CITY OF GRAY, GEORGIA



ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2010

CITY OF GRAY, GEORGIA

AUDIT REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2010

CITY OF GRAY, GEORGIA

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CITY OF GRAY, GEORGIA

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Gray
Gray, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gray, Georgia, as of and for the year ended December 31, 2010, 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 Gray, Georgia'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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gray, Georgia, as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General 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 August 1, 2011, on our consideration of the City of Gray, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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The management's discussion and analysis information and the schedule of funding progress on pages 3 through 8 and page 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gray, Georgia's basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of projects constructed with special sales tax proceeds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Macon, Georgia
August 1, 2011

MANAGEMENT'S DISCUSSION & ANALYSIS

CITY OF GRAY, GEORGIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010

As management of the City of Gray, Georgia (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2010.

Financial Highlights

- The assets of the City exceeded its liabilities as of December 31, 2010 by $10,749,026.
- The government's total net assets increased by $491,448 for the year ended December 31, 2010.
- As of December 31, 2010, total net assets consisted of $7,402,310 invested in capital equipment, net of related debt, $899,615 restricted and $2,447,101 unrestricted.
- As of the close of the current year the City's governmental funds reported combined ending fund balances of $2,438,009 an increase of $345,872 in comparison with the prior year.
- For the year ended December 31, 2010, unreserved fund balance for the general fund increased from $1,781,452 to $1,978,899.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1. government-wide financial statements; 2. fund financial statements; and 3. notes to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from others functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety and public works. The business-type activities of the City include a water and sewer fund.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because of the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains six individual governmental funds: the general fund, two SPLOST funds, a law enforcement confiscation fund, perpetual care fund and the capital improvement fund.

The City adopts an annual appropriated budget for the general fund and the law enforcement confiscation fund. A budgetary comparison statement has been provided to demonstrate compliance with these budgets.

The basic governmental funds financial statements can be found on pages 11 through 18 of this report.

Proprietary Funds

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for the activities of the water and sewer fund and the sanitation fund.

Proprietary funds provide the same type of information as the government-wide financial statements, on in more detail.

The basic proprietary fund financial statements can be found on pages 19 through 23 of this report.

Notes to Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $10,749,026 at the close of the most recent year.

A portion of the City's net assets reflects its investment in capital assets, less any related debt outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. As of December 31, 2010 the investment consists of $15,168,689 in assets, with accumulated depreciation of $5,156,052 and outstanding debt of $2,610,327.

An additional portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations.

As of December 31, 2010, current liabilities decreased by $160,619 and net assets increased by $765,921 compared to December 31, 2009.

Summary of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current and other assets	$ 2,662,883	$ 2,459,324	$ 1,053,543	$ 900,416	$ 3,716,426	$ 3,359,740
Noncurrent assets	-	-	15,596	56,539	15,596	56,539
Capital assets	3,850,972	3,938,463	6,161,665	5,869,706	10,012,637	9,808,169
Total Assets	$ 6,513,855	$ 6,397,787	$ 7,230,804	$ 6,826,661	$ 13,744,659	$ 13,224,448
Liabilities						
Current and other liabilities	$ 105,433	$ 199,006	$ 364,964	$ 432,010	$ 470,397	$ 631,016
Long-term liabilities	439,812	456,459	2,085,424	2,153,868	2,525,236	2,610,327
Total Liabilities	545,245	655,465	2,450,388	2,585,878	2,995,633	3,241,343
Net Assets						
Invested in capital assets, net of related debt	3,394,513	3,460,496	4,007,797	3,588,402	7,402,310	7,048,898
Restricted	359,179	310,685	540,436	145,844	899,615	456,529
Unrestricted	2,214,918	1,971,141	232,183	506,537	2,447,101	2,477,678
Total Net Assets	5,968,610	5,742,322	4,780,416	4,240,783	10,749,026	9,983,105
Total Liabilities and Net Assets	$ 6,513,855	$ 6,397,787	$ 7,230,804	$ 6,826,661	$ 13,744,659	$ 13,224,448

Financial Analysis of the City's Funds

Change in Net assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues						
Charges for services	$ 322,793	$ 388,829	$ 1,588,732	$ 1,521,361	$ 1,911,525	$ 1,910,190
Capital grants and contributions	533,610	3,148,207	255,356	16,695	788,966	3,164,902
General revenues						
Taxes	1,740,944	2,175,466	-	-	1,740,944	2,175,466
Investment revenues	25,221	38,092	8,064	14,886	33,285	52,978
Sale of Property	11,345	-	-	-	11,345	-
Miscellaneous	16,266	24,744	-	-	16,266	24,744
Total Revenues	2,650,179	5,775,338	1,852,152	1,552,942	8,425,517	5,775,338
Expenses						
General government	650,121	460,190	-	-	650,121	460,190
Public safety	901,190	900,321	-	-	901,190	900,321
Public works	768,802	578,468	-	-	768,802	578,468
Other	26,735	119,850	-	-	26,735	119,850
Water and Sewer	-	-	1,534,920	1,450,130	1,534,920	1,450,130
Sanitation	-	-	129,115	121,890	129,115	121,890
Total Expenses	2,346,848	2,058,829	1,664,035	1,572,020	4,010,883	3,630,849
Increase (decrease) in net assets before transfers	303,331	3,716,509	188,117	(19,078)	491,448	3,697,431
Transfers	(77,043)	(86,876)	77,043	86,876	-	-
Increase (decrease) in net assets	226,288	3,629,633	265,160	67,798	491,448	3,697,431
Net assets - Beginning, Restated	5,742,322	2,112,689	4,515,256	4,172,985	10,257,578	6,285,674
Net assets - Ending	$ 5,968,610	$ 5,742,322	$ 4,780,416	$ 4,240,783	$ 10,749,026	$ 9,983,105

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of December 31, 2010, the City's governmental funds reported combined ending fund balances of $2,438,009. The unreserved fund balance reflects a balance of $2,078,830 of which $5,649 has been designated for program purposes. A total of $359,179 is reserved to indicate that it is not available for new spending because it has already been committed for restricted purposes.

The fund balance of the City's governmental funds increased by $345,872 during the current year.

Proprietary Funds

The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

The water and sewer system fund provides to the City's residential and commercial customers. The City strives to maintain competitive rates to its customers while providing safe drinking water and sewerage treatment. Unrestricted net assets of the water and sewerage and sanitation operations at the end of the year amounted to $232,183.

General Fund Budgetary Highlights

The City is ever cognizant of the necessity of being good stewards of public funds while at the same time having the responsibility of accumulating sufficient funds to effectively promote growth and development of the economy. The City maintained the same property tax millage rate for 2010 as 2009.

A detailed comparison of the general fund budget to actual amounts can be found on pages 15 through 18 of this report.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2010 totals $10,012,637 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, infrastructure, machinery and equipment, and vehicles. The total increase in the City's investment in capital assets for the current year was $204,468. Detailed information regarding the capital asset activity for 2010 can be found in Note 8 of this report.

Capital Assets at Year-End
(Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	$ 1,004,462	$ 1,004,462	$ 26,167	$ 26,167	$ 1,030,629	$ 1,030,629
Water Rights	-	-	313,683	-	313,683	-
Construction in progress	-	-	240,534	-	240,534	-
Infrastructure	2,003,514	2,111,874	5,457,219	5,702,845	7,460,733	7,814,719
Buildings	662,169	668,752	-	-	662,169	668,752
Equipment	25,398	8,845	116,596	123,878	141,994	132,723
Vehicles	155,429	144,530	7,466	16,816	162,895	161,346
Total	$ 3,850,972	$ 3,938,463	$ 6,161,665	$ 5,869,706	$ 10,012,637	$ 9,808,169

Long-Term Debt

In 2006, the City entered into a capital lease with the Georgia Municipal Association in the amount of $112,004 for the purchase of four police vehicles plus another $8,000 with GMA for the purchase of a police motorcycle. During 2008, the City entered into a capital lease with the Georgia Municipal Association in the amount of $495,000 for the purchase of a new building for the police department. The water and sewer fund reflects revenue bonds as long-term debt as of December 31, 2010. Bonds payable equal $1,060,000 as of December 31, 2010, including $0 due within one year. In 2009, the City borrowed an additional $1,034,207 from GEFA for a belt press for the wastewater treatment. Notes payable equal $1,041,449 as of December 31, 2010, with $45,761 due within one year. Detailed information regarding the long-term debt activity for 2010 can be found in Note 9.

Water Rights Contract

In August 1990, the City entered into a capital outlay contract with Jones County, Georgia which provided that the County would construct a water main line which would enable the City to access the County water system. The City's share of construction expenses was financed by the County in January 2003. The balance due to the County as of December 31, 2010 is $52,419 including $22,683 due within one year.

Accomplishments/Growth for 2010

In 2010, the City of Gray continued to make great strides in upgrading its water and sewer infrastructure. Engineers have almost completed all plans for an expansion of the wastewater treatment plant. The City applied for a USDA grant to assist with the cost of the plant expansion and conducted a water/sewer rate study to ensure customer rates were competitive while providing sufficient funding for the expansion project. Water line upgrades were made in the Cedarline area of Gray which included new water line pipes and fire hydrants. The Fire Department received a training grant to purchase new training materials. The Police Department purchased three vehicles to replace aging patrol cars and replaced an aging computer/server with a new server and upgraded computers.

Request for Information

This financial report is designed to provide a general overview of the City's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the City Clerk of Gray, P. O. Box 443, Gray, Georgia 31032.

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FINANCIAL STATEMENTS

CITY OF GRAY, GEORGIA

STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
ASSETS				
Cash and cash equivalents	$ 1,381,382	$ 187,615	$ 1,568,997	$ 8,480
Certificates of deposit	931,338	204,040	1,135,378	-
Receivables (net of allowance):				
Accrued interest	13,081	3,488	16,569	-
Taxes	262,061	-	262,061	-
Accounts	1,568	81,752	83,320	-
Due from other governments	83,165	-	83,165	-
Internal balances	(9,712)	9,712	-	-
Prepaid Items	-	26,500	26,500	-
Restricted assets:				
Cash and cash equivalents	-	383,436	383,436	-
Certificates of deposit	-	157,000	157,000	-
Capital assets:				
Nondepreciable assets	1,004,462	580,384	1,584,846	-
Depreciable assets, net	2,846,510	5,581,281	8,427,791	-
Bond issuance costs	-	15,596	15,596	-
Total assets	6,513,855	7,230,804	13,744,659	8,480
LIABILITIES				
Accounts payable	56,794	115,087	171,881	-
Accrued liabilities	19,229	10,741	29,970	-
Customer deposits	-	159,166	159,166	-
Noncurrent liabilities:				
Due within one year	29,410	79,970	109,380	-
Due in more than one year	439,812	2,085,424	2,525,236	-
Total liabilities	545,245	2,450,388	2,995,633	-
NET ASSETS				
Invested in capital assets, net of related debt	3,394,513	4,007,797	7,402,310	-
Restricted for:				
Debt service	-	540,436	540,436	-
Perpetual care:				
Nonexpendable	127,768	-	127,768	-
Capital outlay	228,791	-	228,791	-
Public safety	2,620	-	2,620	-
Unrestricted	2,214,918	232,183	2,447,101	8,480
Total net assets	$ 5,968,610	$ 4,780,416	$ 10,749,026	$ 8,480

The accompanying notes are an integral part of these financial statements.

CITY OF GRAY, GEORGIA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Total	Component Unit: Downtown Development Authority
Primary Government								
Governmental activities								
General government	$ 650,121	$ 58,241	$ -	$ -	$ (591,880)	$ -	$ (591,880)	$ -
Public safety	901,190	264,552	-	46,966	(589,672)	-	(589,672)	-
Public works	768,802	-	-	486,644	(282,158)	-	(282,158)	-
Culture and recreation	4,775	-	-	-	(4,775)	-	(4,775)	-
Interest on long-term debt	21,960	-	-	-	(21,960)	-	(21,960)	-
Total governmental activities	2,346,848	322,793	-	533,610	(1,490,445)	-	(1,490,445)	-
Business-type activities								
Water & Sewer	1,534,920	1,452,760	-	255,356	-	173,196	173,196	-
Sanitation	129,115	135,972	-	-	-	6,857	6,857	-
Total business-type activities	1,664,035	1,588,732	-	255,356	-	180,053	180,053	-
Total primary government	$ 4,010,883	$ 1,911,525	$ -	$ 788,966	(1,490,445)	180,053	(1,310,392)	-
Component Unit:								
Downtown Development Authority	$ 20	$ -	$ 8,500	$ -				8,480
General Revenues:								
Property taxes					908,441	-	908,441	-
Sales taxes					389,115	-	389,115	-
Insurance premium tax					103,949	-	103,949	-
Franchise tax					200,718	-	200,718	-
Other taxes					138,721	-	138,721	-
Unrestricted investment earnings					25,221	8,064	33,285	-
Proceeds from sale of property					11,345	-	11,345	-
Miscellaneous					16,266	-	16,266	-
Total general revenues					1,793,776	8,064	1,801,840	-
Transfers					(77,043)	77,043	-	-
Change in net assets					226,288	265,160	491,448	8,480
Net assets - beginning of year, restated					5,742,322	4,515,256	10,257,578	-
Net assets - end of year					$ 5,968,610	$ 4,780,416	$ 10,749,026	$ 8,480

The accompanying notes are an integral part of these financial statements.

CITY OF GRAY, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

ASSETS	General	SPLOST 2009	Non-Major Governmental Funds	Total Governmental Funds
Cash and cash equivalents	$ 1,089,839	$ 181,712	$ 109,831	$ 1,381,382
Certificates of deposit	811,340	-	119,998	931,338
Accounts receivables (net of allowances for uncollectibles):				
Taxes	262,061	-	-	262,061
Accounts	14,009	-	640	14,649
Due from other governments	36,086	47,079	-	83,165
Due from other funds	150	-	-	150
Total Assets	$ 2,213,485	$ 228,791	$ 230,469	$ 2,672,745
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 56,794	$ -	$ -	$ 56,794
Accrued liabilities	19,229	-	-	19,229
Due to other funds	9,712	-	150	9,862
Deferred revenue	148,851	-	-	148,851
Total Liabilities	234,586	-	150	234,736
Fund Balances:				
Reserved for:				
Perpetual care	-	-	127,768	127,768
Capital outlay	-	228,791	-	228,791
Public safety	-	-	2,620	2,620
Unreserved, designated for:				
Program purposes	5,649	-	-	5,649
Unreserved, undesignated reported in:				
General fund	1,973,250	-	-	1,973,250
Capital projects fund	-	-	99,931	99,931
Total fund balances	1,978,899	228,791	230,319	2,438,009
Total liabilities and fund balances	$ 2,213,485	$ 228,791	$ 230,469	$ 2,672,745

The accompanying notes are an integral part of these financial statements.

CITY OF GRAY, GEORGIA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

Amounts reported for governmental activities in the statement of net assets are different because:	
Fund balances reported on balance sheet of governmental funds	$ 2,438,009
Some of the government's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the governmental funds.	148,851
Long-term Liabilities	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities both current and long-term are reported in the Statement of Net Assets. Long-term liabilities at year-end consist of the following:	
Capital leases payable	(456,459)
Compensated absences	(12,763)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,850,972
Net assets of governmental activities	$ 5,968,610

The accompanying notes are an integral part of these financial statements.

CITY OF GRAY, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	General	SPLOST 2009	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property	$ 963,480	$ -	$ -	$ 963,480
Sales	389,115	-	-	389,115
Other taxes	443,388	-	-	443,388
Licenses and permits	58,241	-	-	58,241
Intergovernmental	46,966	482,939	-	529,905
Fines and forfeitures	252,392	-	12,160	264,552
Investment earnings	24,538	3,559	829	28,926
Miscellaneous	15,486	-	780	16,266
Total revenues	2,193,606	486,498	13,769	2,693,873
EXPENDITURES:				
Current:				
General government	538,700	-	-	538,700
Public safety	865,900	-	10,491	876,391
Public works	277,199	-	69	277,268
Culture and recreation	-	-	4,775	4,775
Intergovernmental	105,194	-	-	105,194
Debt service:				
Principal	21,508	-	-	21,508
Interest	21,960	-	-	21,960
Capital outlay	-	416,236	20,271	436,507
Total Expenditures	1,830,461	416,236	35,606	2,282,303
Excess (deficiency) of revenues over (under) expenditures	363,145	70,262	(21,837)	411,570
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of property	11,345	-	-	11,345
Transfers in	-	-	100,000	100,000
Transfers out	(177,043)	-	-	(177,043)
Total other financing sources and (uses)	(165,698)	-	100,000	(65,698)
Net change in fund balances	197,447	70,262	78,163	345,872
Fund balances - beginning of year	1,781,452	158,529	152,156	2,092,137
Fund balances - end of year	$ 1,978,899	$ 228,791	$ 230,319	$ 2,438,009

The accompanying notes are an integral part of these financial statements.

CITY OF GRAY, 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, 2010

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

Net change in fund balances - total governmental funds	$	345,872
Revenues		
Because some revenues will not be collected for several months after the government's fiscal year end, they are not considered available revenues and are deferred in the governmental funds. Deferred revenues increased by this amount during the year.		(55,039)
Long-term Debt		
Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. The adjustment for these items is as follows:		
Principal payments on capital leases		21,508
Compensated Absences		
Compensated absences 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.		
Compensated absences		1,438
Capital Assets		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.		
Total capital outlays		116,677
Total depreciation		(200,216)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, donations, annexing) is to increase net assets.		(3,952)
Change in net assets of governmental activities	$	226,288

The accompanying notes are an integral part of these financial statements.

CITY OF GRAY, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive/(Negative)
REVENUES:				
Taxes:				
General property taxes	$ 952,734	$ 952,734	$ 963,480	$ 10,746
Local option sales tax	373,000	373,000	389,115	16,115
Other taxes:				
Insurance premium tax	109,000	109,000	103,949	(5,051)
Motor vehicle tax	71,323	71,323	50,788	(20,535)
Franchise tax	204,500	204,500	200,718	(3,782)
Beer and wine tax	75,000	75,000	77,043	2,043
Real estate transfer tax	2,000	2,000	1,337	(663)
Recording intangible taxes	4,000	4,000	3,273	(727)
Mobile Home Tax	644	644	605	(39)
Penalties and interest	3,000	3,000	5,675	2,675
Total Taxes	1,795,201	1,795,201	1,795,983	782
Licenses and Permits:				
Business licenses and permits	72,000	72,000	58,241	(13,759)
Intergovernmental Revenues:				
Jones County Board of Education				
Crossing Guards	5,000	5,000	15,000	10,000
FEMA Grant	-	31,943	31,966	23
Total Intergovernmental Revenues	5,000	36,943	46,966	10,023
Fines, Forfeitures and Penalties:				
Fine and forfeitures	180,000	180,000	252,392	72,392
Miscellaneous:				
Interest earnings	20,000	20,000	24,538	4,538
Miscellaneous	1,600	1,600	15,486	13,886
Total Miscellaneous	21,600	21,600	40,024	18,424
Total Revenues	$ 2,073,801	$ 2,105,744	$ 2,193,606	$ 87,862

The accompanying notes are an integral part of these financial statements.

CITY OF GRAY, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive/(Negative)
EXPENDITURES:				
General Government:				
Salaries	$ 170,537	$ 131,039	$ 103,312	$ 27,727
Payroll taxes	60,710	60,710	59,644	1,066
Pension expenditures	54,000	54,000	53,504	496
General expenditures	5,000	5,000	4,505	495
Legal fees	30,000	38,634	33,585	5,049
Codification	2,000	2,612	2,612	-
Office supplies	3,500	5,796	4,476	1,320
Insurance	38,303	40,804	38,604	2,200
Audit and accounting	12,000	12,000	9,720	2,280
Convention and training	12,000	21,001	21,001	-
Dues	3,500	3,998	3,998	-
Repairs and maintenance	-	2,494	8,099	(5,605)
Telephone and utilities	14,500	14,500	9,370	5,130
Employee insurance	98,352	99,058	94,378	4,680
Postage	6,076	7,581	6,064	1,517
Computer maintenance	9,000	9,000	4,300	4,700
Miscellaneous	34,926	36,589	33,253	3,336
Professional services	3,000	3,825	3,825	-
Capital outlay	44,450	44,450	44,450	-
Total General Government	601,854	593,091	538,700	54,391
Public Safety:				
Police:				
Salaries	478,908	478,908	464,481	14,427
Vehicle expenditures	14,800	18,300	16,953	1,347
Gas and oil	60,000	60,000	57,641	2,359
Uniforms	8,000	8,000	7,509	491
Repairs and maintenance	5,000	5,000	4,468	532
Utilities and telephone	22,000	22,000	15,484	6,516
Office supplies	6,500	4,410	3,900	510
Supplies and small equipment	35,500	31,786	32,475	(689)
Training	5,000	5,000	1,850	3,150
Miscellaneous	13,900	14,260	8,806	5,454
Capital outlay	1,000	2,945	1,945	1,000
Total Police	$ 650,608	$ 650,609	$ 615,512	$ 35,097

The accompanying notes are an integral part of these financial statements.

CITY OF GRAY, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive/(Negative)
Recorder's Court:				
SIR Charges	$ 52,000	$ 58,111	$ 52,375	$ 5,736
Fines and penalties	64,500	61,799	56,336	5,463
Salaries	27,148	27,178	27,738	(560)
Miscellaneous	1,500	513	513	-
Court Judge	12,000	12,000	12,000	-
Total Recorders Court	157,148	159,601	148,962	10,639
Fire Department:				
Salaries	6,000	6,000	6,000	-
Operating	53,250	83,801	83,272	529
Capital outlay	13,500	12,279	12,154	125
Total Fire Department	72,750	102,080	101,426	654
Total Public Safety	880,506	912,290	865,900	46,390
Public Works:				
Salaries	105,000	105,000	91,543	13,457
Street lights	70,000	73,271	68,234	5,037
Traffic signals - maintenance	8,500	8,500	2,078	6,422
General street	40,000	64,000	58,827	5,173
Vehicle	29,500	26,229	6,703	19,526
Repairs and maintenance	5,000	5,000	1,214	3,786
Uniforms	1,800	1,800	765	1,035
Capital outlay	47,500	23,500	24,432	(932)
Contract labor	25,000	25,000	23,403	1,597
Total Public Works	$ 332,300	$ 332,300	$ 277,199	$ 55,101

The accompanying notes are an integral part of these financial statements.

CITY OF GRAY, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive/(Negative)
Payments to Other Governmental Agencies:				
Better Hometown	$ 20,000	$ 20,000	$ 20,000	$ -
Civil Defense	1,000	1,000	750	250
Clean Community	6,073	8,246	7,834	412
Downtown Development	5,000	5,000	5,000	-
Boys and Girls Club	500	500	500	-
Jones County Dispatching	62,000	66,636	61,510	5,126
Jones County Planning & Zoning	10,100	9,600	9,600	-
Total Payments to Other Governmental Agencies	104,673	110,982	105,194	5,788
Debt Service:				
Principal	21,508	21,508	21,508	-
Interest	21,960	21,960	21,960	-
Total Debt Service	43,468	43,468	43,468	-
Total Expenditures	1,962,801	1,992,131	1,830,461	161,670
Excess (Deficiency) of Revenues over Expenditures	111,000	113,613	363,145	249,532
Other Financing Sources (Uses):				
Proceeds from sale of property	-	-	11,345	11,345
Transfer to Capital Improvement Fund	-	(100,000)	(100,000)	-
Transfer to Water and Sewer Fund	(75,000)	(75,000)	(77,043)	(2,043)
Total Other Financing Sources (Uses)	(75,000)	(175,000)	(165,698)	9,302
Net change in fund balance	$ 36,000	$ (61,387)	197,447	$ 258,834
Fund balance - beginning of year			1,781,452	
Fund balance - end of year			$ 1,978,899	

The accompanying notes are an integral part of these financial statements.

CITY OF GRAY, GEORGIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 187,244	$ 371	$ 187,615
Certificates of deposit	204,040	-	204,040
Restricted cash, cash equivalents and investments:			
Revenue bond covenant accounts	383,436	-	383,436
Certificates of deposit	157,000	-	157,000
Accrued interest receivable	3,488	-	3,488
Accounts receivable (net of allowance for uncollectibles)	70,662	11,090	81,752
Due from other funds	3,389	6,323	9,712
Prepaid items	26,500	-	26,500
Total current assets	1,035,759	17,784	1,053,543
Noncurrent assets:			
Capital assets:			
Nondepreciable assets	580,384	-	580,384
Depreciable assets, net	5,581,281	-	5,581,281
Total capital assets	6,161,665	-	6,161,665
Bond issuance costs	15,596	-	15,596
Total noncurrent assets	6,177,261	-	6,177,261
Total assets	$ 7,213,020	$ 17,784	$ 7,230,804

The accompanying notes are an integral part of these financial statements.

CITY OF GRAY, GEORGIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010
(CONTINUED)

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
LIABILITIES			
Current liabilities:			
Accounts payable	$ 104,160	$ 10,927	$ 115,087
Accrued liabilities	8,464	-	8,464
Customer deposits payable	159,166	-	159,166
Accrued interest payable	2,277	-	2,277
Compensated absences	11,526	-	11,526
Notes payable - current	45,761	-	45,761
Water rights contract payable - current	22,683	-	22,683
Total current liabilities	354,037	10,927	364,964
Noncurrent liabilities:			
Water purchase rights	29,736	-	29,736
Revenue bonds payable	1,060,000	-	1,060,000
Notes payable	995,688	-	995,688
Total noncurrent liabilities	2,085,424	-	2,085,424
Total liabilities	2,439,461	10,927	2,450,388
NET ASSETS			
Invested in capital assets, net of related debt	4,007,797	-	4,007,797
Restricted:			
Restricted for debt service	540,436	-	540,436
Unrestricted	225,326	6,857	232,183
Total net assets	$ 4,773,559	$ 6,857	$ 4,780,416

The accompanying notes are an integral part of these financial statements.

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CITY OF GRAY, GEORGIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
Operating Revenues:			
Charges for sales and services:			
Water sales	$ 827,666	$ -	$ 827,666
Sewerage fees	531,993	-	531,993
Garbage fees	-	135,972	135,972
Connection fees	58,200	-	58,200
Penalties and other fees	26,204	-	26,204
Miscellaneous	8,697	-	8,697
Total operating revenues	1,452,760	135,972	1,588,732
Operating Expenses:			
Salaries	399,681	-	399,681
Employee benefits	37,634	-	37,634
Depreciation	277,080	-	277,080
Utilities	166,677	-	166,677
Maintenance and supplies	198,668	-	198,668
Insurance	130,788	-	130,788
Gas, oil, tires	20,649	-	20,649
Professional fees	28,708	-	28,708
Contracted services	-	129,045	129,045
Travel	5,288	-	5,288
Amortization	1,733	-	1,733
County water expense	165,353	-	165,353
Other operating expenses	10,776	70	10,846
Total Operating Expenses	1,443,035	129,115	1,572,150
Operating Income (Loss)	9,725	6,857	16,582
Non-Operating Revenues (Expenses):			
Interest revenue	8,064	-	8,064
Interest expense	(91,885)	-	(91,885)
Total Non-Operating Revenues (Expenses)	(83,821)	-	(83,821)
Net Income (Loss) before Contributions and Transfers	(74,096)	6,857	(67,239)
Capital contributions	255,356	-	255,356
Transfers in	77,043	-	77,043
Change in net assets	258,303	6,857	265,160
Net assets - beginning of year, restated	4,515,256	-	4,515,256
Net assets - end of year	$ 4,773,559	$ 6,857	$ 4,780,416

The accompanying notes are an integral part of these financial statements.

CITY OF GRAY, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	$ 1,430,648	$ 128,803	$ 1,559,451
Cash paid to suppliers for good and services	(684,368)	(128,432)	(812,800)
Cash paid to employees	(427,172)	-	(427,172)
Net Cash Provided by (Used for) Operating Activities	319,108	371	319,479
Cash Flows from Noncapital Financing Activities:			
Transfer from General Fund	77,043	-	77,043
Net Cash Provided by (Used for) Noncapital Financing Activities	77,043	-	77,043
Cash Flows from Capital and Related Financing Activities:			
Principal paid on revenue bonds	(135,000)	-	(135,000)
Principal paid on notes	(66,600)	-	(66,600)
Interest paid on revenue bonds	(92,374)	-	(92,374)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(293,974)	-	(293,974)
Cash Flows from Investing Activities:			
Interest received	9,477	-	9,477
Net Cash Provided by (Used for) Investing Activities	9,477	-	9,477
Net Increase (Decrease) in Cash and Cash Equivalents	111,654	371	112,025
Cash and Cash Equivalents - Beginning of Year	820,066	-	820,066
Cash and Cash Equivalents - End of Year	$ 931,720	$ 371	$ 932,091
Reconciliation of Cash Equivalents:			
Cash	$ 391,284	$ 371	$ 391,655
Restricted cash	540,436	-	540,436
Total Cash and Cash Equivalents	$ 931,720	$ 371	$ 932,091

The accompanying notes are an integral part of these financial statements.

CITY OF GRAY, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

	Business-type Activities Enterprise Funds		
		Nonmajor	
	Water and Sewer Fund	Sanitation Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	$ 9,725	$ 6,857	$ 16,582
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Depreciation	277,080	-	277,080
Amortization	1,733	-	1,733
Changes in Assets and Liabilities:			
(Increase) decrease in accounts receivables	(5,131)	(2,060)	(7,191)
(Increase) decrease in due from other funds	(3,389)	(5,109)	(8,498)
(Increase) decrease in prepaids	6,500	-	6,500
Increase (decrease) in accounts payable	72,755	683	73,438
Increase (decrease) in accrued liabilities	8,370	-	8,370
Increase (decrease) in customer water deposits	(16,981)	-	(16,981)
Increase (decrease) in due to other funds	(33,327)	-	(33,327)
Increase (decrease) in compensated absences	1,773	-	1,773
Total adjustments	309,383	(6,486)	302,897
Net Cash Provided by (Used for) Operating Activities	$ 319,108	$ 371	$ 319,479
NONCASH CAPITAL FINANCING ACTIVITIES			
Contributions of capital assets from government	$ 255,356	$ -	$ 255,356

The accompanying notes are an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The City of Gray was incorporated in 1911 under the provision of an Act of the General Assembly of Georgia. The City operates under a mayor-council form of government and provides the following services as authorized by its charter: public safety, highways and streets, sanitation, health and social services, recreation and general administrative services.

The accounting policies of the City of Gray conform to generally accepted accounting principles as applicable to governments. The following is a summary of the City's more significant policies applied in the preparation of the accompanying financial statements.

A. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Gray, Georgia (primary government) and its component units. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The component unit discussed below is included in the City's reporting entity because of the significance of its operational and financial relationships with the City. In conformity with generally accepted accounting principles, as set forth in Statement of Governmental Accounting Standards No. 14 "The Financial Reporting Entity", the financial statements of the component unit has been included as a discretely presented component unit.

Downtown Development Authority – The Downtown Development Authority is a public body, corporate and politic, and was created upon the adoption and approval of the Development Authorities Law of the State of Georgia. The Mayor and City Council appoint all members of the Downtown Development Authority. The Downtown Development Authority is audited along with the primary government financial statements and separate financial statements are not prepared.

A joint venture has the following characteristics:

1. It is a legal entity that results from a contractual arrangement.
2. It is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control.
3. Participants retain an ongoing financial interest or an ongoing financial responsibility.

Under Georgia law, the City, in conjunction with other cities and counties in the middle Georgia area, is a member of the Middle Georgia Regional Commission (the "RC") and is required to pay annual dues thereto. During the year ended December 31, 2010, the City paid $1,810 in such dues. Membership in a RC is required by the Official Code of Georgia

Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RC in Georgia. The RC 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 a RC.

Separate financial statements may be obtained from:

Middle Georgia Regional Commission
175-C Emery Highway
Macon, GA 31217

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. 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 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

Government-Wide Financial Statements

The government-wide financial statements are reported using the flow of 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 in 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as programs 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 program revenues.

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

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Under 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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered 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 revenues are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The fund financial statements provide more detailed information about the government's most significant funds, not the government as a whole. The activities of the government are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The government reports the following major governmental funds:

General Fund – 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.

Capital Projects Fund – The 2009 SPLOST Fund is used to account for SPLOST monies received to be used for improvements to the water and sewer system.

The government reports the following major proprietary funds:

Water and Sewer Fund – The Water and Sewer Fund is used to account for the providing of water and sewer services to the citizens of the City.

D. Deposits and Investments

The City'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.

Investments are reported at fair value, which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

E. Receivables

Receivables and Due from Other Governments represent funds to be received from other local governments, state grant-in-aid, state contracts, or federal funds. No allowance is deemed necessary for these receivables.

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" or "advances to/from other funds." 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."

All trade and property tax receivables have been reduced to their estimated net realizable value, and are shown net of an allowance for doubtful accounts. Estimated uncollectible amounts are based on historical experience rates.

F. Restricted Assets

Certain assets of the enterprise funds are classified as restricted assets because their use is restricted by bond covenants.

G. Prepaid Items

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

H. Inventories

Inventories of expendable supplies held for consumption are not considered material and are recorded as expenditures, or expenses, as appropriate, when purchased.

I. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items acquired subsequent to January 1, 2004) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $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.

The cost 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. The total interest expense incurred and capitalized as part of the construction of capital assets by the City during the current year was $0.

Property, plant and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Building	10 years
Water and Sewer System	10-50 years
Furniture and Equipment	5-10 years
Vehicles	5 years

J. Compensated Absences

Accumulated unpaid sick leave costs are not vested and are not accrued in any fund, but are recognized as expenditures or expenses, when paid. Accumulated unpaid vacation costs and compensatory time are accrued when incurred in the proprietary funds. The City does not budget for compensated absences in the governmental funds. All accumulated unpaid vacation costs and compensatory time (for funds other than proprietary) are reflected in the governmental funds at December 31, 2010 and amount to $12,763.

K. Long-term Obligations

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

L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

M. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries insurance. The City is a member of the Georgia Interlocal Risk Management Agency (GIRMA). This agency functions as an unincorporated nonprofit instrumentality of its members and is administered by the Georgia Municipal Association. The purpose of GIRMA is to establish and administer one or more group self-insurance funds; to establish and administer a risk management service; and to prevent or lessen the incidence or severity of casualty and property losses.

Each member pays an annual contribution established by the Board of GIRMA. For the year ending December 31, 2010, the City's total contribution was $28,290. GIRMA may develop and issue such self-insurance coverage descriptions, as it deems necessary. The current coverage provides a $1,000,000 general liability limit with a $1,000 per occurrence deductible.

The City is a member of the Georgia Municipal Association Workers' Compensation Self Insurance Fund. The liability of the fund to the employees of any employer is specifically limited to such obligations as are imposed by applicable state laws against the employer. The Fund is to defend, in the name of and on behalf of the members, any suits or other proceedings, which may at any time be instituted against them on account of injuries or death within the preview of the Workers' Compensation Law of Georgia, or on the basis of employer's liability. The Fund is to pay all costs taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense. For the year ending December 31, 2010, the City's total contribution was $30,577 for the Workers Compensation Fund.

N. Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized in the current period. Bond discounts and issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the straight-line method. Bond discounts are presented as a reduction of the face amount of the bonds payable, whereas issuance costs are recorded as deferred charges.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

A. Budget Process

An annual operating budget is prepared for the General Fund. Budgets are prepared for Capital Projects Funds on a project-length basis, which usually covers two or more fiscal years. Prior to November, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

After a review by the Mayor and Council, public hearings are conducted. Prior to December 31, the budget is legally enacted through passage of an ordinance.

The City Clerk is delegated the authority, upon the direction of and approval by the Mayor and Council to transfer sums from one department to another. No increase in the overall budget for the City may be made without the approval of the Mayor and Council and amendment to the budget.

The legal level of budgetary control is the department level. All annual appropriations lapse at year end.

All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – has been prepared on the basis described above.

B. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City. Encumbrances are not recognized as expenditures until the period in which the actual goods or services are received and the liability is incurred. Budget to Generally Accepted Accounting Principals Basis reconciliations are not required.

NOTE 3 – DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits

The custodial credit risk of deposits is the risk that in the event of the failure of a bank, the government will not be able to recover deposits. The City's bank balances of deposits as of December 31, 2010 are entirely insured or collateralized with securities held by the City's agent in the City's name. State statutes require banks holding public funds to secure these funds by FDIC insurance, securities pledged at par value, and surety bonds at face value in combined aggregate totaling not less than 110 percent of the public funds held.

NOTE 4 – PROPERTY TAXES

State law requires that property taxes be based on assessed value, which is 40% of market value. All real and personal property (including motor vehicles) are valued as of January 1 of each year and must be returned for tax purposes by March 1. With the exception of motor vehicles and the property of public utilities, which are valued by the State Revenue Department, all assessments are made by a Joint Board of Tax Assessors of Jones County.

Upon completion of all assessments and tax returns, the information is turned over to the Jones County Tax Commissioner for compilation of the tax digest. The completed tax digest must be submitted to the State Revenue Commissioner for approval. The State Revenue Commissioner must ascertain that real property on the tax digest has been assessed at the state mandated forty percent (40%) of fair market value. The Commissioner has the option to withhold certain state funding if the mandated 40% level is not reached.

The property tax calendar is as follows:

	Real/Personal Property	Motor Vehicles
Assessment Date	January 1	January 1
Levy Date	October 20	December 1
Due Date and Collection Date	December 31, 2010	Staggered
Lien Date	March 1, 2011	N/A

The City of Gray distributes tax notices and collects tax payments. Motor vehicle taxes are due based upon the birthday of the owner. Property taxes are generally levied in September and due by December. A lien may be enforced 60 days after due date.

NOTE 5 – OTHER RECEIVABLES

Receivables at December 31, 2010 consist of the following:

	General Fund	Water & Sewer	Sanitation Fund	Nonmajor Funds	Total
Receivables:					
Taxes	$ 357,551	$ -	$ -	$ -	$ 357,551
Accounts	1,568	90,858	14,146	-	106,572
Accrued interest	12,441	3,488	-	640	16,569
Gross Receivables	371,560	94,346	14,146	640	480,692
Less: Allowance for Uncollectibles	(95,490)	(20,196)	(3,056)	-	(118,742)
Net Total Receivables	$ 276,070	$ 74,150	$ 11,090	$ 640	$ 361,950

NOTE 6 – DUE FROM OTHER GOVERNMENTS

The General Fund reflects $36,086 in Due from Other Governments, which represents vehicle taxes due from Jones County of $2,097 and local option sales tax (LOST) due from the State of $33,989.

The SPLOST 2009 Fund reflects $47,079 in Due from Other Governments, which represents one percent of the Special Local Option Sales Tax due from Jones County, Georgia.

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2010, was as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Fund	$ 150
Water and Sewer Fund	General Fund	3,389
Nonmajor Proprietary Fund	General Fund	6,323
Total		$ 9,862

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers:

	Transfer In:		
Transfer out:	Water and Sewer Fund	Nonmajor Governmental	Total
General Fund	$ 77,043	$ 100,000	$ 177,043
Total	$ 77,043	$ 100,000	$ 177,043

Transfers are used to move unrestricted revenue to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching fund for various grant programs.

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010, was as follows:

Primary Government

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,004,462	$ -	$ -	$ 1,004,462
Total capital assets, not being depreciated	1,004,462	-	-	1,004,462
Capital assets, being depreciated:				
Infrastructure	2,167,200	-	-	2,167,200
Buildings	782,342	9,270	-	791,612
Equipment	195,205	20,147	(34,802)	180,550
Vehicles	866,909	87,260	(37,609)	916,560
Total capital assets, being depreciated	4,011,656	116,677	(72,411)	4,055,922
Less accumulated depreciation for:				
Infrastructure	(55,326)	(108,360)	-	(163,686)
Buildings	(113,590)	(15,853)	-	(129,443)
Equipment	(186,360)	(3,594)	34,802	(155,152)
Vehicles	(722,379)	(72,409)	33,657	(761,131)
Total accumulated depreciation	(1,077,655)	(200,216)	68,459	(1,209,412)
Total capital assets being depreciated, net	2,934,001	(83,539)	(3,952)	2,846,510
Governmental capital assets, net	$ 3,938,463	$ (83,539)	$ (3,952)	$ 3,850,972

	Beginning Balance, Restated	Additions	Deductions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	$ 26,167	$ -	$ -	$ 26,167
Water rights	313,683	-	-	313,683
Construction in progress	-	240,534	-	240,534
Total capital assets, not being depreciated	339,850	240,534	-	580,384
Capital assets, being depreciated				
Sewer system	2,159,550	-	-	2,159,550
Water system	4,312,768	-	-	4,312,768
Wastewater treatment plant	2,605,152	-	-	2,605,152
Building	41,526	-	-	41,526
Equipment	291,157	14,822	(14,250)	291,729
Vehicles	117,196	-	-	117,196
Total capital assets, being depreciated	9,527,349	14,822	(14,250)	9,527,921
Less accumulated depreciation for:				
Sewer system	(990,789)	(47,642)	-	(1,038,431)
Water system	(1,602,137)	(123,551)	-	(1,725,688)
Wastewater treatment plant	(781,699)	(74,433)	-	(856,132)
Building	(41,526)	-	-	(41,526)
Equipment	(167,279)	(22,104)	14,250	(175,133)
Vehicles	(100,380)	(9,350)	-	(109,730)
Total accumulated depreciation	(3,683,810)	(277,080)	14,250	(3,946,640)
Total capital assets, being depreciated, Net	5,843,539	(262,258)	-	5,581,281
Business-type activities capital assets, Net	$ 6,183,389	$ (21,724)	$ -	$ 6,161,665

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

Governmental activities

General government	$ 4,097
Public safety	86,200
Public works	109,919
Total	$ 200,216

Business-type activities

Water & Sewer	$ 277,080
Total	$ 277,080

The beginning balances were restated to report the intangible asset, water rights, as a capital asset in conformity with Statement of Governmental Accounting Standards (GASB) No. 51, Accounting and Financial Reporting for Intangible Assets.

NOTE 9 – LONG-TERM DEBT

A. Governmental Funds

Capital Leases

In March 2006, the City entered into a capital lease with the Georgia Municipal Association in the amount of $112,004 for the purchase of police vehicles. Quarterly payments, $9,452 per quarter including interest at a rate of 4.3%, are to be made beginning in March 2006 and ending in February 2010. In July 2007, the City entered into another capital lease with the Georgia Municipal Association in the amount of $22,800 for the purchase of a fire department vehicle. Quarterly payments, $2,018 per quarter including interest at a rate of 4.42%, are to be made beginning in July 2007 and ending in April 2010.

In November 2008, the City entered into a capital lease with the Georgia Municipal Association in the amount of $495,000 for the purchase of a building for the police department. Semiannual payments of $18,886 including interest at a rate of 4.67% are to be made beginning in January 2009 and ending in July 2028.

Cash requirement to maturity for this building lease is as follows:

	Principal	Interest	Total
2011	$ 16,647	$ 21,125	$ 37,772
2012	17,433	20,339	37,772
2013	18,257	19,515	37,772
2014	19,120	18,652	37,772
2015	20,023	17,749	37,772
2016-2020	115,230	73,627	188,857
2021-2025	145,147	43,710	188,857
2026-2028	104,602	8,713	113,315
Total	$ 456,459	$ 223,430	$ 679,889

B. Proprietary Funds

Revenue Bonds

The Water and Sewerage Revenue Bonds, Series 1988, were refinanced with the Bank of Gray during 2002. The new long-term debt for the Water and Sewerage Fund includes $905,000 Water and Sewerage Revenue Bonds, Series 2002, due in various semi-annual installments, including interest at 5 percent through January 1, 2011. Principal amount outstanding at December 31, 2010, is $0.

The Bonds are secured by a pledge of the revenues from the operation of the City's Water and Sewerage Fund subject to payment of the reasonable and necessary costs of operating and maintaining the fund's facilities and systems.

The bond ordinances require that all revenues arising from the operations of the water system be deposited into the water system revenue account and disbursed in the following manners and order:

1. Payment of reasonable and necessary costs of operating, maintaining and repairing the water system into the operations and maintenance account. The ordinance also allows the City to maintain in reserve an amount equal to thirty days working capital.

2. Payment on or before the 15th of the month an amount equal to one-sixth of the interest payable on the next ensuing interest payment date and an amount equal to one-twelfth of the principal payable on the next ensuing principal payment date.

3. Payments into the Renewal and Extension of all remaining funds.

In 2009, the City issued an additional $1,060,000 Water and Sewerage Revenue Bonds, Series 2005, due in various semi-annual installments, including interest at 5 percent through January 1, 2021, to finance the construction of a new water tank. Principal amount outstanding at December 31, 2010 is $1,060,000.

Cash requirements to maturity for this issue are as follows:

	Principal	Interest	Total
2011	$ -	$ 53,000	$ 53,000
2012	85,000	50,575	135,575
2013	90,000	46,500	136,500
2014	95,000	41,875	136,875
2015	100,000	37,000	137,000
2016-2020	560,000	105,750	665,750
2021	130,000	3,250	133,250
Total	$ 1,060,000	$ 337,950	$ 1,397,950

Water Rights Contract

A Capital Outlay Contract entered into on August 21, 1990 with Jones County, Georgia provided that Jones County would construct a water main line which would enable the City of Gray to access the County water system. The County agrees to sell treated water to the City of Gray in such amounts and quantities and at such prices as may from time to time be agreed to by the City and the County.

Payment for the construction shall be made by the County from a construction fund established with proceeds received from the Georgia Environmental Facilities Authority. The City of Gray shall remit to Jones County a calculated share of the indebtedness, in such a manner that Jones County may timely make debt service payments on the GEFA loan. The GEFA loan amounted to $681,921; the City's share of construction expenses amount to 46%, or $313,684. This loan was refinanced by Jones County in January 2003. The City's portion as a result of the refinancing was $199,172. During the year ended December 31, 2010, the City made total transfers to the County for debt service of $21,744.

In conformity with GASB No. 51, the water purchase rights are shown on the financial statements as a capital asset.

Cash requirements for repayment to Jones County are as follows:

	Principal	Interest	Total
2011	$ 22,683	$ 1,860	$ 24,543
2012	23,663	889	24,552
2013	6,073	77	6,150
Total	$ 52,419	$ 2,826	$ 55,245

Loans Payable

During 2008, the City was approved for a loan from Georgia Environmental Facilities Authority (GEFA) to finance the costs of acquiring, constructing and installing a new belt press for the water and sewer treatment plant. The amount of the loan as originally approved in June of 2008 was not to exceed $833,400. During 2009, it was determined that the original costs estimates were not sufficient so an additional $67,000 was approved in 2009. The construction of the belt press was completed during 2009. The total amount the City drew down on this loan was $1,090.026, including capitalized interest. Monthly payments of $5,514, including interest at 2%, began in December 2009 and end in November 2029.

Cash requirements to maturity for this loan are as follows:

	Principal	Interest	Total
2011	$ 45,761	$ 20,410	$ 66,171
2012	46,679	19,492	66,171
2013	47,631	18,540	66,171
2014	48,588	17,583	66,171
2015	49,569	16,602	66,171
2016-2020	263,257	67,598	330,855
2021-2025	290,926	39,929	330,855
2026-2029	249,038	10,085	259,123
Total	$ 1,041,449	$ 210,239	$ 1,251,688

Restricted Assets

The balances of the restricted asset accounts in the Water & Sewer enterprise fund are as follows:

Revenue bond covenant accounts	$ 383,436
Certificates of deposit	157,000
Total	$ 540,436

C. Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital lease-vehicles	$ 5,612	$ -	$ (5,612)	$ -	$ -
Capital lease-building	472,355	-	(15,896)	456,459	16,647
Compensated absences	14,201	20,949	(22,387)	12,763	12,763
Governmental activities Long-term liabilities	$ 492,168	$ 20,949	$ (43,895)	$ 469,222	$ 29,410
Business-type activities:					
Bonds payable:					
Revenue bonds-2002	$ 135,000	$ -	$ (135,000)	$ -	$ -
Revenue bonds-2005	1,060,000	-	-	1,060,000	-
GEFA Loan payable	1,086,304	-	(44,855)	1,041,449	45,761
Water rights contract	74,163	-	(21,744)	52,419	22,683
Compensated absences	9,753	18,443	(16,670)	11,526	11,526
Business-type activities Long-term liabilities	$ 2,365,220	$ 18,443	$ (218,269)	$ 2,165,394	$ 79,970

For the governmental activities, compensated absences are generally liquidated by the general fund.

NOTE 10 – POST EMPLOYMENT BENEFITS

The City does not provide any health care or life insurance benefits for retired employees.

NOTE 11 – PENSION

The City is a participating member of the Georgia Municipal Employees Benefit System, a State-wide agent, and multiple-employer retirement system, administered by the Georgia Municipal Association. This is a defined benefit pension plan, which provides retirement, disability and death benefits to plan members and beneficiaries.

There are no loans to any of the City officials nor are there any other "party-in-interest" or prohibited transactions. The funds are managed by independent money managers.

The City Council has established an ordinance, which assigns the authority to the Mayor and Council members to establish and amend the benefit provisions of the plan.

The plan issues a stand-alone financial report. The annual report and more detailed information regarding the plan can be obtained from the Plan Administrator, the Georgia Municipal Employees Benefit System.

Participation

All employees are eligible to participate in the plan after one full year of service. The vesting period is 10 years for eligible employee participants and five years for eligible officials. As of July 1, 2010, the current plan membership is as follows:

Retirees & beneficiaries currently receiving benefits	7
Terminated employees entitled to benefits but not receiving them	2
Currently active employees:	
Fully vested	8
Non-vested	25
Total membership	42
Total current year covered payroll	$ 946,616
Total current year payroll	$ 946,616

Actuarial Assumptions

1. Rate of return on investments of 7.75% per year
2. Projected salary increases, due to inflation, of 0% per year
3. Projected salary increases, due to seniority/merit of 3.5% per year
4. Postretirement benefit increases - not applicable
5. Life expectancies for healthy participants before and after retirement based on the sex-distinct RP-2000 Combined Mortality Table set forward two years in age for males and one year in age for females
6. Life expectancies for disable participants before and after retirement based on the sex-distinct RP-2000 Disabled Retiree Mortality Table set forward two years in age for males and one year in age for females

Funding Policy

Employees make no contributions to the plan. The City is required to contribute the remaining amounts necessary to fund the plan in compliance with the minimum funding standards of the Public Retirement Systems Standards Law. This funding policy, as specified by ordinance, has been the same since the inception of the plan. The contribution requirements of plan members and the City are established and may be amended by the system's Board of Trustees.

Contributions are determined under the projected unit credit actuarial cost method. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1999 and current changes in the unfounded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods, if applicable, are closed for this plan year.

The contributions to the plan for the year ended December 31, 2010, were $53,504, 5.83% of covered payroll, and were made in accordance with contribution requirements determined by an actuarial valuation of October 1, 2009. The total recommended contribution consisted of $36,800 normal costs, $14,921 to amortize to unfunded accrued liability and $1,783 of interest. The City's actuarially determined contribution requirement for the period ending October 1, 2009, was $53,504, an undetermined percentage of the total of the current year actuarially determined contribution requirement for all employees.

The Plan is subject to the minimum funding standards of the Public Retirement Systems Standards Law (Georgia Code Section 47-20-10). The estimated minimum annual contribution under these funding standards is $53,504. Since the City's policy is to contribute the pension expense in each year, the Plan will meet applicable funding standards.

The City had the following changes to their actuarial assumptions since the last valuation:

- The valuation date changed from October 1 to July 1.
- The mortality table for healthy participants was changed from the 1983 Group Annuity Mortality Table without Margin to the sex-distinct RP-2000 Combined Mortality Table set forward two years in age for males and one year in age for females.

- The mortality table for disabled participants was changed from the 1944 Railroad Retirement Board of Male Ultimate Disabled Mortality to the sex-distinct RP-2000 Disabled Retiree Mortality Table set forward two years in age for males and one year in age for females.
- The salary increase assumption was changed from 5.50% each year to a table of rates based on age and service.
- The investment return assumption was changed from 8.00% to 7.75% per annum.
- The inflation assumption was changed from 5.00% to 3.50% per annum.
- The asset method was changed to temporarily widen the corridor.

Trend Information

Historical trend information is designed to provide information about the City's progress made in accumulating sufficient assets to pay pension benefits when due is presented below:

Fiscal Year	Annual Pension Cost (APC)	Percentage of Annual Covered Payroll	Percentage of APC Contributed	Net Pension Obligation
2010	$ 53,504	5.8%	100%	-
2009	53,410	6.3%	100%	-
2008	53,134	5.9%	100%	-

The City's annual pension cost and net pension (obligation) asset for the pension plan for the current year were determined as follows:

Normal cost	$ 38,583
Payment on unfunded actuarial accrued liability	14,921
Annual pension cost	53,504
Contributions	(53,504)
Increase in net pension obligation (asset)	-
Net pension obligation (asset) 12/31/09	-
Net pension obligation (asset) 12/31/10	$ -

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2010, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/10	$409,831	$542,672	$132,841	75.52%	$946,616	14.03%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of July 1, 2010.

Contributions were made in accordance with actuarially determined requirements.

Actuarial Reports

The City's practice is to have and actuarial valuation performed every year, and to base the succeeding year's contribution on a result of those valuations. The actuarial valuation is performed as of July 1 every year. This recent valuation was performed as of July 1, 2010, based upon employee data as of July 1, 2010, and based upon the available pension assets as of July 1, 2010.

Accounting Policies

Basis of Accounting	Accrual
Asset Valuation:	
Reporting	Cost
Actuarial Valuations	Market
Internal Loans	None
Non-governmental individual investments in excess of 5% of net assets	None
Securities of the employer and related parties	None

NOTE 12 – INVESTMENTS IN CAPITAL ASSETS, NET OF RELATED DEBT

Investments in capital assets, net of related debt on the Government-wide Statement of Net Assets as of December 31, 2010 are as follows:

	Governmental Activities	Business-Type Activities	Total
Investment in capital assets, net of related debt:			
Cost of capital assets	$ 5,060,384	$ 10,108,305	$ 15,168,689
Less accumulated depreciation	(1,209,412)	(3,946,640)	(5,156,052)
Book value	3,850,972	6,161,665	10,012,637
Less capital related debt	(456,459)	(2,153,868)	(2,610,327)
Investment in capital assets, net of related debt:	$ 3,394,513	$ 4,007,797	$ 7,402,310

NOTE 13 – CONTINGENT LIABILITIES

Litigation

During the course of normal operations of the City, various claims and lawsuits arise. The City attorney has advised that there are no potential liabilities that will impair the City's financial position as of the date of this audit report.

NOTE 14 – RESTATEMENT OF EQUITY BALANCES

A prior period adjustment was necessary to present water rights in conformity with GASB No. 51. The effects of this adjustment are as follows:

Business-type activities:	
Net assets, December 31, 2009	$ 4,240,783
Accumulated amortization	274,473
Net assets, December 31, 2009, restated	$ 4,515,256
Water and sewer fund:	
Net assets, December 31, 2009	$ 4,240,783
Accumulated amortization	274,473
Net assets, December 31, 2009, restated	$ 4,515,256

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GRAY, GEORGIA

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Unfunded (Assets in Excess of AAL) (b-a)	Annual Covered Payroll (c)	Ratio of Unfunded to Annual Covered Payroll
07/01/10	$ 409,831	$ 542,672	75.52%	$ 132,841	$ 946,616	14.03%
10/01/09	374,740	504,235	74.32%	129,495	917,387	14.12%
09/01/08	324,100	456,051	71.07%	131,951	850,710	15.51%
09/01/07	277,110	416,540	66.53%	139,430	906,608	15.38%
09/01/06	224,974	356,719	63.07%	131,745	608,472	21.65%
09/01/05	182,737	371,709	49.16%	188,972	807,876	23.39%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2010	$ 53,504	100.00%
2009	53,410	100.00%
2008	53,134	100.00%

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

Law Enforcement Confiscation Fund - This fund is used to account for condemned funds received and disbursed for law enforcement expenditures

SPLOST 2004 - This fund is used to account for the collection of sales taxes and disbursement of funds for SPLOST approved projects.

Capital Improvements Fund - This fund is used to account for the purchase or construction of major capital facilities or equipment for the City.

Perpetual Care Permanent Fund - This fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery.

CITY OF GRAY, GEORGIA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	Special Revenue	Capital Projects		Permanent Fund	Total Nonmajor Governmental Funds
	Law Enforcement Confiscation	SPLOST 2004	Capital Improvements	Perpetual Care	
ASSETS					
Cash and cash equivalents	$ 2,770	$ -	99,931	$ 7,130	$ 109,831
Certificates of deposit	-	-	-	119,998	119,998
Interest receivable	-	-	-	640	640
Total Assets	$ 2,770	$ -	$ 99,931	$ 127,768	$ 230,469
LIABILITIES					
Due to other funds	$ 150	$ -	$ -	$ -	$ 150
Total Liabilities	150	-	-	-	150
FUND BALANCES					
Reserved for:					
Perpetual care	-	-	-	127,768	127,768
Public safety	2,620	-	-	-	2,620
Unreserved	-	-	99,931	-	99,931
Total Fund Balances	2,620	-	99,931	127,768	230,319
Total Liabilities and Fund Balances	$ 2,770	$ -	$ 99,931	$ 127,768	$ 230,469

CITY OF GRAY, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Special Revenue	Capital Projects		Permanent Fund	Total Nonmajor Governmental Funds
	Law Enforcement Confiscation	SPLOST 2004	Capital Improvements	Perpetual Care	
REVENUES					
Fines and forfeitures	$ 12,160	$ -	$ -	$ -	$ 12,160
Investment earnings	-	146	-	683	829
Miscellaneous	-	-	-	780	780
Total Revenues	12,160	146	-	1,463	13,769
EXPENDITURES					
Current					
Public works	-	-	69	-	69
Public safety	10,491	-	-	-	10,491
Culture and recreation	-	-	-	4,775	4,775
Capital outlay	-	20,271	-	-	20,271
Total Expenditures	10,491	20,271	69	4,775	35,606
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,669	(20,125)	(69)	(3,312)	(21,837)
Other Financing Sources (Uses)					
Transfer from other funds	-	-	100,000	-	100,000
Total Other Financing Sources (Uses)	-	-	100,000	-	100,000
Net change in fund balance	1,669	(20,125)	99,931	(3,312)	78,163
Fund balances - beginning of year	951	20,125	-	131,080	152,156
Fund balances - end of year	$ 2,620	$ -	$ 99,931	$ 127,768	$ 230,319

CITY OF GRAY, GEORGIA

LAW ENFORCEMENT CONFISCATION FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2010

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Fines and forfeitures	$ 10,491	$ 12,160	$ 1,669
Total Revenues	10,491	12,160	1,669
EXPENDITURES			
Current			
Public safety	10,491	10,491	-
Total Expenditures	10,491	10,491	-
Excess (Deficiency) of Revenues over Expenditures	-	1,669	1,669
Net change in fund balance	$ -	1,669	$ 1,669
Fund balance - beginning of year		951	
Fund balance - end of year		$ 2,620	

CITY OF GRAY, GEORGIA

SCHEDULE OF PROJECTS CONSTRUCTED
WITH SPECIAL SALES TAX PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Original Estimated Cost	Expenditures			Estimated Percentage of Completion
		Prior Years	Current Year	Total	
2004 SPLOST					
Water & sewer system Improvements	$ 1,637,500	$ 1,560,939	$ 17,944	$ 1,578,883	96.42%
Administrative building	100,000	105,350	2,115	107,465	107.47%
Roads and streets	350,000	422,733	212	422,945	120.84%
Total 2004 SPLOST	$ 2,087,500	$ 2,089,022	$ 20,271	$ 2,109,293	101.04%

Note: The 2004 SPLOST has been closed.

2009 SPLOST					
Water & sewer system Improvements	$ 1,688,000	$ 95	$ 355,471	$ 355,566	21.06%
Police Vehicles	400,000	-	32,615	32,615	8.15%
Street Improvements	250,000	-	28,150	28,150	11.26%
Fire Equipment	200,000	-	-	-	0.00%
Public Works Vehicles and Equipment	150,000	-	-	-	0.00%
Total 2009 SPLOST	$ 2,688,000	$ 95	$ 416,236	$ 416,331	15.49%

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GOVERNMENTAL REPORTS

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CLIFTON, LIPFORD, HARDISON & PARKER, LLC

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Truman W. Clifton (1902-1989)

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*

Mayor and City Council
City of Gray
Gray, Georgia

We have audited the financial statements of the City of Gray, Georgia (the "City") as of and for the year ended December 31, 2010, and have issued our report thereon dated August 1, 2011. 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'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in their normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 2006-01, 2010-01, 2010-02, 2010-03 and 2010-04.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 the City in a separate letter dated August 1, 2011.

The City of Gray, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, City Council, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Macon, Georgia
August 1, 2011

FINANCIAL STATEMENT FINDINGS

Findings noted on the 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*:

2006-01 Accounting Expertise (Preparation of Financial Statements) – Reiteration of Prior Year

CRITERIA
Auditing Standards describes examples of circumstances that are considered to be a significant deficiency and a strong indicator of a material weakness in internal control. Deficiencies in the design of controls exist when employees or management lack the qualifications and training to prepare year-end financial statements in accordance with generally accepted accounting principles.

CONDITION
The City did not have an employee with adequate qualifications and training to prepare the year-end financial statements. The City is a small local government where material audit adjustments by the external auditor are required to correct financial activity.

EFFECT
The independent auditor has prepared financial statements from the records of the City. City personnel are unable to evaluate the adequacy and completeness of the information presented.

CAUSE
The material weakness is the result of the City not having employees with adequate training and expertise in generally accepted accounting principles and governmental accounting standards to prepare or adequately review and evaluate the financial statements, which were prepared by the independent auditor.

RECOMMENDATION
The City should evaluate the cost/benefit implications of improving internal control with the preparation of year-end financial statements.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS
We agree that an employee with adequate financial and accounting experience is necessary to the City's staff. The City has been in the process of reworking its charter. The City is evaluating the cost implications of including a City Administrator position to be included in the updated charter. This position would require an accounting background with generally accepted accounting principles.

2010-01 Accounts Receivable/Revenue

CRITERIA
Accounting procedures should be designed to insure that revenue is accrued and recognized when it becomes both measurable and available to finance expenditures of the fiscal period.

CONDITION
Various revenue items were not recorded in the proper fiscal period.

EFFECT
The City produced financial reports, which contained material errors. The audit procedures for 2010 identified the need for a number of material adjustments to correct accounting records and financial reports. The adjustments are summarized as follows:

- Material audit adjustments were needed to correctly report property tax receivables, allowance, and deferrals of $90,697, $22,478, and $55,039 respectively in the General Fund.
- Net adjustments of $17,477 were needed in Water and Sewer Fund accounts receivable to reconcile to subsidiary reports.
- A material audit adjustment of $255,356 was needed in the Water and Sewer Fund to record contributed capital from the SPLOST funds.
- Audit adjustments were needed to reverse prior year accrued interest of $15,322 and $4,901 and record current year accrued interest of $12,441 and $3,488 in the General Fund and Water and Sewer Fund.

CAUSE
The City does not have adequate accounting procedures in place to insure the accrual of revenues in the proper fiscal year.

RECOMMENDATION
We recommend that the City develop procedures to insure the recording of revenues when they become both measurable and available to finance expenditures of the fiscal period.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS
We agree that items must be recorded in the proper fiscal period. Our current software requires that we close out one year before we can begin another, which has limited our ability to post revenues received for a previous year if the software was rolled forward to the current year. The City will contact our software vendor to see if there are any options that we are not currently aware of to correct this deficiency.

2010-02 Accounts Payable/Expenses

CRITERIA
In accordance with generally accepted accounting principles, expenses or expenditures are recognized as soon as a liability is incurred. Year end procedures are necessary to ensure that expenses or expenditures and accounts payable are recorded in the appropriate period.

CONDITION
The City did not have adequate accounting procedures to insure that expenses or expenditures are recorded and properly classified when a liability is incurred.

EFFECT
Material audit adjustments were needed to fairly state and classify expenses or expenditures for the year ended December 31, 2010. A summary of the required adjustments is as follows:

- Material adjustments were necessary to reverse out the prior year accounts payable in the General Fund of $36,004, the Water & Sewer Fund of $32,550, the Sanitation Fund of $10,244 and the SPLOST 2004 Fund of $103,820.
- Net material adjustments totaling $52,595 were needed to correct the accounts payable balance in the General Fund, which included an adjustment of $54,632 to reclassify checks written in January 2011 that were recorded as outstanding checks.
- Material adjustments totaling $109,772 were needed to correct the accounts payable balance in the Water and Sewer Fund, which included an adjustment of $49,028 to reclassify checks written in January 2011 that were recorded as outstanding checks.
- Adjustments of $13,911 and $7,437 were needed in the General Fund and Water and Sewer Fund to record accrued salaries.
- A material adjustment of $36,375 in the Water and Sewer Fund was necessary to correct interest on bonds.

CAUSE
The City lacked accounting procedures to insure the recording and proper classification of incurred expenses at the end of the fiscal period.

RECOMMENDATION
The City should establish procedures to insure the proper accrual and classification of all liabilities incurred during the fiscal period.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS
We agree that the City does not have adequate accounting procedures to insure that expense or expenditures are recorded and properly classified when a liability is incurred. The City plans to invest in additional training. This would include governmental accounting classes provided by the Carl Vincent Institute of Government. The additional knowledge should enable a higher standard of accounting procedures.

2010-03 Capital Assets

CRITERIA
Accounting and control procedures should be designed to insure that capital asset activity is recorded and reported in the business-type activities financial statements. Capital asset records must be supported by detailed records that include location, department, cost, estimated useful life, depreciation and other detail supporting documentation.

CONDITION
The City had not properly posted all capital asset activity to the Water and Sewer Fund for the year.

EFFECT
Material audit adjustments were needed to fairly report capital asset information for the year ended December 31, 2010 as follows:

- Material adjustments in the Water and Sewer Fund were necessary to record capital asset additions of $255,356 that were paid from SPLOST funds.
- An adjustment of $14,250 was needed in the Water and Sewer Fund to record capital asset disposals.
- A material adjustment of $277,080 was needed in the Water and Sewer Fund to record current year depreciation expense.

CAUSE
Accounting personnel may have lacked adequate training in capital asset accounting.

RECOMMENDATION
The City should insure that the proper reconciling procedures are being performed monthly and at year-end to balance and reconcile capital asset records.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS
We agree that the City did not properly post all capital asset activity to the Water and Sewer Fund for the year. The City plans to invest in additional training. This would include governmental accounting classes provided by the Carl Vincent Institute of Government. The additional knowledge should enable a higher standard of accounting procedures.

2010-04 Customer Deposits – Water and Sewer Fund

CRITERIA
Customer deposits held by the City should be reconciled with the general ledger each month.

CONDITION
The City is not performing monthly reconciliation procedures between the customer deposit subsidiary records and the general ledger.

EFFECT
Subsidiary records were not reconciled with the general ledger control accounts. In addition, interim financial reports, which are used by management for fiscal-related decisions, could have been relied upon in error.

CAUSE
The City personnel have not been properly trained on the necessary monthly reconciliation procedures.

RECOMMENDATION
We recommend that the City provide the appropriate training to assist personnel in performing monthly reconciliations between the customer deposit records and the general ledger and clearly identify any differences that occur each month.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS
We agree that the City has not performed monthly reconciliations between the customer deposit subsidiary records and the general ledger. The City will work to establish a reconciliation procedure between the customer deposit subsidiary records and the general ledger.

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