CITY OF HOSCHTON, GEORGIA

ANNUAL FINANCIAL REPORT
(WITH INDEPENDENT AUDITORS' REPORT)

Year Ended December 31, 2011

CITY OF HOSCHTON, GEORGIA

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December 31, 2011

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INDEPENDENT AUDITORS' REPORT

June 29, 2012

City Council
CITY OF HOSCHTON, GEORGIA
HOSCHTON, GEORGIA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the CITY OF HOSCHTON, GEORGIA as of, and for the year ended December 31, 2011, 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'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.

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, and each major fund of the CITY OF HOSCHTON, GEORGIA, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 29, 2012, on our consideration of the CITY OF HOSCHTON, GEORGIA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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

The CITY OF HOSCHTON, GEORGIA has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise the CITY OF HOSCHTON, GEORGIA's basic financial statements. The accompanying Schedule of Projects Constructed with Special Sales Tax Proceeds is presented for purposes of additional analysis as required by Official Code of Georgia 48-8-121. The Schedule of Projects Constructed with Special Sales Tax Proceeds is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the financial statements taken as a whole.

Baker, Carter & Co, LLP

CITY OF HOSCHTON, GEORGIA
STATEMENT OF NET ASSETS
December 31, 2011

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash	$ 510,989	$ 485,349	$ 996,338
Receivables (net of allowance for uncollectibles)	116,288	63,492	179,780
Prepaid items	3,855	2,732	6,587
Restricted assets:			
Cash	-	62,759	62,759
Non-current assets:			
Deferred charges	-	43,846	43,846
Capital assets:			
Capital assets not being depreciated	79,109	17,000	96,109
Capital assets being depreciated	1,161,756	9,231,092	10,392,848
Less: accumulated depreciation	(517,998)	(2,187,108)	(2,705,106)
Capital assets, net of depreciation	722,867	7,060,984	7,783,851
TOTAL ASSETS	1,353,999	7,719,162	9,073,161
LIABILITIES			
Accounts payable	3,226	31,532	34,758
Accrued interest payable	-	23,501	23,501
Other accrued items	602	-	602
Unearned revenue	-	111,375	111,375
Customer deposits	1,055	29,825	30,880
Noncurrent liabilities:			
Due within one year			
Notes payable	-	257,646	257,646
Revenue bonds payable	-	9,000	9,000
Due in more than one year			
Notes payable	-	5,495,352	5,495,352
Revenue bonds payable	-	83,000	83,000
TOTAL LIABILITIES	4,883	6,041,231	6,046,114
NET ASSETS			
Invested in capital assets, net of related debt	722,867	1,215,986	1,938,853
Restricted for:			
Debt service	-	62,759	62,759
Capital outlay projects	176,398	-	176,398
Unrestricted	449,851	399,186	849,037
TOTAL NET ASSETS	$ 1,349,116	$ 1,677,931	$ 3,027,047

The accompanying notes are an integral part of this statement.

CITY OF HOSCHTON, GEORGIA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
	.....PROGRAM REVENUES.....				....NET (EXPENSE) AND CHANGES IN NET ASSETS.... .....PRIMARY GOVERNMENT.....		
PRIMARY GOVERNMENT							
GOVERNMENTAL ACTIVITIES							
General government	$ 164,170	$ 30,769	$ -	$ -	$ (133,401)	$ -	$ (133,401)
Judicial	265	-	-	-	(265)	-	(265)
Public safety	281	(78)	-	-	(359)	-	(359)
Public works	126,516	-	-	13,896	(112,620)	-	(112,620)
Public health and welfare	-	12,230	-	-	12,230	-	12,230
Recreation and culture	28,663	24,611	-	-	(4,052)	-	(4,052)
Housing and development	18,505	8,888	-	-	(9,617)	-	(9,617)
Interest	-	-	-	-	-	-	-
Total Governmental Activities	338,400	76,420	-	13,896	(248,084)	-	(248,084)
BUSINESS-TYPE ACTIVITIES							
Water and sewer	1,039,890	593,519	-	14,475	-	(431,896)	(431,896)
Total Business-Type Activities	1,039,890	593,519	-	14,475	-	(431,896)	(431,896)
TOTAL PRIMARY GOVERNMENT	$ 1,378,290	$ 669,939	$ -	$ 28,371	(248,084)	(431,896)	(679,980)
GENERAL REVENUES							
Sales taxes					391,123	-	391,123
Insurance premium taxes					64,587	-	64,587
Financial institutions taxes					3,987	-	3,987
Franchise taxes					95,006	-	95,006
Alcohol beverage taxes					22,750	-	22,750
Total taxes					577,453	-	577,453
Unrestricted investment earnings					2,014	1,927	3,941
Grants and contributions not restricted to a specific program					1,372	-	1,372
TRANSFERS					(364,906)	364,906	-
TOTAL GENERAL REVENUES AND TRANSFERS					215,933	366,833	582,766
CHANGES IN NET ASSETS					(32,151)	(65,063)	(97,214)
NET ASSETS, Beginning					1,381,267	1,742,994	3,124,261
NET ASSETS, Ending					$ 1,349,116	$ 1,677,931	$ 3,027,047

The accompanying notes are an integral part of this statement.

CITY OF HOSCHTON, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2011

	GENERAL	SPLOST	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash	$ 348,775	$ 162,214	$ 510,989
Receivables (net of allowance for uncollectibles)	102,103	14,185	116,288
Prepaid items	3,855	-	3,855
Restricted assets:			
TOTAL ASSETS	$ 454,733	$ 176,399	$ 631,132
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 3,226	$ 1	$ 3,227
Other accrued items	602	-	602
Rental deposits	1,055	-	1,055
TOTAL LIABILITIES	4,883	1	4,884
FUND BALANCES			
Nonspendable:			
Prepaid expenditure	3,855	-	3,855
Restricted:			
Capital outlay projects	-	176,398	176,398
Unassigned:	445,995	-	445,995
TOTAL FUND BALANCES	449,850	176,398	626,248
TOTAL LIABILITIES AND FUND BALANCES	$ 454,733	$ 176,399	$ 631,132

The accompanying notes are an integral part of this statement.

CITY OF HOSCHTON, GEORGIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2011

Total Fund Balances for Governmental Funds (page 3)	$	626,248
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds.		722,867
Rounding		1
Total net assets of governmental activities (page 1)	$	1,349,116

The accompanying notes are an integral part of this statement.

CITY OF HOSCHTON, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011

	GENERAL	SPLOST	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Sales taxes	$ 206,841	$ 184,282	$ 391,123
Insurance premium tax	64,587	-	64,587
Financial institutions tax	3,987	-	3,987
Franchise taxes	95,006	-	95,006
Alcohol beverage taxes	22,750	-	22,750
Licenses and permits	39,408	-	39,408
Charges for services	28,435	-	28,435
Rental income	8,406	-	8,406
Fines and forfeitures	(78)	-	(78)
Interest income	2,012	202	2,214
Contributions and donations	1,372	-	1,372
Miscellaneous	249	-	249
TOTAL REVENUES	472,975	184,484	657,459
EXPENDITURES			
Current Expenditures			
General government	143,186	-	143,186
Judicial	265	-	265
Public safety	281	-	281
Public works	58,783	25,354	84,137
Recreation and culture	24,833	-	24,833
Housing and development	18,505	-	18,505
Capital outlay	-	16,539	16,539
TOTAL EXPENDITURES	245,853	41,893	287,746
EXCESS (DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	227,122	142,591	369,713
OTHER FINANCING SOURCES (USES)			
Transfers out	(237,333)	(127,573)	(364,906)
TOTAL OTHER FINANCING SOURCES (USES)	(237,333)	(127,573)	(364,906)
NET CHANGE IN FUND BALANCES	(10,211)	15,018	4,807
FUND BALANCES, Beginning of year	460,061	161,380	621,441
FUND BALANCES, End of year	$ 449,850	$ 176,398	$ 626,248

The accompanying notes are an integral part of this statement.

CITY OF HOSCHTON, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

Net change in fund balances (page 5)		$ 4,807
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 cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay	16,539	
Depreciation expense	(52,051)	
		(35,512)
In the statement of activities, only the gain/loss on the sale of various capital assets are reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets sold.		
Net book value of capital assets sold	(15,143)	
		(15,143)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Donated assets	13,695	
		13,695
Changes in net assets of governmental activities (page 2)		$ (32,151)

The accompanying notes are an integral part of this statement.

CITY OF HOSCHTON, GEORGIA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
December 31, 2011

	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUND WATER AND SEWER FUND
ASSETS	
Current Assets	
Cash	$ 485,349
Receivables (net of allowance for uncollectibles)	63,492
Prepaid items	2,732
Restricted assets:	
Cash	62,759
TOTAL CURRENT ASSETS	614,332
Noncurrent Assets	
Deferred charges	43,846
Capital assets	
Capital assets not being depreciated	17,000
Capital assets being depreciated	9,231,092
Less: accumulated depreciation	(2,187,108)
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	7,060,984
TOTAL NONCURRENT ASSETS	7,104,830
TOTAL ASSETS	7,719,162
LIABILITIES	
Current Liabilities	
Accounts payable	31,532
Accrued interest	23,501
Customer deposits	29,825
Unearned revenue	111,375
Notes payable	257,646
Revenue bonds payable	9,000
TOTAL CURRENT LIABILITIES	462,879
Noncurrent Liabilities	
Notes payable	5,495,352
Revenue bonds payable	83,000
TOTAL NONCURRENT LIABILITIES	5,578,352
TOTAL LIABILITIES	6,041,231
NET ASSETS	
Invested in capital assets, net of related debt	1,215,986
Restricted for debt service	62,759
Unrestricted	399,186
TOTAL NET ASSETS	$ 1,677,931

The accompanying notes are an integral part of this statement.

CITY OF HOSCHTON, GEORGIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND
For the Year Ended December 31, 2011

	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUND WATER AND SEWER FUND
OPERATING REVENUES	
Charges for sales and services:	
Pledged as security for revenue bonds:	
Water and sewer sales	$ 498,686
Garbage collection	94,833
Total Operating Revenues	593,519
OPERATING EXPENSES	
Salaries and benefits	34,564
Supplies	7,416
Other services and charges	39,398
Depreciation	289,323
Waste disposal fees	74,772
Repairs and maintenance	47,007
Utilities	45,102
Water purchases	140,104
Contracted services	128,706
Total Operating Expenses	806,392
OPERATING INCOME (LOSS)	(212,873)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	1,927
Interest expense	(211,914)
Gain (loss) on sale of capital assets	(21,584)
Total Nonoperating Revenues (Expenses)	(231,571)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(444,444)
Pledged as security for revenue bonds:	
Sewer connection fees	14,475
Transfer in	364,906
CHANGE IN NET ASSETS	(65,063)
TOTAL NET ASSETS, Beginning of year	1,742,994
TOTAL NET ASSETS, End of year	$ 1,677,931

The accompanying notes are an integral part of this statement.

CITY OF HOSCHTON, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended December 31, 2011

	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUND
	WATER AND SEWER FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customer	$ 606,962
Payments to suppliers	(505,803)
Payments to employees	(34,564)
Net cash provided by (used in) operating activities	66,595
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers in (out)	61,132
Net Cash provided (used) by non-capital financing activities	61,132
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(160,528)
Sewer connections	2,100
Transfers in	303,774
Proceeds from debt	160,528
Principal payments on debt	(230,344)
Interest paid	(185,336)
Net cash provided (used) by capital and related financing activities	(109,806)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	1,927
Net cash provided (used) by investing activities	1,927
Net increase (decrease) in cash and cash equivalents	19,848
CASH, Beginning of year	528,260
CASH, End of year	$ 548,108
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	$ (212,873)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	289,323
(Increase) decrease in:	
Accounts receivable	5,048
Prepaid expenses	(837)
Increase (decrease) in:	
Accounts payable	3,946
Customer deposits	8,395
Due to other funds	(26,407)
Net cash provided by (used in) operating activities	$ 66,595
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES	
Connection fees recognized as revenue for cash received in prior years	$ 12,375
Net book value of capital assets disposed	$ (21,584)

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the CITY OF HOSCHTON, GEORGIA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

(A) REPORTING ENTITY

The reporting entity consists of the following:

- The primary government;
- Organizations for which the primary government is financially accountable;
- Other organizations that, because of the nature and significance of their relationship with the primary government, may not be excluded from the financial reporting entity;

For financial reporting purposes, management has considered all potential component units. The decision whether to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. There are no component units.

(B) GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary 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 services.

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 and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(C) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenues susceptible to accrual are considered available if they are collected within 60 days of the end of the current fiscal period for which they are imposed. 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.

Sales tax, franchise taxes, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

> The *General Fund* is the city's primary operating fund. It accounts for all financial resources, except those accounted for in another fund.
>
> The *SPLOST Capital Projects Fund* accounts for funds received from a local 1% sales tax reserved for construction of various capital projects.

The government reports the following major proprietary funds:

> The *Water and Sewer Fund* accounts for revenues and expenses related to operating and maintaining a water utility system consisting of the activities of the City's water and sewerage system.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues for the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

(D) ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury and its agencies and instrumentalities; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; and certificates of deposits of banks insured by FDIC.

Investments are recorded at fair value based on quoted market prices as of the balance sheet date. Increases or decreases in fair value during the year are recognized as part of interest income.

2. 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 "interfund receivables/payables" (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 "interfund receivables/payables." 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 tax receivables are shown net of an allowance of uncollectibles.

3. Inventories and Prepaid Items

Inventories, consisting of expendable supplies, not held for resale are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, culverts, 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 $5,000 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. Streets, bridges and culverts acquired prior to January 1, 2003 have not been reported.

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 assets constructed. No interest was capitalized during 2011.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Asset	Years
Buildings	40
Machinery and equipment	5-20
Vehicles	3-10
Infrastructure	30

5. *Compensated Absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In accordance with the provisions of Statement of Governmental Accounting Standards No. 16, "Accounting for Compensated Absences," no liability is reported for unpaid accumulated sick leave because the benefits are paid only upon illness of an employee, and the amount of such payments cannot be reasonably estimated. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. *Long-term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund type statement of net assets.

7. *Fund Equity*

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net assets."

Fund balance - Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- *Nonspendable* - Fund balances are reported as nonspendable when the amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash like inventories and prepaid items) or (b) legally or contractually required to be maintained intact.
- *Restricted* - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- *Committed* - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution prior to the end of the fiscal year. In order to modify or rescind the commitment, the City Council must adopt another resolution.
- *Assigned* - Fund balances are reported as assigned when amounts are constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed.

Through resolution, the City Council has authorized the City's finance director to assign fund balances.

- *Unassigned* - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all other governmental funds.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt used for the acquisition, construction, or improvement of those assets. In determining the outstanding balance of any borrowing, proceeds of that debt which has not been spent is deducted. Accounts payable for costs related to acquisition, construction, or improvement of those capital assets is considered debt for this calculation. Net assets are reported as restricted as described in the fund balance section above. All other net assets are reported as unrestricted.

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

8. Invested in Capital Assets, Net of Related Debt

The "invested in capital assets, net of related debt" reported on the government-wide statement of net assets as of December 31, 2011 are as follows:

Invested in capital assets, net of related debt:	Governmental Activities	Business-Type Activities
Cost of capital assets	$ 1,240,865	$ 9,248,092
Accumulated depreciation	(517,998)	(2,187,108)
Book value	722,867	7,060,984
Capital related debt	-	(5,844,998)
Invested in capital assets, net of related debt	$ 722,867	$ 1,215,986

9. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(A) BUDGETARY INFORMATION

Prior to January 1, the department heads submit to the City Council a proposed operating budget for each department for the fiscal year commencing January 1. The operating budget includes proposed expenditures and the means of financing them. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Council holds a public hearing on the budget.

2. The budget is then revised and adopted or amended by the City Council at a public meeting.

3. The budget may be amended during the year only by formal action of the city council at a regular meeting.

The budget is adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund. Budget amounts are as originally adopted, or as amended by the Council. Project length budgets are adopted for the capital projects funds. Annual operating budgets are prepared for each enterprise fund for planning, control and evaluation purposes. Budgetary amounts are not formally integrated into proprietary fund general ledgers.

The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level.

The excess has been funded by additional revenue and short-term debt. The City will make announcements when necessary in the future.

NOTE 3 - DEPOSITS AND INVESTMENTS

Custodial credit risk - deposits. In case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. The City's policy permits the City to exceed the FDIC insured limit in making deposits in commercial banks and savings and loans institutions if the funds are otherwise adequately secured. As of December 31, 2011, all deposits of the City were adequately insured or collateralized. At year end, the City's carrying amount of deposits was $1,073,451 and the bank balance was $1,059,096.

NOTE 4 - RECEIVABLES

Receivables as of year-end for the City's individual major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	SPLOST	Water and Sewer Fund
Receivables:			
Taxes	$ 78,434	$ -	$ -
Other	-	-	63,492
Intergovernmental	23,669	14,185	-
Total Gross Receivables	102,103	14,185	63,492
Less: Allowance for Uncollectibles	-	-	-
Total Net Receivables	$ 102,103	$ 14,185	$ 63,492

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Prior Period Adjustment	Adjusted Beginning Balance	Additions	Retirements	Adjustments and Transfers	Ending Balance
Governmental Activities:							
Non-Depreciable Assets:							
Land and improvements	$ 62,570	$ -	$ 62,570	$ -	$ -	$ -	$ 62,570
Construction in progress	-	-	-	16,539	-	-	16,539
Total non-depreciable capital assets	62,570	-	62,570	16,539	-	-	79,109
Depreciable Assets:							
Buildings and improvements	237,064	69,673	306,737	-	(24,897)	(1)	281,839
Machinery and equipment	172,381	(68,978)	103,403	-	(30,322)	-	73,081
Vehicles	-	68,978	68,978	-	-	-	68,978
Infrastructure	865,961	(69,673)	796,288	-	(3,148)	-	793,140
Total depreciable capital assets	1,275,406	-	1,275,406	-	(58,367)	(1)	1,217,038
Less Accumulated Depreciation for:							
Buildings and improvements	109,624	59,035	168,659	9,671	(18,450)	-	159,880
Machinery and equipment	163,337	(68,825)	94,512	1,200	(24,431)	-	71,281
Vehicles	-	68,825	68,825	153	-	(67,608)	1,370
Infrastructure	305,188	(59,035)	246,153	39,657	(343)	-	285,467
Total accumulated depreciation	578,149	-	578,149	50,681	(43,224)	(67,608)	517,998
Total depreciable capital assets, net	697,257	-	697,257	(50,681)	(15,143)	67,607	699,040
Governmental activities capital assets, net	$ 759,827	$ -	$ 759,827	$ (34,142)	$ (15,143)	$ 67,607	$ 778,149

Additions to governmental activities capital assets for fiscal year ending December 31, 2011 consist of the following:

Capital Outlay	$ 16,539
Donated assets	13,695
Total	$ 30,234
Non-depreciable capital assets additions	$ 16,539
Total	$ 16,539

	Beginning Balance	Prior Period Adjustment	Adjusted Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Business-type Activities:							
Non-Depreciable Assets:							
Land and improvements	$ 17,000	$ -	$ 17,000	$ -	$ -	$ -	$ 17,000
Construction in progress	3,543,245	-	3,543,245	151,141	-	(3,694,386)	-
Total non-depreciable capital assets	3,560,245	-	3,560,245	151,141	-	(3,694,386)	17,000
Depreciable Assets:							
Machinery and equipment	138,861	(25,633)	113,228	9,387	(39,644)	-	82,971
Vehicles	-	25,633	25,633	-	-	-	25,633
Infrastructure	5,466,116	-	5,466,116	-	(12,381)	3,694,386	9,148,121
Total depreciable capital assets	5,604,977	-	5,604,977	9,387	(52,025)	3,694,386	9,256,725
Less Accumulated Depreciation for:							
Machinery and equipment	98,191	(25,633)	72,558	8,781	(21,356)	-	59,983
Vehicles	-	25,633	25,633	-	-	-	25,633
Infrastructure	1,855,668	-	1,855,668	280,542	(9,085)	-	2,127,125
Total accumulated depreciation	1,953,859	-	1,953,859	289,323	(30,441)	-	2,212,741
Total depreciable capital assets, net	3,651,118	-	3,651,118	(279,936)	(21,584)	3,694,386	7,043,984
Business-type activities capital assets, net	$ 7,211,363	$ -	$ 7,211,363	$ (128,795)	$ (21,584)	$ -	$ 7,060,984

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

Governmental Activities:	
General Government	$ 5,842
Public Works	41,009
Recreation and Culture	3,830
Total depreciation expense-governmental activities	$ 50,681
Business-type Activities:	
Water and Sewer	$ 289,323
Total depreciation expense-business-type activities	$ 289,323

The City has authorized construction projects. The remaining costs are split between the portion of the contracts that have been entered into for which the work had not been done prior to December 31, 2011 and the remainder of the authorized project expenditure for which contracts have not been entered into as of year end. The source of financing for the remaining project cost is noted below:

	Project Authorization	Expended To Date	Contracts in Progress	Authorized Not Obligated	Source
Governmental Activities:					
SR 53 Side Walk	$ 47,000	$ 16,539	$ -	$ 30,461	SPLOST
	$ 47,000	$ 16,539	$ -	$ 30,461	

NOTE 6 - LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due After One Year
Business-type Activities:						
Notes payable	$ 5,628,614	$ 346,728	$ (222,344)	$ 5,752,998	$ 257,646	$ 5,495,352
Revenue bonds	100,000	-	(8,000)	92,000	9,000	83,000
Business-type activities long-term liabilities	$ 5,728,614	$ 346,728	$ (230,344)	$ 5,844,998	$ 266,646	$ 5,578,352

CAPITAL LEASES

Notes Payable

On August 01, 2006, the City entered into a contract with Georgia Environmental Facilities Authority (GEFA), to borrow funds for the water and sewer improvements. The original amount of the loan was $3,124,536 with an interest rate 3.00%. Transfers from the General Fund and SPLOST Fund will be used to repay the loan. The loan will mature on February 1, 2026. The amount outstanding as of December 31, 2011 is $2,489,810.

On March 3, 2011, the City entered into a contract with Georgia Environmental Facilities Authority (GEFA), to borrow funds for the water and sewer improvements. The original amount of the loan was $3,343,923 with an interest rate 4.27%. Transfers from the General Fund and SPLOST Fund will be used to repay the loan. The loan will mature on March 1, 2013. The amount outstanding as of December 31, 2011 is $3,263,188.

The annual requirements to amortize notes payable outstanding as of December 31, 2011 are as follows:

Year ending December 31,	Principal	Interest	Total
2012	$ 257,646	$ 207,261	$ 464,907
2013	266,938	197,969	464,907
2014	276,577	188,330	464,907
2015	286,575	178,332	464,907
2016	296,947	167,961	464,908
2017-2021	1,654,409	670,126	2,324,535
2022-2023	1,748,045	351,987	2,100,032
2027-2031	965,861	92,002	1,057,863
Total	$ 5,752,998	$ 2,053,968	$ 7,806,966

Revenue Bonds

The Water and Sewer Revenue Bonds ($224,000 - Series 1982) bear interest at 5% per annum. The bonds were issued to finance the expansion of the water system. In general, revenues derived from the water and sewer operations are pledged for repayment of the bonds. The annual requirements to amortize the bonds outstanding as December 31, 2011 are as follows:

December 31,	Principal	Interest	Total
2012	$ 9,000	$ 3,600	$ 12,600
2013	9,000	4,600	13,600
2014	9,000	3,700	12,700
2015	10,000	3,250	13,250
2016	10,000	2,750	12,750
2017-2020	45,000	5,750	50,750
	$ 92,000	$ 23,650	$ 115,650

NOTE 7 - CONTINGENT LIABILITIES / RISK MANAGEMENT

The City receives grants from various granting agencies, which are subject to audit and adjustment by these agencies. The City is not aware of any adjustments or expenditures, which may be disallowed and restitution, if any, is not determinable at this time.

Pursuant to Title 34, Chapter 9, Article 5 of the Official Code of Georgia Annotated, the City of Hoschton became a member of the Georgia Municipal Association Workers' Compensation Self Insurance Fund. As part of this risk pool, the City is obligated to pay all contributions and assessments; to cooperate with the pool's agents and attorneys; to follow loss reduction procedures established by the fund, and to report as promptly as possible, in accordance with any coverage descriptions issued, all incidents that could require the fund to pay any type loss. The

City is also to allow all the pool's agents and attorneys to represent the City in investigations settlement discussions and all level of litigation arising out of any claim made against the City.

The fund is to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the workers' compensation law of Georgia. The fund is to pay all cost taxed against the members in any legal proceedings defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

The City is a member of the Georgia Interlocal Risk Management Agency which allows the City to share liability, crime, motor vehicle and property damage risks. Chapter 85, Title 36, of the Official Code of Georgia Annotated authorizes Georgia municipalities to form interlocal risk management agencies. The Georgia Interlocal Risk Management Agency (GIRMA) is a municipal interlocal risk management agency to function as an unincorporated nonprofit instrumentality of its member municipalities- GIRMA establishes and administers one or more group self insurance funds and a risk management service to prevent or lessen the incidence and severity of causality and property losses occurring in the operation of municipal government. GIRMA is to defend and protect in accordance with the member government contract and related coverage descriptions and any member of GIRMA against liability or loss.

As part of this risk pool, the City is obligated to pay all contributions and assessments; to cooperate with the pool's agents and attorneys; to follow loss reduction procedures established by the fund, and to report as promptly as possible, in accordance with any coverage descriptions issued, all incidents that could require the fund to pay any type loss. The City is also to allow all the pool's agents and attorneys to represent the City in investigations settlement discussions and all level of litigation arising out of any claim made against the City. The City must participate at all times in at least one fund which is established by GIRMA.

The City retains the first $1,000 of each risk of loss in the form of a deductible. The City files all claims with GIRMA. GIRMA bills the City for any risk of loss up to the $1,000 deductible. The basis for estimating the liabilities for unpaid claim is "IBNR" established by an actuary.

During the year ended December 31, 2011, the City did not incur claims. The City has not compiled a record of the claims paid up to the $1,000 deductible for the prior years. The City is not aware of any claims which the City is liable for (up to the $1,000) which were outstanding and unpaid at December 31, 2011. No provisions have been made in the financial statements for the year ended December 31, 2011 for any estimate of potential unpaid claims.

The City is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

City management feels the above coverage is adequate. There has not been any significant reduction in coverage from the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 9 - TRANSFERS OUT

Transfers to/from other funds at December 31, 2011, consists of the following:

$	61,132	From General Fund to Water and Sewer Fund for salaries.
	127,573	From SPLOST Fund to Water and Sewer Fund for debt service.
	176,201	From General Fund to Water and Sewer Fund for debt service.
$	364,906	Total

NOTE 10 - DEFINED CONTRIBUTION PENSION PLAN

The City established a SIMPLE IRA plan for employees. The plan is a defined contribution plan established under section 408(p) of the Internal Revenue Code. This plan was established by the authority of the City Council and may be amended by action of the City Council. City employees make voluntary contributions and the City matches up to 3% of the employee's salary. Edward Jones Investments serves as custodian of the SIMPLE IRA and contributions can not exceed $6,000 for each participant for any calendar year. The City's contribution for 2011 was $2,936 and employee contributions were $4,001.

NOTE 11 - NORTHEAST GEORGIA REGIONAL COMMISSION

Under Georgia law, the City in conjunction with other cities and counties in the area are members of the Northeast Georgia Regional Commission (NEGRC) and is required to pay annual dues there to. During the year ended December 31, 2011, the City paid $- in such dues. Membership in the NEGRC is required by the official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the NEGRC in Georgia. The NEGRC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an NEGRC. Separate financial statements may be obtained from:

Northeast Georgia Regional Commission
305 Research Dr.
Athens, Georgia 30503-1720

CITY OF HOSCHTON, GEORGIA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2011
(Required Supplementary Information)

	BUDGET AMOUNTS ORIGINAL	BUDGET AMOUNTS FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
FUND BALANCE, Beginning of year	$ 460,061	$ 460,061	$ 460,061	$ -
RESOURCES (INFLOWS)				
Sales taxes	208,800	208,800	206,841	(1,959)
Insurance premium taxes	59,340	59,340	64,587	5,247
Financial institution taxes	3,780	3,780	3,987	207
Franchise taxes	85,871	85,871	95,006	9,135
Alcohol beverage taxes	22,020	22,020	22,750	730
Licenses and permits	28,520	28,520	39,408	10,888
Charges for services	-	26,500	28,435	1,935
Rental income	5,760	5,760	8,406	2,646
Fines and forfeitures	2,400	2,400	(78)	(2,478)
Interest income	780	780	2,012	1,232
Contributions and donations	-	-	1,372	1,372
Miscellaneous	120	120	249	129
Sale of county property	2,040	2,040	-	(2,040)
Total Resources (Inflows)	419,431	445,931	472,975	27,044
AMOUNTS AVAILABLE FOR APPROPRIATION	879,492	905,992	933,036	27,044
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Current Expenditures				
General Government				
Financial administration	154,980	154,980	143,186	11,794
Total General Government	154,980	154,980	143,186	11,794
Judicial				
Municipal court	1,200	1,200	265	935
Total Judicial	1,200	1,200	265	935
Public Safety				
Police	1,620	1,620	281	1,339
Total Public Safety	1,620	1,620	281	1,339
Public Works				
Highways and streets	53,874	58,874	58,783	91
Total Public Works	53,874	58,874	58,783	91
Recreation and Culture				
Recreation	6,444	24,944	24,833	111
Total Recreation and Culture	6,444	24,944	24,833	111
Housing and development				
Planning and development	20,000	20,000	18,505	1,495
Total Housing and Development	20,000	20,000	18,505	1,495
Transfers out	234,933	237,933	237,333	600
TOTAL CHARGES TO APPROPRIATIONS	473,051	499,551	483,186	16,365
CHANGE IN FUND BALANCE	(53,620)	(53,620)	(10,211)	43,409
FUND BALANCE, End of year	$ 406,441	$ 406,441	$ 449,850	$ 43,409

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

1. The budgetary basis of accounting used in this schedule is the same as GAAP.

CITY OF HOSCHTON, GEORGIA
SUPPLEMENTARY INFORMATION
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAXES
For the Year Ended December 31, 2011

PROJECT	ORIGINAL ESTIMATED COSTS	CURRENT ESTIMATED COSTS	EXPENDITURES PRIOR YEARS	EXPENDITURES CURRENT YEAR
Jackson County, Georgia SPLOST #4 - Commenced July 1, 2005				
Water and sewer facilities	$ 777,185	$ 777,185	$ 711,239	$ 127,573
Roads, streets, and bridges	207,249	207,249	72,823	41,893
Recreational facilities	51,812	51,812	22,706	-
Totals	$ 1,036,246	$ 1,036,246	$ 806,768	$ 169,466

Total of all SPLOSTS above	**$ 169,466**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (page 5)

Expenditures	$ 41,893
Transfers in and out	127,573
Total	**$ 169,466**

Note: Prior year amounts were revised to remove SPLOST 3 expenditures. The following projects were revised as follows:

Water and Sewer- $519,350

Roads, Street and Bridges- $16,274

Recreational Facilities- $266,202

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GAINESVILLE, GEORGIA 30503
WWW.BATESCARTER.COM

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

June 29, 2012

City Council
CITY OF HOSCHTON, GEORGIA
HOSCHTON, GEORGIA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the CITY OF HOSCHTON, GEORGIA, as of and for the year ended December 31, 2011, which collectively comprise the CITY OF HOSCHTON, GEORGIA's basic financial statements and have issued our report thereon, dated June 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the CITY OF HOSCHTON, GEORGIA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CITY OF HOSCHTON, GEORGIA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CITY OF HOSCHTON, GEORGIA's internal control over financial reporting.

A *deficiency in internal control* exists when the design and operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether CITY OF HOSCHTON, GEORGIA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of CITY OF HOSCHTON, GEORGIA, in a separate letter dated June 29, 2012.

This report is intended for the information and use of management, the City Council, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Baker, Carter & Co., LLP