been determined acceptable to the City's investment policies.

**Note 4: Changes in Capital Assets**

Capital assets activity for the year ended June 30, 2006, follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 7,388,529	\$ -	\$ -	\$ 7,388,529
Investment in joint venture	1,035,523	-	-	1,035,523
<b>Total Capital Assets, Not Being Depreciated</b>	<b>8,424,052</b>	<b>-</b>	<b>-</b>	<b>8,424,052</b>
Capital assets, being depreciated:				
Structures and improvements	46,257,862	8,950	-	46,266,812
Machinery and equipment:				
City	16,235,875	131,578	-	16,367,453
Equipment Replacement	4,872,791	695,281	(73,324)	5,494,748
Parking Authority - structures	16,359,554	-	-	16,359,554
Infrastructure	16,560,140	2,258,733	-	18,818,873
<b>Total Capital Assets, Being Depreciated</b>	<b>100,286,222</b>	<b>3,094,542</b>	<b>(73,324)</b>	<b>103,307,440</b>
Less accumulated depreciation:				
Structures and improvements	8,558,667	1,468,009	-	10,026,676
Machinery and equipment:				
City	13,855,940	754,706	-	14,610,646
Equipment Replacement	3,656,071	557,760	(58,662)	4,155,169
Parking authority - structures	11,267,096	408,989	-	11,676,085
Infrastructure	624,744	388,235	-	1,012,979
<b>Total Accumulated Depreciation</b>	<b>37,962,518</b>	<b>3,577,699</b>	<b>(58,662)</b>	<b>41,481,555</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>62,323,704</b>	<b>(483,157)</b>	<b>(14,662)</b>	<b>61,825,885</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 70,747,756</b>	<b>\$ (483,157)</b>	<b>\$ (14,662)</b>	<b>\$ 70,249,937</b>

City of Hawthorne  
Notes to Financial Statements (Continued)

Note 4: Changes in Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 37,314	\$ -	\$ -	\$ 37,314
Total Capital Assets, Not Being Depreciated	37,314	-	-	37,314
Capital assets, being depreciated:				
Structures and improvements	1,612,615	17,950	-	1,630,565
Machinery and equipment	22,750	-	-	22,750
Infrastructure	14,006,588	39,349	-	14,045,937
Total Capital Assets, Being Depreciated	15,641,953	57,299	-	15,699,252
Less accumulated depreciation:				
Structures and improvements	1,071,976	60,235	-	1,132,211
Machinery and equipment	17,681	1,491	-	19,172
Infrastructure	11,552,432	119,103	-	11,671,535
Total Accumulated Depreciation	12,642,089	180,829	-	12,822,918
Total Capital Assets, Being Depreciated, Net	2,999,864	(123,530)	-	2,876,334
Business-Type Activities Capital Assets, Net	<u>\$ 3,037,178</u>	<u>\$ (123,530)</u>	<u>\$ -</u>	<u>\$ 2,913,648</u>

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

Governmental Activities:	
General government	\$ 698,254
Public safety	1,593,857
Public work	434,277
Community development	167,610
Parks and recreation	125,941
Internal service fund - equipment replacement	557,760
Total Governmental Activities	<u>\$ 3,577,699</u>
Business-Type Activities:	
Airport	\$ 154,491
Sewer and storm drain	26,338
Total Business-Type Activities	<u>\$ 180,829</u>

City of Hawthorne  
Notes to Financial Statements (Continued)

**Note 5: Interfund Receivable, Payable and Transfers**

The composition of interfund balances as of June 30, 2006, is as follows:

Due To/From Other Funds

Funds	Due to Other Funds				Total
	Housing Authority	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service	
Due From Other Funds:					
General	\$ 1,122,507	\$ 1,925,788	\$ 327,701	\$ 383,093	\$ 3,759,089
Total	\$ 1,122,507	\$ 1,925,788	\$ 327,701	\$ 383,093	\$ 3,759,089

The due to the General Fund of \$3,759,089 from the Housing authority, various nonmajor governmental, non-major enterprise funds and internal service funds was a result of temporary deficit cash balances.

Advances to/from Other Funds

Funds	Advances to Other Funds General Fund
Advances from Other Funds:	
CRA Capital Projects	\$ 59,392,142

During the current and previous fiscal years, the City of Hawthorne has made loans to the Agency to cover for operations. These loans bear interest at rates up to 10% per annum depending upon when the loan was initiated. The City may demand payment of all or a portion of the principal balance at any time as funds become available; however, such demands are not anticipated within the next fiscal year. As of June 30, 2006, loans to, and accrued unpaid interest owed on those loans were \$59,392,142.

Interfund Transfers

	Transfers Out			Total
	General Fund	Nonmajor Governmental Funds	Internal Service	
Transfers In:				
General	\$ -	\$ 155,000	\$ 2,425,000	\$ 2,580,000
CRA Capital Projects	135,000	1,510,000	-	1,645,000
Nonmajor Funds	2,351,127	1,190,000	-	3,541,127
Total	\$ 2,486,127	\$ 2,855,000	\$ 2,425,000	\$ 7,766,127

**City of Hawthorne**  
**Notes to Financial Statements (Continued)**

**Note 5: Interfund Receivable, Payable and Transfers (Continued)**

The transfer from the general fund to non-major funds for \$2,351,127 was for debt service contributions on the 1997 COP bond in the amount of \$721,765, debt service contributions for the police facility loan in the amount of \$1,284,240, and debt service for the SBRPCA bond for \$345,122. The transfer out to CRA Capital project fund was to cover administrative and capital project costs.

The transfer in of \$1,645,000 to the Capital Projects Redevelopment Agency was to cover administrative costs and to cover capital projects.

The transfer out of non-major funds of \$2,855,000 consisted of \$1,510,000 to CRA Capital Projects fund to cover administrative and capital project costs, \$155,000 was transferred from Rosecrans/Aviation Project to General Fund, and \$1,190,000 between non-major funds was from Gas tax to Street fund.

The transfer out from internal service funds of \$2,425,000 to the General Fund was for operating needs.

**Note 6: Long-Term Debt**

The following is a summary of the changes in long-term debt of the City for the year ended June 30, 2006:

	Beginning Balance at July 1, 2005	Beginning Adjustments*	Adjusted Beginning Balance at July 1, 2005	Additions	Deletions	Ending Balance at June 30, 2006	Due Within One Year
<b>Governmental Funds:</b>							
City:							
Certificates of participation	\$ 8,385,000	\$ -	\$ 8,385,000	\$ -	\$ 300,000	\$ 8,085,000	\$ 315,000
Compensated absences	8,178,320	-	8,178,320	1,719,638	2,174,044	7,723,914	2,053,249
Lease payable	696,356	-	696,356	-	187,235	509,121	196,091
Lease payable - police facility	19,579,595	-	19,579,595	-	437,515	19,142,080	455,322
Section 108 loan payable	7,700,000	-	7,700,000	-	265,000	7,435,000	335,000
SBRPCA 2001 Series B Bond	-	3,910,000	3,910,000	-	145,000	3,765,000	150,000
2005 Pension Obligation Bonds	-	-	-	30,480,000	610,000	29,870,000	915,000
<b>Total City</b>	<b>44,539,271</b>	<b>3,910,000</b>	<b>48,449,271</b>	<b>32,199,638</b>	<b>4,118,794</b>	<b>76,530,115</b>	<b>4,419,662</b>
Internal Service Funds:							
Claims and judgments	2,808,437	-	2,808,437	1,435,245	919,908	3,323,774	1,088,708
Compensated absences	50,816	-	50,816	14,283	7,830	57,269	8,590
Lease payable	110,748	-	110,748	329,968	170,010	270,706	160,816
<b>Total Internal Service Funds</b>	<b>2,970,001</b>	<b>-</b>	<b>2,970,001</b>	<b>1,779,496</b>	<b>1,097,748</b>	<b>3,651,749</b>	<b>1,258,114</b>
Redevelopment Agency:							
Tax allocation refunding bonds	17,230,000	-	17,230,000	-	430,000	16,800,000	455,000
Notes payable	501,351	-	501,351	-	112,086	389,265	120,492
<b>Total Redevelopment</b>	<b>17,731,351</b>	<b>-</b>	<b>17,731,351</b>	<b>-</b>	<b>542,086</b>	<b>17,189,265</b>	<b>575,492</b>
<b>Total Governmental Long-Term Obligations</b>	<b>\$ 65,240,623</b>	<b>\$ 3,910,000</b>	<b>69,150,623</b>	<b>\$ 33,979,134</b>	<b>\$ 5,758,628</b>	<b>\$ 97,371,129</b>	<b>\$ 6,253,268</b>
Less:							
Net unamortized bond discount						(47,644)	
Net unamortized bond defeasance loss						(168,602)	
						<u>\$ 97,154,883</u>	

\* Beginning adjustments are to record the SBRPCA 2001 Series B bond which was issued in a prior year but was not reflected in the beginning balance.

**City of Hawthorne**  
**Notes to Financial Statements (Continued)**

**Note 6: Long-Term Debt (Continued)**

Hawthorne Public Financing Authority

Certificates of Participation (COP) originally issued in the amount of \$9,950,000 with interest varying from 3.9% to 5.2%, payable on January 1 and July 1 of each year. The certificates mature on July 1, 2022.

\$ 8,085,000

The above certificates contain certain restrictive covenants. The City's management believes it has complied with all applicable covenants during the year ended June 30, 2006.

The annual principal requirements to amortize the Public Financing Authority COP's outstanding as of June 30, 2006, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	315,000	403,002
2008	330,000	388,003
2009	345,000	371,968
2010	360,000	354,868
2011	380,000	336,738
2011-2016	2,195,000	1,371,853
2016-2021	2,815,000	729,421
2021-2026	1,345,000	70,850
Total Debt Service	<u>\$ 8,085,000</u>	<u>\$ 4,026,703</u>

SBRPCA 2001 Series B Bond

SBRPCA 2001 Series B Bond originally issued in the amount of \$4,300,000 with a variable interest rate which is payable monthly with principal payments made annually on January 1. The interest is payable at an interest rate which is determined on a weekly basis by Morgan Stanley & Co. The bonds mature on July 1, 2031. The bonds were issued to finance a portion of costs of the acquisition, construction, installation, and equipping the emergency communications facilities project with South Bay Regional Public Communications Authority (SBRPCA) for use by the City of Hawthorne.

\$ 3,765,000



**City of Hawthorne**  
**Notes to Financial Statements (Continued)**

**Note 6: Long-Term Debt (Continued)**

The annual principal requirements to amortize the SBRPCA 2001 Series B Bond outstanding as of June 30, 2006, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	150,000	137,055
2008	155,000	131,595
2009	165,000	125,953
2010	170,000	119,946
2011	175,000	113,758
2011-2016	520,000	500,534
2016-2021	645,000	397,515
2021-2026	795,000	269,742
2026-2031	990,000	111,210
Total Debt Service	<u>\$ 3,765,000</u>	<u>1,907,308</u>

**2005 Pension Obligation Bonds**

In September 2005, the City issued \$30,480,000 pension obligation bonds. Bond proceeds were used to fund the City's net actuarial accrued liability. Principal on bonds mature in amounts ranging from \$610,000 to \$3,715,000 and the interest rate is 5.018%

\$ 29,870,000

The annual principal requirements to amortize the 2005 Pension Obligation Bonds outstanding as of June 30, 2006, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	915,000	1,498,877
2008	1,055,000	1,452,962
2009	1,205,000	1,400,022
2010	1,365,000	1,339,555
2011	1,535,000	1,271,059
2011-2016	10,705,000	5,004,702
2016-2021	13,090,000	1,714,902
Total Debt Service	<u>\$ 29,870,000</u>	<u>\$ 13,682,079</u>

**Compensated Absences**

As discussed in Note 1 of the financial statements in governmental fund types, the City's liability for vested and unpaid compensated absences (accrued vacation and sick pay) that exceeds expendable, available financial resources is reported in long-term debt. The accrual is calculated in accordance with GASB Code Section C60.109.

**City of Hawthorne**  
**Notes to Financial Statements (Continued)**

**Note 6: Long-Term Debt (Continued)**

Capital Lease Obligations

The City has entered into various capital lease agreements for the lease of equipment. These assets have been capitalized with the obligation shown in the statement of net assets. The following is a schedule by years of future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments, as of June 30, 2006:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	196,091	19,083
2008	205,378	9,796
2009	97,031	2,405
2010	10,621	62
Total Debt Service	<u>\$ 509,121</u>	<u>\$ 31,346</u>

The Internal Service fund entered into a lease agreement to purchase police vehicles. The following is a schedule of future minimum lease payments as of June 30, 2006:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	160,816	13,570
2008	109,890	5,879
Total Debt Service	<u>\$ 270,706</u>	<u>\$ 19,449</u>

Lease Obligation - Police Facility

The City completed building its new police facility during fiscal year 2004-2005. The construction expenditures were partially funded by the California Infrastructure and Economic Development Bank (CIEDB). The facility has been assigned to CIEDB and leased back by the City of Hawthorne. As of June 30, 2006, the total construction expenditures of \$20,000,000 have been recorded as a liability under the lease obligation. Principal payments ranging from \$420,405 to \$1,186,129 are due annually on August 1 through the year 2031. The following schedule illustrates the annual principal requirements to maturity for the lease obligation as of June 30:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	455,322	769,817
2008	473,854	750,909
2009	493,140	731,230
2010	513,210	710,750
2011	534,098	689,438
2011-2016	3,014,800	3,095,872
2016-2021	3,680,326	24,166,803
2021-2026	4,492,769	1,587,827
2026-2031	5,484,561	575,852
Total Debt Service	<u>\$ 19,142,080</u>	<u>\$ 33,078,498</u>

**City of Hawthorne  
Notes to Financial Statements (Continued)**

**Note 6: Long-Term Debt (Continued)**

Section 108 Loan

Section 108 Loan of \$7,800,000 was advanced to the City with plans to use for commercial rehabilitation on CDBG projects. The notes are guaranteed by the Secretary of Housing and Urban Development. Principal payments ranging from \$50,000 to \$485,000 are due semi-annually on February 1 and August 1. The notes mature from 2012 to 2024 and bear varying interest rates.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	335,000	370,021
2008	475,000	356,113
2009	475,000	337,930
2010	475,000	318,103
2011	475,000	296,936
2011-2016	2,025,000	1,161,281
2016-2021	1,775,000	670,194
2021-2026	1,400,000	165,394
Total Debt Service	<u>\$ 7,435,000</u>	<u>\$ 3,675,972</u>

Community Redevelopment Agency Debt

1998 Tax Allocation Refunding Bonds - refunding serial and term bonds with an interest rate varying from 4.20% to 5.24% per annum, payable on March 1 and September 1. Principal payments ranging from \$270,000 to \$675,000 are due annually on September 1 through the year 2024. \$ 8,500,000

2001 Tax Allocation Refunding Bonds - term bonds with interest rates varying from 5.500% to 6.875% per annum, payable on January 1 and July 1. Principal payments ranging from \$145,000 to \$410,000 are due annually on July 1 through the year 2020. 4,075,000

In December 2004, the Community Redevelopment Agency of the City of Hawthorne issued \$4,225,000 Project Area No. 2 Tax Allocation Refunding Bonds, Series 2004 for the purpose of refunding, on a current basis, the Agency's outstanding Project Area No. 2 Tax Allocation Refunding Bonds, Series 1994. The bonds consist of \$2,725,000 serial bonds with annual maturity dates from September 1, 2007 through September 1, 2013, bearing interest rates ranging from 3.0% to 3.5% and \$1,500,000 term bonds with an interest rate of 4.5% maturing September 1, 2024. Interest is payable semiannually beginning March 1, 2005. Principal payments ranging from \$75,000 to \$330,000 are due annually on September 1 beginning in the year 2007 through the year 2024. 4,225,000

Total Community Redevelopment Agency Tax Allocation Refunding Bonds \$ 16,800,000

**City of Hawthorne  
Notes to Financial Statements (Continued)**

**Note 6: Long-Term Debt (Continued)**

Each of the three bond agreements above contains certain restrictive covenants. The Agency's management believes it has complied with all applicable covenants during the year ended June 30, 2006.

The annual requirements to amortize the Community Redevelopment Agency long-term debt that has determinable payment dates and amounts (the Tax Allocation Refunding Bonds payable only) as of June 30, 2006, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	455,000	843,884
2008	545,000	819,530
2009	680,000	791,042
2010	710,000	758,407
2011	750,000	723,132
2011-2016	4,335,000	2,999,816
2016-2021	5,590,000	1,696,042
2021-2026	3,735,000	372,500
Total Debt Service	<u>\$ 16,800,000</u>	<u>\$ 9,004,353</u>

**Notes Payable**

Mission - Oceangate Note - a promissory note dated April 12, 1999, paying interest at 7.5%. The note is payable in ten annual installments of \$149,687. The principal amount of this note represents the agreed-upon amount of sales tax generation and Mello-Roos reimbursement due and unpaid through June 30, 2006.

389,265

Total Community Redevelopment Agency Notes Payable

\$ 389,265

**Claims and Judgments**

As of June 30, 2006, the City is party to certain lawsuits. After reviewing these lawsuits with legal counsel, management has estimated the potential claims against the City not covered by insurance resulting from such litigation, and has recorded a liability in the Internal Service Fund. At June 30, 2006, total estimated claims payable were \$3,323,774.

**Bonds Defeased in Prior Years**

In prior years, the City defeased the 1994 Tax Allocation Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2005, the bonds were fully defeased.

**City of Hawthorne**  
**Notes to Financial Statements (Continued)**

**Note 6: Long-Term Debt (Continued)**

**Non-City Obligation Debt - Special Assessment Bonds**

During the year ended June 30, 1992, two Community Facilities Districts (Districts) were established by the Community Redevelopment Agency (Agency) of the City of Hawthorne. Bonds have been issued to finance the cost of various real property acquisitions, various construction activities, street improvements, traffic signalization and public safety projects and other infrastructure improvements which have a special and direct benefit to the related property owners. Under the terms and conditions of these bonds, the Agency acts as agent for the property owners in collecting the special taxes and forwarding the collections to the bond holders.

On October 22, 1991, the 1990-1 Special Tax Bonds totaling \$8,955,000 were issued and on November 12, 1991, the 1991-1 Special Tax Bonds totaling \$11,865,000 were issued. The 1990-1 Special Tax Bonds were refunded on March 18, 1999, by the issuance of the 1998 Special Tax Refunding Bonds for \$8,990,000. On August 16, 2000, the Agency issued two series of 1999-1 Special Tax Bonds, \$3,525,000 Series A and \$12,475,000 Series B. The total of these bonds were used to refund the 1991-1 Special Tax Bonds. As of June 30, 2006, the bonds outstanding from these Community Facility Districts totaled \$21,605,000.

On April 20, 2005, the District issued the 2004-1 (Fusion at South Bay) 2005 Special Tax Bonds totaling \$3,880,000 to acquire an easement and certain public facilities of benefit to the District. As of June 30, 2006, the bonds outstanding from this Community Facility District totaled \$3,880,000.

Such bonds do not constitute an indebtedness of either the City or the Agency, and are payable solely from special taxes collected from property owners within the Districts. In the opinion of City and Agency officials, these bonds are not payable from any revenues or assets of the City or Agency and none of the full faith and credit of the City, Agency, the Districts, the State or any political subdivision thereof is obligated to the payment of the principal or interest on the bonds. Accordingly, no liability has been recorded as long-term debt.

On August 16, 1995, the Parking Authority issued \$10,105,000 Special Tax Refunding Bonds to advance refund the Authority's \$2,025,000 outstanding Lease Revenue Bonds, Series A, and its \$8,080,000 outstanding Refunding Lease Revenue Bonds, Series 1977. The net proceeds of \$9,801,850 plus an additional \$1,400,000 contributed from property owners and \$37,646 of Series A and Series 1977 Lease Revenue Bond sinking fund monies were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series A and Series 1977 Lease Revenue Bonds. As a result, the Series A and Series 1977 Lease Revenue Bonds are considered to be defeased and the liabilities for those bonds have been removed from long-term debt. As of June 30, 2006, the Special Tax Refunding Bonds outstanding totaled \$7,950,000.

The Special Tax Refunding Bonds are limited obligations of the Authority, payable from monies to be received by the Authority from the payment of special taxes to be levied and collected on taxable property within the District and from the proceeds, if any, from the sale of such property for delinquency of such special rates. The City treasurer acts as an agent for the collection of principal and interest payments by the property owners and remittance of such monies to the bond holders.

City of Hawthorne  
Notes to Financial Statements (Continued)

**Note 7: Restatement of Fund Balances/Net Assets**

Beginning fund equity has been restated as follows:

Major Governmental Funds:

General Fund

In prior fiscal years amounts to be set a side for payment of future compensated absences for the Job Training & Development Program were erroneously recorded as General Fund revenues. Correction of this during the current fiscal year is reflected in the prior period adjustment

\$ (873,107)

South Bay Workforce Invest. Board

In prior fiscal years amounts to be set a side for payment of future compensated absences for the Job Training & Development Program were erroneously recorded as General Fund revenues. Correction of this during the current fiscal year is reflected in the prior period adjustment

873,107

Nonmajor Governmental Funds:

SBRPCA 2001 Series B Bond

To record beginning cash with fiscal agent balance held with trustee.

312,317

Net assets have been restated as follows:

Governmental Activities:

To record the SBRPCA 2001 Series B Bond.

(3,910,000)

Total restatements

\$ (3,597,683)

IV. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Note 8: Retirement Plans

Plan Description

The City of Hawthorne contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 11.227% for miscellaneous employees and 17.186% for safety employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2006 the City's annual pension cost of \$4,297,341 for PERS was equal to the City's portion of required and actual contributions. The required contribution was determined as part of the June 30, 2004, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: a) 7.75% investment rate of return (net of administrative expenses), b) projected annual salary increases that vary by duration of service, and c) 3.25% per year cost-of-living adjustments. Both a) and b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

Three-Year Trend Information for PERS  
(Amounts in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	\$ 1,052	100%	\$ -
6/30/2005	\$ 4,434	100%	\$ -
6/30/2006	\$ 4,297	100%	\$ -

**City of Hawthorne  
Notes to Financial Statements (Continued)**

**Note 8: Retirement Plans (Continued)**

Schedule of Funding Progress for PERS (Most Recent Available)  
Miscellaneous Plan of the City of Hawthorne  
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6/30/2002	\$ 68,660	\$ 72,431	\$ 3,771	94.8 %	\$ 14,889	25.3 %
6/30/2003	69,245	84,099	14,854	82.3 %	16,653	89.2 %
6/30/2004	73,728	93,306	19,578	79.0 %	17,352	112.8 %

For fiscal year 2005-2006, the City of Hawthorne safety plan participated in risk pooling. Risk pooling consists of combining assets and liabilities across employers to produce large groups where the impact of a catastrophic demographic event is shared among all employers of the same risk pool. Participation in risk pools is mandatory for all rate plans with less than 100 active members. Mandated participation in risk pools was initially based on the active membership of each rate plan as of June 30, 2003. The implementation of risk pools was done in a way that minimizes the impact on employer contribution rates. The first year in risk pools, the employer contribution rates are almost identical to what the rates would have been outside pools. Future rates will be based on the experience of each pool. Pooling will reduce the volatility of future employer rates. Mandated participation will occur on an annual basis. If on any valuation date, starting with the June 30, 2003, valuation, a rate plan has less than 100 active members, it will be mandated in one of the risk pools effective on that valuation date.

**Note 9: Other Post-Employment Benefits**

In addition to the PERS pension benefits described in Note 6, the City provides certain post-employment health care benefits, in accordance with the various City Council Resolutions: No. 966, No. 5967, No. 5978, No. 5983, No. 5984, No. 6022 and No. 6046 to the following three employee categories: general, fire and police. The following is a description of the eligibility requirements, the term of the benefits, and the post-employment health benefits available to eligible employees:

**General**

All employees who have retired from a classification covered by the memorandum of understanding, are receiving retirement benefits from PERS, and have a minimum of 10 years of full-time employment, shall be entitled to enroll in a PERS health plan. The City agrees to reimburse an amount equal to the coverage for the plan in which the employee is enrolled. This benefit commences upon the employee's retirement date and ceases when the employee becomes ineligible for coverage under the PERS health benefits plan.

**Fire**

All employees who have retired from a classification covered by the memorandum of understanding are receiving retirement benefits from PERS and have a minimum of 15 years of full-time employment, shall be entitled to enroll in a PERS health plan. The City agrees to reimburse an amount equal to the coverage for the plan in which the employee is enrolled. This benefit commences upon the employee's retirement date and ceases when the



**City of Hawthorne  
Notes to Financial Statements (Continued)**

**Note 9 Other Post Employment Benefits (Continued)**

employee becomes ineligible for coverage under the PERS health benefits plan. The City began contracting with the County of Los Angeles beginning in February 1997. Therefore, this benefit pertained only to those employees retiring before February 1997.

**Police**

All employees who have retired, have at least 20 years of service in the Hawthorne Police Department, and have reached the age of 50, shall be entitled to enroll in a PERS health plan. The City agrees to pay for health insurance for the retired employee and his or her dependent spouse. A qualified retiree shall be covered by this provision as long as he/she is eligible for PERS health insurance coverage. The dependent spouse of a qualified retiree shall be covered until he/she reaches the age of 65. Any employee who retires with less than the minimum requirements as noted above, shall be offered the opportunity to continue their participation in the group health insurance (PERS) in effect at that time.

During the fiscal year ended June 30, 2006, expenditures of approximately \$1,282,423 were recognized for all three employee categories by the City for post-employment health insurance, accounted for and financed on a pay-as-you-go basis. As of June 30, 2006, there were 204 retirees and dependent spouses receiving post-employment benefits.

**Note 10: Insurance**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City established the Insurance Reserve Fund to account for and finance its uninsured risks of loss and the Redevelopment Agency records its risk in long-term debt.

The Insurance Reserve Fund provides coverage for up to a maximum of \$250,000 for each workers' compensation claim and \$250,000 for each general liability claim. The City is a member of the Independent Cities Risk Management Authority (ICRMA) for its excess liability insurance coverage and workers' compensation coverage and purchases commercial insurance for claims in excess of coverage provided by the fund for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All funds of the City participate in the program and make payments to the fund based on actuarial estimates of the amounts needed to pay prior year and current year claims. The claims liability of \$3,323,774 reported in the fund at June 30, 2006, is based on the requirements of Governmental Accounting Standards Board 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the fund's claims liability amounts in the fiscal years 2005 and 2006, were as follows:

<u>Year</u>	<u>Liability beginning of year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Liability end of year</u>
2005	2,585,651	1,633,975	(1,411,189)	\$ 2,808,437
2006	2,808,437	1,435,245	(919,908)	3,323,774

**City of Hawthorne**  
**Notes to Financial Statements (Continued)**

**Note 11: Commitments and Contingencies**

The City of Hawthorne has been named as a defendant in numerous lawsuits and claims arising in the course of operations. In the aggregate, these claims seek monetary damages in significant amounts. To the extent the outcome of such litigation has been determined to result in probable financial loss to the City, such loss has been accrued in the accompanying combined financial statements.

**Developer Agreements**

The City has entered into several Owner Participation Agreements to attract new business to the City of Hawthorne. The following represents the City's significant commitments with developers:

**Oceangate Development**

The Developer is reimbursed 25% of the sales tax generated from parcels two to four and 40% from parcels five and six for 15 years; commencing January 1, 1999. All Mello-Roos taxes received in excess of \$506,800 are refunded to the Developer until the 1998 Special Tax Refunding bonds are fully repaid and all tax increments received, except from parcel one, less the low and moderate income housing set-aside amount which is refunded to the Developer for a period of 30 years.

On July 23, 2001, the Redevelopment Agency of the City of Hawthorne approved the Sixth Implementation Agreement to the Owner Participation Agreement with Oceangate Properties, Inc. With the approval of this agreement and the subsequent Developer Disposition Agreement, the area of land that formerly occupied the Mattel buildings is now developed into a car dealership(s) along with ancillary service facilities.

**Best Buy**

In July 1994, the City entered into a Developer's Agreement with Best Buy. The City will pay the developer 11 annual payments, 25% of sales tax generated by the site.

**Gateway Development**

In August 2000, the Agency entered into a first implementation agreement to the DDA with certain Developers. The Developers had advanced to the Agency \$5,500,000 and cancelled a Costco note for approximately \$7,000,000. In return, the Agency executed a promissory note to the Developers for \$12,500,000. The repayment of this note consisted of Mello-Roos tax refund, sales tax and transient occupancy tax refund to the extent those taxes are generated within the project site. No provision has been made for the aforementioned commitments on the combined financial statements, as the amounts committed cannot as yet be determined.

**City of Hawthorne  
Notes to Financial Statements (Continued)**

**Note 11 Commitments and Contingencies (Continued)**

Proposition 218

Proposition 218, which was approved by the voters in November 1996, will regulate the City's ability to impose, increase and extend taxes, assessments and fees. Any new, increased or extended taxes, assessments and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments and fees are subject to the voter initiative process and may be rescinded in the future by the voters. Therefore, the City's ability to finance the services for which the taxes, assessments and fees were imposed may be significantly impaired. The taxes, fees and assessments that are subject to the provisions of Proposition 218 that the City currently imposes for its own benefit or receives from other governmental agencies potentially include utility user taxes and business license fees. At this time, it is uncertain how Proposition 218 will affect the City's ability to maintain or increase the revenue it receives from taxes, assessments and fees.

In November 1997, the City attempted to maintain a 9% utility users tax through Proposition R. The proposition did not pass. The City imposed a 5% tax after the failure of Proposition R.

**Note 12: Joint Ventures**

SBRPCA

The City is a member of the South Bay Regional Public Communications Authority (SBRPCA), a joint powers authority of the cities of Hawthorne, Gardena, Manhattan Beach and El Segundo. SBRPCA was formed October 14, 1975, for the purpose of financing a public safety communications system for the member cities. The governing board is composed of the mayor of each member city. During fiscal year 2005-2006, the City was assessed \$2,432,637, which was paid to SBRPCA for the operations and maintenance of the consolidated regional public safety services communications system that SBRPCA provides to its member cities.

As of and for the year ended June 30, 2005, SBRPCA's audited financial information is as follows\*:

Authority retained earnings, beginning of year		\$ 1,382,699
Net Increase in Authority Retained Earnings		<u>475,356</u>
Authority Retained Earnings, End of Year		<u>\$ 1,858,055</u>
Cash and investments	\$ 1,752,191	
Capital assets	8,688,137	
Other assets	<u>985,024</u>	
Total Assets		<u>\$ 11,425,352</u>
Liabilities	\$ 9,567,297	
Authority equity	<u>1,858,055</u>	
Total Liabilities and Authority Equity		<u>\$ 11,425,352</u>

\* Most Recent Information Available

**City of Hawthorne**  
**Notes to Financial Statements (Continued)**

**Note 12 Joint Ventures (Continued)**

Complete financial statements for the SBRPCA may be obtained from the City's Finance Department.

Should the Authority liquidate, all members would receive their equity in the Authority based upon their cumulative contributions.

**SBPIC**

The South Bay Private Industry Council (SBPIC), a consortium formed by the Cities of Hawthorne, Inglewood, Gardena, El Segundo, Lawndale, Manhattan Beach, Redondo Beach and Hermosa Beach, became under the administrative control of the City of Hawthorne as of February 28, 2000. Prior to this date, the administrative control was at the City of Inglewood. The Board of the SBPIC is appointed by each member city; the SBPIC is not fiscally dependent on the primary government, and as such, the SBPIC is not considered a component unit of the City of Hawthorne. Federal, state and local grants fund the SBPIC and its purpose is to assist participants in job training and development. The financial information for SBPIC is recorded in the Special Revenue Funds as the South Bay Workforce Investment Board. Separate financial statements are not prepared.

**Note 13: Subsequent events**

In July 2006, the City Redevelopment Agency issued Tax Allocations Bonds, Series 2006 in the amount of \$29,085,000. The proceeds of the Bonds will be used to (a) provide funds to prepay the Public Funding Requirement of the Agency under the Owner Participation Agreement (OPA) dated September 26, 2003, and as amended by the Second Implementation Agreement as of July 11, 2006, with SAMS Venture, LLC, (b) provide for capitalized interest on the Bonds for a limited period of time, (c) obtain a Reserve Account Surety Bond, and (d) pay the costs of issuing the Bonds. The Bonds are payable from and secured by tax increment revenues arising from Project Area No 2 on a parity basis with the 1998 Bonds and the 2004 Bonds.

The bonds consist of \$3,950,000 serial bonds with annual maturity dates from September 1, 2011 through September 1, 2016, bearing interest ranging from 4.0% to 4.125%; \$9,485,000 term bonds bearing interest of 5.0% and maturing September 1, 2026; and \$15,650,000 term bonds bearing interest of 5.25% and maturing September 1, 2036.

CITY OF HAWTHORNE

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006

	Special Revenue Funds			
	Street Lighting	Gas Tax	Street	Asset Forfeiture
<b>Assets:</b>				
Cash and investments	\$ 749,310	\$ 273,694	\$ 212,988	\$ 292,785
Receivables:				
Accounts	-	258,104	46,076	-
Accrued interest	14,446	5,817	1,855	5,815
Taxes	41,012	-	23,207	-
Contracts and notes	-	-	-	-
Due from other governments	-	-	-	257,183
Restricted assets:				
Cash and investments with fiscal agents	-	-	-	-
<b>Total Assets</b>	<b>\$ 804,768</b>	<b>\$ 537,615</b>	<b>\$ 284,126</b>	<b>\$ 555,783</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 94,250	\$ 10,629	\$ 156,045	\$ 3,352
Accrued liabilities	898	-	10,007	-
Due to other funds	-	-	-	-
Deferred revenues	-	-	-	-
Unearned revenues	-	-	-	-
Deposits payable	-	-	-	-
Due to other governments	-	-	-	-
<b>Total Liabilities</b>	<b>95,148</b>	<b>10,629</b>	<b>166,052</b>	<b>3,352</b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for encumbrances	-	-	939	-
Unreserved:				
Designated for capital projects	-	-	-	-
Designated for debt service	-	-	-	-
Undesignated	709,620	526,986	117,135	552,431
<b>Total Fund Balances</b>	<b>709,620</b>	<b>526,986</b>	<b>118,074</b>	<b>552,431</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 804,768</b>	<b>\$ 537,615</b>	<b>\$ 284,126</b>	<b>\$ 555,783</b>

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006

	Special Revenue Funds			
	Anti Drug Abuse Grant	High Intensity Drug Trafficking	Proposition A	Proposition C
<b>Assets:</b>				
Cash and investments	\$ -	\$ -	\$ 360,645	\$ 483,890
Receivables:				
Accounts	813,843	285,000	-	-
Accrued interest	-	-	8,170	6,359
Taxes	-	-	-	-
Contracts and notes	-	-	-	-
Due from other governments	-	279,176	93,630	77,654
Restricted assets:				
Cash and investments with fiscal agents	-	-	-	-
<b>Total Assets</b>	<b>\$ 813,843</b>	<b>\$ 564,176</b>	<b>\$ 462,445</b>	<b>\$ 567,903</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 57,052	\$ 70,345	\$ 45,293	\$ 9,977
Accrued liabilities	-	11,159	-	3,238
Due to other funds	694,372	305,435	-	-
Deferred revenues	813,843	285,000	-	-
Unearned revenues	511,708	278,823	-	-
Deposits payable	-	-	-	-
Due to other governments	-	872,742	-	-
<b>Total Liabilities</b>	<b>2,076,975</b>	<b>1,823,504</b>	<b>45,293</b>	<b>13,215</b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for encumbrances	18,452	3,109	-	-
Unreserved:				
Designated for capital projects	-	-	120,000	-
Designated for debt service	-	-	-	-
Undesignated	(1,281,584)	(1,262,437)	297,152	554,688
<b>Total Fund Balances</b>	<b>(1,263,132)</b>	<b>(1,259,328)</b>	<b>417,152</b>	<b>554,688</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 813,843</b>	<b>\$ 564,176</b>	<b>\$ 462,445</b>	<b>\$ 567,903</b>

CITY OF HAWTHORNE

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006

	Special Revenue Funds			
	Rosecrans/ Aviation Project	Air Quality	Community Development Block Grant	California Used Oil Recycling
<b>Assets:</b>				
Cash and investments	\$ -	\$ 125,675	\$ 109,532	\$ -
Receivables:				
Accounts	-	-	-	-
Accrued interest	-	3,406	-	-
Taxes	-	-	-	-
Contracts and notes	-	-	3,932,441	-
Due from other governments	876,706	27,766	348,590	-
Restricted assets:				
Cash and investments with fiscal agents	-	-	-	-
<b>Total Assets</b>	<b>\$ 876,706</b>	<b>\$ 156,847</b>	<b>\$ 4,390,563</b>	<b>\$ -</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 524,690	\$ 1,640	\$ 10,011	\$ -
Accrued liabilities	-	-	5,109	274
Due to other funds	665,922	-	-	33,176
Deferred revenues	238,592	-	3,978,471	-
Unearned revenues	-	-	-	-
Deposits payable	-	-	16,385	-
Due to other governments	-	-	319,688	-
<b>Total Liabilities</b>	<b>1,429,204</b>	<b>1,640</b>	<b>4,329,664</b>	<b>33,450</b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for encumbrances	-	-	-	-
Unreserved:				
Designated for capital projects	-	-	-	-
Designated for debt service	-	-	-	-
Undesignated	(552,498)	155,207	60,899	(33,450)
<b>Total Fund Balances</b>	<b>(552,498)</b>	<b>155,207</b>	<b>60,899</b>	<b>(33,450)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 876,706</b>	<b>\$ 156,847</b>	<b>\$ 4,390,563</b>	<b>\$ -</b>

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006

	Special Revenue Funds			
	Local Law Enforcement Block Grant	COPS	COPS in School Grant	California Law Enforcement Equipment Grant
<b>Assets:</b>				
Cash and investments	\$ 105,229	\$ 156,451	\$ 14,048	\$ -
Receivables:				
Accounts	-	-	-	-
Accrued interest	1,842	3,328	-	-
Taxes	-	-	-	-
Contracts and notes	-	-	-	-
Due from other governments	-	-	-	-
Restricted assets:				
Cash and investments with fiscal agents	-	-	-	-
<b>Total Assets</b>	<b>\$ 107,071</b>	<b>\$ 159,779</b>	<b>\$ 14,048</b>	<b>\$ -</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Due to other funds	-	-	-	-
Deferred revenues	-	-	-	-
Unearned revenues	108,670	-	-	-
Deposits payable	-	-	-	-
Due to other governments	-	-	-	-
<b>Total Liabilities</b>	<b>108,670</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for encumbrances	-	-	-	-
Unreserved:				
Designated for capital projects	-	-	-	-
Designated for debt service	-	-	-	-
Undesignated	(1,599)	159,779	14,048	-
<b>Total Fund Balances</b>	<b>(1,599)</b>	<b>159,779</b>	<b>14,048</b>	<b>-</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 107,071</b>	<b>\$ 159,779</b>	<b>\$ 14,048</b>	<b>\$ -</b>



CITY OF HAWTHORNE

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006

	Special Revenue Funds				
	Safe Route to Schools Grant	California Office of Traffic Safety Grant	HOME Grant	L.A. Clearinghouse LLEBG	American Down Payment Dream Program
<b>Assets:</b>					
Cash and investments	\$ -	\$ 6,839	\$ -	\$ 1,087	\$ -
Receivables:					
Accounts	-	-	-	-	-
Accrued interest	-	-	-	-	-
Taxes	-	-	-	-	-
Contracts and notes	-	-	2,169,456	-	15,600
Due from other governments	-	21,319	17,266	-	-
Restricted assets:					
Cash and investments with fiscal agents	-	-	-	-	-
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 28,158</b>	<b>\$ 2,186,722</b>	<b>\$ 1,087</b>	<b>\$ 15,600</b>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ -	\$ 16,762	\$ -	\$ -
Accrued liabilities	-	-	2,311	-	-
Due to other funds	-	-	87,618	-	-
Deferred revenues	-	-	2,169,456	-	15,600
Unearned revenues	-	-	-	-	-
Deposits payable	-	-	-	-	-
Due to other governments	-	-	1,602	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>2,277,749</b>	<b>-</b>	<b>15,600</b>
<b>Fund Balances:</b>					
Reserved:					
Reserved for encumbrances	-	-	-	-	-
Unreserved:					
Designated for capital projects	-	-	-	-	-
Designated for debt service	-	-	-	-	-
Undesignated	-	28,158	(91,027)	1,087	-
<b>Total Fund Balances</b>	<b>-</b>	<b>28,158</b>	<b>(91,027)</b>	<b>1,087</b>	<b>-</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ 28,158</b>	<b>\$ 2,186,722</b>	<b>\$ 1,087</b>	<b>\$ 15,600</b>

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	Capital Project	Debt Service Funds		
	Funds	Community	Public	CIEDB
	Development	Redevelopment	Financing	Police Facility
	Impact	Agency	Authority	Lease Obligation
<b>Assets:</b>				
Cash and investments	\$ 666,795	\$ 2,841,944	\$ -	\$ 47,483
Receivables:				
Accounts	-	-	-	-
Accrued interest	-	-	-	-
Taxes	-	1,151,248	-	-
Contracts and notes	-	-	-	-
Due from other governments	-	-	-	-
Restricted assets:				
Cash and investments with fiscal agents	-	848,306	1,255,825	-
<b>Total Assets</b>	<b>\$ 666,795</b>	<b>\$ 4,841,498</b>	<b>\$ 1,255,825</b>	<b>\$ 47,483</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Due to other funds	-	-	139,265	-
Deferred revenues	-	-	-	-
Unearned revenues	-	-	-	-
Deposits payable	-	-	-	-
Due to other governments	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>139,265</b>	<b>-</b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for encumbrances	-	-	-	-
Unreserved:				
Designated for capital projects	666,795	-	-	-
Designated for debt service	-	4,841,498	1,116,560	47,483
Undesignated	-	-	-	-
<b>Total Fund Balances</b>	<b>666,795</b>	<b>4,841,498</b>	<b>1,116,560</b>	<b>47,483</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 666,795</b>	<b>\$ 4,841,498</b>	<b>\$ 1,255,825</b>	<b>\$ 47,483</b>

CITY OF HAWTHORNE

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006

	Debt Service Funds		Total Nonmajor Governmental Funds
	2005 PERS Obligation Bonds	SBRPCA 2001 Series B Bond	
<b>Assets:</b>			
Cash and investments	\$ 51,842	\$ -	\$ 6,500,237
Receivables:			
Accounts	-	-	1,403,023
Accrued interest	-	-	51,038
Taxes	-	-	1,215,467
Contracts and notes	-	-	6,117,497
Due from other governments	-	-	1,999,290
Restricted assets:			
Cash and investments with fiscal agents	-	372,378	2,476,509
<b>Total Assets</b>	<b>\$ 51,842</b>	<b>\$ 372,378</b>	<b>\$ 19,763,061</b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ -	\$ 1,000,046
Accrued liabilities	-	-	32,996
Due to other funds	-	-	1,925,788
Deferred revenues	-	-	7,500,962
Unearned revenues	-	-	899,201
Deposits payable	-	-	16,385
Due to other governments	-	-	1,194,032
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>12,569,410</b>
<b>Fund Balances:</b>			
Reserved:			
Reserved for encumbrances	-	-	22,500
Unreserved:			
Designated for capital projects	-	-	786,795
Designated for debt service	51,842	372,378	6,429,761
Undesignated	-	-	(45,405)
<b>Total Fund Balances</b>	<b>51,842</b>	<b>372,378</b>	<b>7,193,651</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 51,842</b>	<b>\$ 372,378</b>	<b>\$ 19,763,061</b>

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CITY OF HAWTHORNE

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			
	Street Lighting	Gas Tax	Street	Asset Forfeiture
<b>Revenues:</b>				
Taxes	\$ 538,460	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	2,153,714	46,076	-
Charges for services	-	-	216,220	-
Use of money and property	40,859	8,224	3,535	13,456
Fines and forfeitures	-	-	-	672,140
Contributions	-	-	-	-
Miscellaneous	-	-	14,288	-
<b>Total Revenues</b>	<b>579,319</b>	<b>2,161,938</b>	<b>280,119</b>	<b>685,596</b>
<b>Expenditures:</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	275,629
Community development	-	-	-	-
Library	-	-	-	-
Public works	1,008,313	39,095	1,466,057	-
Capital outlay	-	185,391	45,000	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Cost of issuance	-	-	-	-
<b>Total Expenditures</b>	<b>1,008,313</b>	<b>224,486</b>	<b>1,511,057</b>	<b>275,629</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(428,994)	1,937,452	(1,230,938)	409,967
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	1,190,000	-
Transfers out	-	(1,190,000)	-	-
Long term debt issued	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>(1,190,000)</b>	<b>1,190,000</b>	<b>-</b>
Net Change in Fund Balances	\$ (428,994)	\$ 747,452	\$ (40,938)	\$ 409,967
<b>Fund Balances</b>				
Beginning of year, as originally reported	\$ 1,138,614	\$ (220,466)	\$ 159,012	\$ 142,464
Restatements	-	-	-	-
Beginning of year, as restated	1,138,614	(220,466)	159,012	142,464
Net Change in Fund Balances	(428,994)	747,452	(40,938)	409,967
<b>End of Fiscal Year</b>	<b>\$ 709,620</b>	<b>\$ 526,986</b>	<b>\$ 118,074</b>	<b>\$ 552,431</b>

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			
	Anti Drug Abuse Grant	High Intensity Drug Trafficking	Proposition A	Proposition C
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	417,132	3,220,033	1,428,583	1,228,188
Charges for services	-	-	22,486	-
Use of money and property	-	-	25,366	7,965
Fines and forfeitures	-	-	-	-
Contributions	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total Revenues</b>	<b>417,132</b>	<b>3,220,033</b>	<b>1,476,435</b>	<b>1,236,153</b>
<b>Expenditures:</b>				
Current:				
General government	-	-	-	-
Public safety	386,840	3,169,126	-	-
Community development	-	-	-	-
Library	-	-	-	-
Public works	-	-	1,836,645	112,690
Capital outlay	-	-	-	603,383
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Cost of issuance	-	-	-	-
<b>Total Expenditures</b>	<b>386,840</b>	<b>3,169,126</b>	<b>1,836,645</b>	<b>716,073</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	30,292	50,907	(360,210)	520,080
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Long term debt issued	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	\$ 30,292	\$ 50,907	\$ (360,210)	\$ 520,080
<b>Fund Balances</b>				
Beginning of year, as originally reported	\$ (1,293,424)	\$ (1,310,235)	\$ 777,362	\$ 34,608
Restatements	-	-	-	-
Beginning of year, as restated	(1,293,424)	(1,310,235)	777,362	34,608
Net Change in Fund Balances	30,292	50,907	(360,210)	520,080
<b>End of Fiscal Year</b>	<b>\$ (1,263,132)</b>	<b>\$ (1,259,328)</b>	<b>\$ 417,152</b>	<b>\$ 554,688</b>

CITY OF HAWTHORNE

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			
	Rosecrans/ Aviation Project	Air Quality	Community Development Block Grant	California Used Oil Recycling
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	154,913	2,274,942	6,606
Charges for services	-	-	38,119	-
Use of money and property	-	14,621	-	-
Fines and forfeitures	-	-	-	-
Contributions	844,474	-	-	-
Miscellaneous	-	-	-	-
<b>Total Revenues</b>	<b>844,474</b>	<b>169,534</b>	<b>2,313,061</b>	<b>6,606</b>
<b>Expenditures:</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Community development	-	404,625	1,708,762	-
Library	-	-	-	-
Public works	-	-	-	38,106
Capital outlay	1,437,201	-	-	-
Debt service:				
Principal retirement	-	-	265,000	-
Interest and fiscal charges	-	-	378,517	-
Cost of issuance	-	-	-	-
<b>Total Expenditures</b>	<b>1,437,201</b>	<b>404,625</b>	<b>2,352,279</b>	<b>38,106</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(592,727)	(235,091)	(39,218)	(31,500)
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	-	-
Transfers out	(155,000)	-	-	-
Long term debt issued	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(155,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	\$ (747,727)	\$ (235,091)	\$ (39,218)	\$ (31,500)
<b>Fund Balances</b>				
Beginning of year, as originally reported	\$ 195,229	\$ 390,298	\$ 100,117	\$ (1,950)
Restatements	-	-	-	-
Beginning of year, as restated	195,229	390,298	100,117	(1,950)
Net Change in Fund Balances	(747,727)	(235,091)	(39,218)	(31,500)
<b>End of Fiscal Year</b>	<b>\$ (552,498)</b>	<b>\$ 155,207</b>	<b>\$ 60,899</b>	<b>\$ (33,450)</b>

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			
	Local Law Enforcement Block Grant	COPS	COPS in School Grant	California Law Enforcement Equipment Grant
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	128,114	-	-
Charges for services	-	-	-	-
Use of money and property	1,909	10,505	-	-
Fines and forfeitures	-	-	-	-
Contributions	-	-	-	-
Miscellaneous	-	-	-	49
<b>Total Revenues</b>	<b>1,909</b>	<b>138,619</b>	<b>-</b>	<b>49</b>
<b>Expenditures:</b>				
Current:				
General government	-	-	-	-
Public safety	17,577	225,522	-	-
Community development	-	-	-	-
Library	-	-	-	-
Public works	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Cost of issuance	-	-	-	-
<b>Total Expenditures</b>	<b>17,577</b>	<b>225,522</b>	<b>-</b>	<b>-</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(15,668)	(86,903)	-	49
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Long term debt issued	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	\$ (15,668)	\$ (86,903)	\$ -	\$ 49
<b>Fund Balances</b>				
Beginning of year, as originally reported	\$ 14,069	\$ 246,682	\$ 14,048	\$ (49)
Restatements	-	-	-	-
Beginning of year, as restated	14,069	246,682	14,048	(49)
Net Change in Fund Balances	(15,668)	(86,903)	-	49
<b>End of Fiscal Year</b>	<b>\$ (1,599)</b>	<b>\$ 159,779</b>	<b>\$ 14,048</b>	<b>\$ -</b>



CITY OF HAWTHORNE

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds				
	Safe Route to Schools Grant	California Office of Traffic Safety Grant	HOME Grant	L.A. Clearinghouse LLEBG	American Down Payment Dream Program
<b>Revenues:</b>					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Intergovernmental	-	21,319	847,973	-	-
Charges for services	-	-	284,981	-	-
Use of money and property	-	-	-	57	-
Fines and forfeitures	-	-	-	-	-
Contributions	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Revenues</b>	<b>-</b>	<b>21,319</b>	<b>1,132,954</b>	<b>57</b>	<b>-</b>
<b>Expenditures:</b>					
Current:					
General government	21	-	-	-	-
Public safety	-	21,319	-	7,745	-
Community development	-	-	1,199,499	-	-
Library	-	-	-	-	-
Public works	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Cost of issuance	-	-	-	-	-
<b>Total Expenditures</b>	<b>21</b>	<b>21,319</b>	<b>1,199,499</b>	<b>7,745</b>	<b>-</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(21)	-	(66,545)	(7,688)	-
<b>Other Financing Sources (Uses):</b>					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Long term debt issued	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	\$ (21)	\$ -	\$ (66,545)	\$ (7,688)	\$ -
<b>Fund Balances</b>					
Beginning of year, as originally reported	\$ 21	\$ 28,158	\$ (24,482)	\$ 8,775	\$ -
Restatements	-	-	-	-	-
Beginning of year, as restated	21	28,158	(24,482)	8,775	-
Net Change in Fund Balances	(21)	-	(66,545)	(7,688)	-
<b>End of Fiscal Year</b>	<b>\$ -</b>	<b>\$ 28,158</b>	<b>\$ (91,027)</b>	<b>\$ 1,087</b>	<b>\$ -</b>

**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006**

	Capital	Debt Service Funds		
	Project Funds	Community	Public	CIEDB
	Development	Redevelopment	Financing	Police Facility
	Impact	Agency	Authority	Lease Obligation
<b>Revenues:</b>				
Taxes	\$ -	\$ 3,792,892	\$ -	\$ -
Licenses and permits	434,279	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Use of money and property	2,470	45,721	7,836	-
Fines and forfeitures	-	-	-	-
Contributions	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total Revenues</b>	<b>436,749</b>	<b>3,838,613</b>	<b>7,836</b>	<b>-</b>
<b>Expenditures:</b>				
Current:				
General government	-	117,879	10,664	-
Public safety	-	-	-	-
Community development	153,463	-	-	-
Library	-	-	-	-
Public works	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	430,000	300,000	437,515
Interest and fiscal charges	-	865,322	416,998	833,292
Cost of issuance	-	-	-	-
<b>Total Expenditures</b>	<b>153,463</b>	<b>1,413,201</b>	<b>727,662</b>	<b>1,270,807</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	283,286	2,425,412	(719,826)	(1,270,807)
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	721,765	1,284,240
Transfers out	-	(1,510,000)	-	-
Long term debt issued	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>(1,510,000)</b>	<b>721,765</b>	<b>1,284,240</b>
Net Change in Fund Balances	\$ 283,286	\$ 915,412	\$ 1,939	\$ 13,433
<b>Fund Balances</b>				
Beginning of year, as originally reported	\$ 383,509	\$ 3,926,086	\$ 1,114,621	\$ 34,050
Restatements	-	-	-	-
Beginning of year, as restated	383,509	3,926,086	1,114,621	34,050
Net Change in Fund Balances	283,286	915,412	1,939	13,433
<b>End of Fiscal Year</b>	<b>\$ 666,795</b>	<b>\$ 4,841,498</b>	<b>\$ 1,116,560</b>	<b>\$ 47,483</b>

CITY OF HAWTHORNE

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	Debt Service Funds		Total Governmental Funds
	2005 PERS Obligation Bonds	SBRPCA 2001 Series B Bond	
<b>Revenues:</b>			
Taxes	\$ -	\$ -	\$ 4,331,352
Licenses and permits	-	-	434,279
Intergovernmental	-	-	11,927,593
Charges for services	-	-	561,806
Use of money and property	-	12,049	194,573
Fines and forfeitures	-	-	672,140
Contributions	-	-	844,474
Miscellaneous	1,868,437	-	1,882,774
<b>Total Revenues</b>	<b>1,868,437</b>	<b>12,049</b>	<b>20,848,991</b>
<b>Expenditures:</b>			
Current:			
General government	4,338,436	43,025	4,510,025
Public safety	14,473,007	-	18,576,765
Community development	8,130,956	-	11,597,305
Library	1,846,222	-	1,846,222
Public works	1,411,379	-	5,912,285
Capital outlay	-	-	2,270,975
Debt service:			
Principal retirement	610,000	145,000	2,187,515
Interest and fiscal charges	1,206,595	109,085	3,809,809
Cost of issuance	280,000	-	280,000
<b>Total Expenditures</b>	<b>32,296,595</b>	<b>297,110</b>	<b>50,990,901</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(30,428,158)	(285,061)	(30,141,910)
<b>Other Financing Sources (Uses):</b>			
Transfers in	-	345,122	3,541,127
Transfers out	-	-	(2,855,000)
Long term debt issued	30,480,000	-	30,480,000
<b>Total Other Financing Sources (Uses)</b>	<b>30,480,000</b>	<b>345,122</b>	<b>31,166,127</b>
Net Change in Fund Balances	\$ 51,842	\$ 60,061	\$ 1,024,217
<b>Fund Balances</b>			
Beginning of year, as originally reported	\$ -	\$ -	\$ 5,857,117
Restatements	-	312,317	312,317
Beginning of year, as restated	-	312,317	6,169,434
Net Change in Fund Balances	51,842	60,061	1,024,217
<b>End of Fiscal Year</b>	<b>\$ 51,842</b>	<b>\$ 372,378</b>	<b>\$ 7,193,651</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 STREET LIGHTING  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,138,614	\$ 1,138,614	\$ 1,138,614	\$ -
<b>Resources (Inflows):</b>				
Taxes	550,000	550,000	538,460	(11,540)
Use of money and property	8,000	8,000	40,859	32,859
<b>Amounts Available for Appropriation</b>	<b>1,696,614</b>	<b>1,696,614</b>	<b>1,717,933</b>	<b>21,319</b>
<b>Charges to Appropriation (Outflow):</b>				
Public works	1,528,718	1,528,919	1,008,313	520,606
<b>Total Charges to Appropriations</b>	<b>1,528,718</b>	<b>1,528,919</b>	<b>1,008,313</b>	<b>520,606</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 167,896</b>	<b>\$ 167,695</b>	<b>\$ 709,620</b>	<b>\$ 541,925</b>

CITY OF HAWTHORNE

**BUDGETARY COMPARISON SCHEDULE  
GAS TAX  
YEAR ENDED JUNE 30, 2006**

	<b>Budget Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Budgetary Fund Balance, July 1	\$(220,466)	\$ (220,466)	\$ (220,466)	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	1,973,681	1,973,681	2,153,714	180,033
Use of money and property	-	-	8,224	8,224
<b>Amounts Available for Appropriation</b>	<b>1,753,215</b>	<b>1,753,215</b>	<b>1,941,472</b>	<b>188,257</b>
<b>Charges to Appropriation (Outflow):</b>				
Public works	359,673	151,392	39,095	112,297
Capital outlay	200,000	566,150	185,391	380,759
Transfers to other funds	1,190,000	1,190,000	1,190,000	-
<b>Total Charges to Appropriations</b>	<b>1,749,673</b>	<b>1,907,542</b>	<b>1,414,486</b>	<b>493,056</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 3,542</b>	<b>\$ (154,327)</b>	<b>\$ 526,986</b>	<b>\$ 681,313</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 STREET  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 159,012	\$ 159,012	\$ 159,012	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	46,076	46,076	46,076	-
Charges for services	215,000	215,000	216,220	1,220
Use of money and property	-	-	3,535	3,535
Other	-	71,000	14,288	(56,712)
Transfers from other funds	-	1,190,000	1,190,000	-
<b>Amounts Available for Appropriation</b>	<b>420,088</b>	<b>1,681,088</b>	<b>1,629,131</b>	<b>(51,957)</b>
<b>Charges to Appropriation (Outflow):</b>				
Public works	1,273,296	1,448,811	1,466,057	(17,246)
Capital outlay	75,000	112,846	45,000	67,846
<b>Total Charges to Appropriations</b>	<b>1,348,296</b>	<b>1,561,657</b>	<b>1,511,057</b>	<b>50,600</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (928,208)</b>	<b>\$ 119,431</b>	<b>\$ 118,074</b>	<b>\$ (1,357)</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 ASSET FORFEITURE  
 YEAR ENDED JUNE 30, 2006

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1	\$ 142,464	\$ 142,464	\$ 142,464	\$ -
<b>Resources (Inflows):</b>				
Use of money and property	2,000	2,000	13,456	11,456
Fines and forfeitures	275,000	275,000	672,140	397,140
<b>Amounts Available for Appropriation</b>	<b>419,464</b>	<b>419,464</b>	<b>828,060</b>	<b>408,596</b>
<b>Charges to Appropriation (Outflow):</b>				
Public safety	338,848	338,848	275,629	63,219
<b>Total Charges to Appropriations</b>	<b>338,848</b>	<b>338,848</b>	<b>275,629</b>	<b>63,219</b>
 Budgetary Fund Balance, June 30	 <b>\$ 80,616</b>	 <b>\$ 80,616</b>	 <b>\$ 552,431</b>	 <b>\$ 471,815</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 ANTI DRUG ABUSE GRANT  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (1,293,424)	\$ (1,293,424)	\$ (1,293,424)	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	1,151,146	1,151,146	417,132	(734,014)
<b>Amounts Available for Appropriation</b>	<b>(142,278)</b>	<b>(142,278)</b>	<b>(876,292)</b>	<b>(734,014)</b>
<b>Charges to Appropriation (Outflow):</b>				
Public safety	1,151,146	1,151,146	386,840	764,306
<b>Total Charges to Appropriations</b>	<b>1,151,146</b>	<b>1,151,146</b>	<b>386,840</b>	<b>764,306</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (1,293,424)</b>	<b>\$ (1,293,424)</b>	<b>\$ (1,263,132)</b>	<b>\$ 30,292</b>



CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 HIGH INTENSITY DRUG TRAFFICKING  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (1,310,235)	\$ (1,310,235)	\$ (1,310,235)	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	4,899,371	4,899,371	3,220,033	(1,679,338)
<b>Amounts Available for Appropriation</b>	<b>3,589,136</b>	<b>3,589,136</b>	<b>1,909,798</b>	<b>(1,679,338)</b>
<b>Charges to Appropriation (Outflow):</b>				
Public safety	4,899,371	4,899,371	3,169,126	1,730,245
<b>Total Charges to Appropriations</b>	<b>4,899,371</b>	<b>4,899,371</b>	<b>3,169,126</b>	<b>1,730,245</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (1,310,235)</b>	<b>\$ (1,310,235)</b>	<b>\$ (1,259,328)</b>	<b>\$ 50,907</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 PROPOSITION A  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 777,362	\$ 777,362	\$ 777,362	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	1,284,172	1,284,172	1,428,583	144,411
Charges for Services	25,000	25,000	22,486	(2,514)
Use of money and property	7,000	7,000	25,366	18,366
<b>Amounts Available for Appropriation</b>	<b>2,093,534</b>	<b>2,093,534</b>	<b>2,253,797</b>	<b>160,263</b>
<b>Charges to Appropriation (Outflow):</b>				
Public works	1,960,253	1,960,253	1,836,645	123,608
<b>Total Charges to Appropriations</b>	<b>1,960,253</b>	<b>1,960,253</b>	<b>1,836,645</b>	<b>123,608</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 133,281</b>	<b>\$ 133,281</b>	<b>\$ 417,152</b>	<b>\$ 283,871</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 PROPOSITION C  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 34,608	\$ 34,608	\$ 34,608	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	1,065,139	1,065,139	1,228,188	163,049
Use of money and property	-	-	7,965	7,965
<b>Amounts Available for Appropriation</b>	<b>1,099,747</b>	<b>1,099,747</b>	<b>1,270,761</b>	<b>171,014</b>
<b>Charges to Appropriation (Outflow):</b>				
Public works	355,108	355,734	112,690	243,044
Capital outlay	890,000	890,000	603,383	286,617
<b>Total Charges to Appropriations</b>	<b>1,245,108</b>	<b>1,245,734</b>	<b>716,073</b>	<b>529,661</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (145,361)</b>	<b>\$ (145,987)</b>	<b>\$ 554,688</b>	<b>\$ 700,675</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 ROSECRANS/AVIATION PROJECT  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 195,229	\$ 195,229	\$ 195,229	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	5,923,000	5,623,000	-	(5,623,000)
Contributions	500,000	500,000	-	(500,000)
Developer fees	-	206,360	844,474	638,114
<b>Amounts Available for Appropriation</b>	<b>6,618,229</b>	<b>6,524,589</b>	<b>1,039,703</b>	<b>(5,484,886)</b>
<b>Charges to Appropriation (Outflow):</b>				
Capital outlay	6,598,860	6,505,220	1,437,201	5,068,019
<b>Total Charges to Appropriations</b>	<b>6,598,860</b>	<b>6,505,220</b>	<b>1,592,201</b>	<b>4,913,019</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 19,369</b>	<b>\$ 19,369</b>	<b>\$ (552,498)</b>	<b>\$ (571,867)</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 AIR QUALITY  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1 as restated	\$ 390,298	\$ 390,298	\$ 390,298	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	100,000	100,000	154,913	54,913
Use of money and property	2,000	2,000	14,621	12,621
<b>Amounts Available for Appropriation</b>	<b>492,298</b>	<b>492,298</b>	<b>559,832</b>	<b>67,534</b>
<b>Charges to Appropriation (Outflow):</b>				
Community development	101,637	471,845	404,625	67,220
<b>Total Charges to Appropriations</b>	<b>101,637</b>	<b>471,845</b>	<b>404,625</b>	<b>67,220</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 390,661</b>	<b>\$ 20,453</b>	<b>\$ 155,207</b>	<b>\$ 134,754</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 COMMUNITY DEVELOPMENT BLOCK GRANT  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 100,117	\$ 100,117	\$ 100,117	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	6,052,226	3,552,226	2,274,942	(1,277,284)
Charges for services	145,000	145,000	38,119	(106,881)
<b>Amounts Available for Appropriation</b>	<b>6,297,343</b>	<b>3,797,343</b>	<b>2,413,178</b>	<b>(1,384,165)</b>
<b>Charges to Appropriation (Outflow):</b>				
Community development	5,553,709	3,092,907	1,708,762	1,384,145
Debt service:				
Principal	265,000	265,000	265,000	-
Interest and fiscal charges	378,517	378,517	378,517	-
<b>Total Charges to Appropriations</b>	<b>6,197,226</b>	<b>3,736,424</b>	<b>2,352,279</b>	<b>1,384,145</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 100,117</b>	<b>\$ 60,919</b>	<b>\$ 60,899</b>	<b>\$ (20)</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 CALIFORNIA USED OIL RECYCLING  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (1,950)	\$ (1,950)	\$ (1,950)	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	55,802	55,802	6,606	(49,196)
Use of money and property	200	200	-	(200)
<b>Amounts Available for Appropriation</b>	<b>54,052</b>	<b>54,052</b>	<b>4,656</b>	<b>(49,396)</b>
<b>Charges to Appropriation (Outflow):</b>				
Public works	56,002	58,905	38,106	20,799
<b>Total Charges to Appropriations</b>	<b>56,002</b>	<b>58,905</b>	<b>38,106</b>	<b>20,799</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (1,950)</b>	<b>\$ (4,853)</b>	<b>\$ (33,450)</b>	<b>\$ (28,597)</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 COPS  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 246,682	\$ 246,682	\$ 246,682	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	130,000	130,000	128,114	(1,886)
Invest income	2,500	2,500	10,505	8,005
<b>Amounts Available for Appropriation</b>	<b>379,182</b>	<b>379,182</b>	<b>385,301</b>	<b>6,119</b>
<b>Charges to Appropriation (Outflow):</b>				
Public safety	201,569	201,569	225,522	(23,953)
<b>Total Charges to Appropriations</b>	<b>201,569</b>	<b>201,569</b>	<b>225,522</b>	<b>(23,953)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 177,613</b>	<b>\$ 177,613</b>	<b>\$ 159,779</b>	<b>\$ (17,834)</b>



CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 HOME GRANT  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (24,482)	\$ (24,482)	\$ (24,482)	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	3,394,574	3,394,574	847,973	(2,546,601)
Charges for Services	-	-	284,981	284,981
<b>Amounts Available for Appropriation</b>	<b>3,370,092</b>	<b>3,370,092</b>	<b>1,108,472</b>	<b>(2,261,620)</b>
<b>Charges to Appropriation (Outflow):</b>				
Public services	3,394,574	3,394,574	1,199,499	2,195,075
<b>Total Charges to Appropriations</b>	<b>3,394,574</b>	<b>3,394,574</b>	<b>1,199,499</b>	<b>2,195,075</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (24,482)</b>	<b>\$ (24,482)</b>	<b>\$ (91,027)</b>	<b>\$ (66,545)</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 L.A. CLEARINGHOUSE LLEBG  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 8,775	\$ 8,775	\$ 8,775	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	15,000	15,000	-	(15,000)
Use of money and property	-	-	57	57
<b>Amounts Available for Appropriation</b>	<b>23,775</b>	<b>23,775</b>	<b>8,832</b>	<b>(14,943)</b>
<b>Charges to Appropriation (Outflow):</b>				
Public safety	15,000	15,000	7,745	7,255
<b>Total Charges to Appropriations</b>	<b>15,000</b>	<b>15,000</b>	<b>7,745</b>	<b>7,255</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 8,775</b>	<b>\$ 8,775</b>	<b>\$ 1,087</b>	<b>\$ (7,688)</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 AMERICAN DOWN PAYMENT DREAM PROGRAM  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ -	\$ -	\$ -	\$ -
<b>Resources (inflows):</b>				
Intergovernmental	34,539	34,539	-	(34,539)
<b>Amounts Available for Appropriation</b>	<b>34,539</b>	<b>34,539</b>	-	<b>(34,539)</b>
<b>Charges to appropriation (outflow):</b>				
Public services	34,539	34,539	-	34,539
<b>Total Charges to Appropriations</b>	<b>34,539</b>	<b>34,539</b>	-	<b>34,539</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 DEVELOPMENT IMPACT  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 383,509	\$ 383,509	\$ 383,509	\$ -
<b>Resources (Inflows):</b>				
Licenses and permits	250,000	250,000	434,279	184,279
Use of money and property	-	-	2,470	2,470
<b>Amounts Available for Appropriation</b>	<b>633,509</b>	<b>633,509</b>	<b>820,258</b>	<b>186,749</b>
<b>Charges to Appropriation (Outflow):</b>				
Community development	31,062	31,062	153,463	(122,401)
<b>Total Charges to Appropriations</b>	<b>31,062</b>	<b>31,062</b>	<b>153,463</b>	<b>(122,401)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 602,447</b>	<b>\$ 602,447</b>	<b>\$ 666,795</b>	<b>\$ 64,348</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 COMMUNITY REDEVELOPMENT AGENCY - CAPITAL PROJECTS  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (48,861,354)	\$ (48,861,354)	\$ (48,861,354)	\$ -
<b>Resources (Inflows):</b>				
Taxes	855,000	1,100,000	1,344,520	244,520
Use of money and property	80,000	80,000	221,041	141,041
Miscellaneous	600	600	590	(10)
Contributions	250,000	250,000	250,000	-
Transfers from other funds	1,510,000	1,645,000	1,645,000	-
<b>Amounts Available for Appropriation</b>	<b>(46,165,754)</b>	<b>(45,785,754)</b>	<b>(45,400,203)</b>	<b>385,551</b>
<b>Charges to Appropriation (Outflow):</b>				
General government	866,975	865,290	2,337,237	(1,471,947)
Community development	3,477,000	5,741,000	3,274,123	2,466,877
Debt service:				
Principal	112,086	112,086	112,086	-
Interest and fiscal charges	1,787,601	1,787,601	5,393,703	(3,606,102)
<b>Total Charges to Appropriations</b>	<b>6,243,662</b>	<b>8,505,977</b>	<b>11,117,149</b>	<b>(2,611,172)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (52,409,416)</b>	<b>\$ (54,291,731)</b>	<b>\$ (56,517,352)</b>	<b>\$ (2,225,621)</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 COMMUNITY REDEVELOPMENT AGENCY - DEBT SERVICE  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 3,926,086	\$ 3,926,086	\$ 3,926,086	\$ -
<b>Resources (Inflows):</b>				
Taxes	2,567,400	5,005,000	3,792,892	(1,212,108)
Use of money and property	55,000	55,000	45,721	(9,279)
Transfers from other funds	-	705,000	-	(705,000)
<b>Amounts Available for Appropriation</b>	<b>6,548,486</b>	<b>9,691,086</b>	<b>7,764,699</b>	<b>(1,926,387)</b>
<b>Charges to Appropriation (Outflow):</b>				
General government	130,218	130,218	117,879	12,339
Principal	430,000	430,000	430,000	-
Interest and fiscal charges	865,321	865,321	865,322	(1)
Transfers to other funds	2,215,000	2,215,000	1,510,000	705,000
<b>Total Charges to Appropriations</b>	<b>3,640,539</b>	<b>3,640,539</b>	<b>2,923,201</b>	<b>717,338</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 2,907,947</b>	<b>\$ 6,050,547</b>	<b>\$ 4,841,498</b>	<b>\$ (1,209,049)</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 PUBLIC FINANCING AUTHORITY  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,114,621	\$ 1,114,621	\$ 1,114,621	\$ -
<b>Resources (Inflows):</b>				
Use of money and property	3,000	3,000	7,836	4,836
Transfers from other funds	-	725,500	721,765	(3,735)
<b>Amounts Available for Appropriation</b>	<b>1,117,621</b>	<b>1,843,121</b>	<b>1,844,222</b>	<b>1,101</b>
<b>Charges to Appropriation (Outflow):</b>				
General government	11,067	11,067	10,664	403
Principal	300,000	300,000	300,000	-
Interest and fiscal charges	416,997	416,997	416,998	(1)
<b>Total Charges to Appropriations</b>	<b>728,064</b>	<b>728,064</b>	<b>727,662</b>	<b>402</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 389,557</b>	<b>\$ 1,115,057</b>	<b>\$ 1,116,560</b>	<b>\$ 1,503</b>

CITY OF HAWTHORNE

BUDGETARY COMPARISON SCHEDULE  
 CIEDB POLICE FACILITY LEASE OBLIGATION  
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 34,050	\$ 34,050	\$ 34,050	\$ -
<b>Resources (Inflows):</b>				
Transfers from other funds	-	1,284,240	1,284,240	-
<b>Amounts Available for Appropriation</b>	<b>34,050</b>	<b>1,318,290</b>	<b>1,318,290</b>	<b>-</b>
<b>Charges to Appropriation (Outflow):</b>				
Debt Service:				
Principal	437,515	437,515	437,515	-
Interest and fiscal charges	846,725	846,725	833,292	13,433
<b>Total Charges to Appropriations</b>	<b>1,284,240</b>	<b>1,284,240</b>	<b>1,270,807</b>	<b>13,433</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (1,250,190)</b>	<b>\$ 34,050</b>	<b>\$ 47,483</b>	<b>\$ 13,433</b>



CITY OF HAWTHORNE

COMBINING STATEMENT OF NET ASSETS  
NONMAJOR PROPRIETARY FUNDS  
JUNE 30, 2006

	Airport	Sewer and Storm Drain	Totals
<b>Assets:</b>			
Current:			
Cash and investments	\$ -	\$ 505,601	\$ 505,601
Receivables:			
Accounts	55,804	104,110	159,914
Due from other governments	103,901	-	103,901
<b>Total Current Assets</b>	<b>159,705</b>	<b>609,711</b>	<b>769,416</b>
Noncurrent:			
Capital assets - net of accumulated depreciation	2,701,832	211,816	2,913,648
<b>Total Noncurrent Assets</b>	<b>2,701,832</b>	<b>211,816</b>	<b>2,913,648</b>
<b>Total Assets</b>	<b>\$ 2,861,537</b>	<b>\$ 821,527</b>	<b>\$ 3,683,064</b>
<b>Liabilities and Net Assets:</b>			
<b>Liabilities:</b>			
Current:			
Accounts payable	\$ 386,853	\$ 348	\$ 387,201
Accrued liabilities	3,630	7,563	11,193
Deposits payable	694	-	694
Due to other governments	83	-	83
Due to other funds	327,701	-	327,701
<b>Total Current Liabilities</b>	<b>718,961</b>	<b>7,911</b>	<b>726,872</b>
Noncurrent:			
Compensated absences	35,664	-	35,664
<b>Total Noncurrent Liabilities</b>	<b>35,664</b>	<b>-</b>	<b>35,664</b>
<b>Total Liabilities</b>	<b>754,625</b>	<b>7,911</b>	<b>762,536</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	2,701,832	211,816	2,913,648
Unrestricted	(594,920)	601,800	6,880
<b>Total Net Assets</b>	<b>2,106,912</b>	<b>813,616</b>	<b>2,920,528</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,861,537</b>	<b>\$ 821,527</b>	<b>\$ 3,683,064</b>

CITY OF HAWTHORNE

COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
NONMAJOR PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

	<u>Airport</u>	<u>Sewer and Storm Drain</u>	<u>Totals</u>
<b>Operating Revenues:</b>			
Sales and service charges	\$ 218,612	\$ 1,044,625	\$ 1,263,237
Miscellaneous	45,414	4,683	50,097
<b>Total Operating Revenues</b>	<b><u>264,026</u></b>	<b><u>1,049,308</u></b>	<b><u>1,313,334</u></b>
<b>Operating Expenses:</b>			
Source of supply	75,622	99,770	175,392
Cost of sales and services	283,892	30,801	314,693
Administration and general	555,404	353,156	908,560
Depreciation	154,491	26,338	180,829
<b>Total Operating Expenses</b>	<b><u>1,069,409</u></b>	<b><u>510,065</u></b>	<b><u>1,579,474</u></b>
Operating Income (Loss)	<u>(805,383)</u>	<u>539,243</u>	<u>(266,140)</u>
<b>Nonoperating Revenues (Expenses):</b>			
Intergovernmental	203,974	-	203,974
Interest revenue	372,878	-	372,878
<b>Total Nonoperating Revenues (Expenses)</b>	<b><u>576,852</u></b>	<b><u>-</u></b>	<b><u>576,852</u></b>
Income (Loss) Before Contributions	(228,531)	539,243	310,712
Contributions from developer	-	40,000	40,000
Changes in Net Assets	(228,531)	579,243	350,712
<b>Net Assets:</b>			
Beginning of Fiscal Year	<u>2,335,443</u>	<u>234,373</u>	<u>2,569,816</u>
<b>End of Fiscal Year</b>	<b><u>\$ 2,106,912</u></b>	<b><u>\$ 813,616</u></b>	<b><u>\$ 2,920,528</u></b>

CITY OF HAWTHORNE

STATEMENT OF CASH FLOWS  
 NONMAJOR PROPRIETARY FUNDS  
 YEAR ENDED JUNE 30, 2006

	Airport	Sewer and Storm Drain	Totals
<b>Cash Flows from Operating Activities:</b>			
Cash received from customers and users	\$ 275,502	\$ 965,270	\$ 1,240,772
Cash paid to supplies for good and services	(327,101)	(156,387)	(483,488)
Cash paid to employees for services	(663,076)	(349,055)	(1,012,131)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(714,675)</b>	<b>459,828</b>	<b>(254,847)</b>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Contributions from developer	-	40,000	40,000
Due to other funds	259,674	-	259,674
Subsidy from grants	100,073	-	100,073
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>359,747</b>	<b>40,000</b>	<b>399,747</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Purchases of capital assets	(17,950)	(39,349)	(57,299)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(17,950)</b>	<b>(39,349)</b>	<b>(57,299)</b>
<b>Cash Flows from Investing Activities:</b>			
Interest received	372,878	-	372,878
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>372,878</b>	<b>-</b>	<b>372,878</b>
Net Increase (Decrease) in Cash and Cash Equivalents	-	460,479	460,479
Cash and Cash Equivalents at Beginning of Year	-	45,122	45,122
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ -</b>	<b>\$ 505,601</b>	<b>\$ 505,601</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>			
Operating income (loss)	\$ (805,383)	\$ 539,243	\$ (266,140)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	154,491	26,338	180,829
(Increase) decrease in accounts receivable	11,476	(84,038)	(72,562)
Increase (decrease) in accounts payable	68,487	(25,816)	42,671
Increase (decrease) in accrued liabilities	(4,239)	4,101	(138)
Increase (decrease) in deposits payable	(36,074)	-	(36,074)
Increase (decrease) in compensated absences payable	(103,433)	-	(103,433)
<b>Total Adjustments</b>	<b>90,708</b>	<b>(79,415)</b>	<b>11,293</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (714,675)</b>	<b>\$ 459,828</b>	<b>\$ (254,847)</b>

**Non-Cash Investing, Capital, and Financing Activities:**

There were no non-cash activities during the year.

CITY OF HAWTHORNE

COMBINING STATEMENT OF NET ASSETS  
INTERNAL SERVICE FUNDS  
JUNE 30, 2006

Assets:	Equipment Replacement	Insurance Reserve	Total
Current:			
Cash and investments	\$ 694,483	\$ -	\$ 694,483
Receivables:			
Accounts	-	9,627	9,627
Contracts and notes	310,000	-	310,000
Inventories	14,311	-	14,311
Deposits	-	167,263	167,263
<b>Total Current Assets</b>	<b>1,018,794</b>	<b>176,890</b>	<b>1,195,684</b>
Noncurrent:			
Capital assets - net of accumulated depreciation	1,339,579	-	1,339,579
<b>Total Noncurrent Assets</b>	<b>1,339,579</b>	<b>-</b>	<b>1,339,579</b>
<b>Total Assets</b>	<b>\$ 2,358,373</b>	<b>\$ 176,890</b>	<b>\$ 2,535,263</b>
<b>Liabilities and Fund Equity:</b>			
<b>Liabilities:</b>			
Current:			
Accounts payable	\$ 83,795	\$ 184,710	\$ 268,505
Accrued liabilities	6,395	4,551	10,946
Due To Other Funds	-	383,093	383,093
Lease payable	160,816	-	160,816
<b>Total Current Liabilities</b>	<b>251,006</b>	<b>572,354</b>	<b>823,360</b>
Noncurrent:			
Claims payable	-	3,323,774	3,323,774
Compensated absences	57,269	-	57,269
Lease payable	109,890	-	109,890
<b>Total Noncurrent Liabilities</b>	<b>167,159</b>	<b>3,323,774</b>	<b>3,490,933</b>
<b>Total Liabilities</b>	<b>418,165</b>	<b>3,896,128</b>	<b>4,314,293</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	1,068,873	-	1,068,873
Unrestricted	871,335	(3,719,238)	(2,847,903)
<b>Total Net Assets</b>	<b>1,940,208</b>	<b>(3,719,238)</b>	<b>(1,779,030)</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,358,373</b>	<b>\$ 176,890</b>	<b>\$ 2,535,263</b>

CITY OF HAWTHORNE

COMBINING STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET ASSETS  
INTERNAL SERVICE FUNDS  
YEAR ENDED JUNE 30, 2006

	<u>Equipment Replacement</u>	<u>Insurance Reserve</u>	<u>Totals</u>
<b>Operating Revenues:</b>			
Sales and service charges	\$ 2,235,492	\$ 2,696,724	\$ 4,932,216
Miscellaneous	38,144	73,467	111,611
<b>Total Operating Revenues</b>	<b><u>2,273,636</u></b>	<b><u>2,770,191</u></b>	<b><u>5,043,827</u></b>
<b>Operating Expenses:</b>			
Materials and supplies	640,630	-	640,630
Contractual services	62,921	3,362,332	3,425,253
Administration and general	435,394	252,484	687,878
Depreciation	557,760	-	557,760
<b>Total Operating Expenses</b>	<b><u>1,696,705</u></b>	<b><u>3,614,816</u></b>	<b><u>5,311,521</u></b>
Operating Income (Loss)	576,931	(844,625)	(267,694)
Capital Contributions	330,123	-	330,123
Transfers Out	(675,000)	(1,750,000)	(2,425,000)
Change in Net Assets	232,054	(2,594,625)	(2,362,571)
<b>Net Assets:</b>			
Beginning of Fiscal Year	<u>1,708,154</u>	<u>(1,124,613)</u>	<u>583,541</u>
<b>End of Fiscal Year</b>	<b><u>\$ 1,940,208</u></b>	<b><u>\$ (3,719,238)</u></b>	<b><u>\$ (1,779,030)</u></b>

CITY OF HAWTHORNE

COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
YEAR ENDED JUNE 30, 2006

	Equipment Replacement	Insurance Reserve	Totals
<b>Cash Flows from Operating Activities:</b>			
Cash received from customers and users	\$ 2,273,636	\$ 2,718,301	\$ 4,991,937
Cash payments to supplies for good and services	(707,806)	(2,878,941)	(3,586,747)
Cash payments to employees for services	(427,606)	(251,902)	(679,508)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>1,138,224</b>	<b>(412,542)</b>	<b>725,682</b>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Cash transfer to other funds	(675,000)	(1,750,000)	(2,425,000)
Due to other funds	-	383,093	383,093
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>(675,000)</b>	<b>(1,366,907)</b>	<b>(2,041,907)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Capital contributions	330,123	-	330,123
Purchases of capital assets	(680,619)	-	(680,619)
Principal paid on capital debt	159,958	-	159,958
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(190,538)</b>	<b>-</b>	<b>(190,538)</b>
Net Increase (Decrease) in Cash and Cash Equivalents	272,686	(1,779,449)	(1,506,763)
Cash and Cash Equivalents, Beginning of Year	421,797	1,779,449	2,201,246
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 694,483</b>	<b>\$ -</b>	<b>\$ 694,483</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>			
Operating income (loss)	\$ 576,931	\$ (844,625)	\$ (267,694)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	557,760	-	557,760
(Increase) decrease in accounts receivable	-	(9,627)	(9,627)
(Increase) decrease in deposits	-	(42,263)	(42,263)
Increase (decrease) in accounts payable	(4,255)	(31,946)	(36,201)
Increase (decrease) in accrued liabilities	1,335	582	1,917
Increase (decrease) in compensated absences payable	6,453	-	6,453
Increase (decrease) in claims and judgments payable	-	515,337	515,337
<b>Total Adjustments</b>	<b>561,293</b>	<b>432,083</b>	<b>993,376</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 1,138,224</b>	<b>\$ (412,542)</b>	<b>\$ 725,682</b>

**Non-Cash Investing, Capital, and Financing Activities:**  
There were no non-cash activities during the year.

CITY OF HAWTHORNE

COMBINING BALANCE SHEET  
 ALL AGENCY FUNDS  
 JUNE 30, 2006

	<u>Community Facilities District</u>	<u>City Agency</u>	<u>Totals</u>
<b>Assets:</b>			
Cash and investments	\$ 1,743,683	\$ 993,677	\$ 2,737,360
Restricted assets:			
Cash with fiscal agent	<u>5,145,228</u>	<u>-</u>	<u>5,145,228</u>
<b>Total Assets</b>	<b><u>\$ 6,888,911</u></b>	<b><u>\$ 993,677</u></b>	<b><u>\$ 7,882,588</u></b>
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ 22,870	\$ 22,870
Accrued liabilities	621,000	-	621,000
Deposits	-	970,807	970,807
Due to bondholders	<u>6,267,911</u>	<u>-</u>	<u>6,267,911</u>
<b>Total Liabilities</b>	<b><u>\$ 6,888,911</u></b>	<b><u>\$ 993,677</u></b>	<b><u>\$ 7,882,588</u></b>

CITY OF HAWTHORNE

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 ALL AGENCY FUNDS  
 YEAR ENDED JUNE 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b><u>Community Facilities District</u></b>				
<b>Assets:</b>				
Cash and investments	\$ 1,694,736	\$ 3,475,555	\$ 3,426,608	\$ 1,743,683
Restricted assets				
Cash with fiscal agent	7,053,741	3,324,399	5,232,912	5,145,228
<b>Total Assets</b>	<b>\$ 8,748,477</b>	<b>\$ 6,799,954</b>	<b>\$ 8,659,520</b>	<b>\$ 6,888,911</b>
<b>Liabilities:</b>				
Accounts payable	\$ 84,754	\$ 112,242	\$ 196,996	\$ -
Accrued liabilities	621,000			621,000
Due to bondholders	8,042,723	27,931,293	29,706,105	6,267,911
<b>Total Liabilities</b>	<b>\$ 8,748,477</b>	<b>\$ 28,043,535</b>	<b>\$ 29,903,101</b>	<b>\$ 6,888,911</b>
<b><u>City Agency</u></b>				
<b>Assets:</b>				
Cash and investments	\$ 576,461	\$ 5,062,157	\$ 4,644,941	\$ 993,677
<b>Total Assets</b>	<b>\$ 576,461</b>	<b>\$ 5,062,157</b>	<b>\$ 4,644,941</b>	<b>\$ 993,677</b>
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ 943,210	\$ 920,340	\$ 22,870
Deposits payable	576,461	5,077,009	4,682,663	970,807
<b>Total Liabilities</b>	<b>\$ 576,461</b>	<b>\$ 6,020,219</b>	<b>\$ 5,603,003</b>	<b>\$ 993,677</b>
<b><u>All Agency Funds</u></b>				
<b>Assets:</b>				
Cash and investments	\$ 2,271,197	\$ 8,537,712	\$ 8,071,549	\$ 2,737,360
Restricted assets				
Cash with fiscal agent	7,053,741	3,324,399	5,232,912	5,145,228
<b>Total Assets</b>	<b>\$ 9,324,938</b>	<b>\$ 11,862,111</b>	<b>\$ 13,304,461</b>	<b>\$ 7,882,588</b>
<b>Liabilities:</b>				
Accounts payable	\$ 84,754	\$ 1,055,452	\$ 1,117,336	\$ 22,870
Accrued liabilities	621,000	-	-	621,000
Deposits payable	576,461	5,077,009	4,682,663	970,807
Due to bondholders	8,042,723	27,931,293	29,706,105	6,267,911
<b>Total Liabilities</b>	<b>\$ 9,324,938</b>	<b>\$ 34,063,754</b>	<b>\$ 35,506,104</b>	<b>\$ 7,882,588</b>