CITY OF GRAY, GEORGIA



ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2011

CITY OF GRAY, GEORGIA

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City 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, 2011, 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 May 17, 2012, 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
May 17, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2011.

Financial Highlights

- The assets of the City exceeded its liabilities as of December 31, 2011 by $11,394,314.
- The government's total net assets increased by $645,288 for the year ended December 31, 2011.
- As of December 31, 2011, total net assets consisted of $8,134,528 invested in capital equipment, net of related debt, $517,594 restricted and $2,742,192 unrestricted.
- As of the close of the current year the City's governmental funds reported combined ending fund balances of $2,450,191 an increase of $12,182 in comparison with the prior year.
- For the year ended December 31, 2011, unreserved fund balance for the general fund increased from $1,978,899 to $2,325,775.

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 five individual governmental funds: the general fund, one SPLOST fund, a law enforcement confiscation fund, a capital improvement fund and the perpetual care 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 $11,394,314 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, 2011 the investment consists of $16,092,300 in assets, with accumulated depreciation of $5,517,512 and outstanding debt of $2,440,260.

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, 2011, current liabilities increased by $237,217 and net assets increased by $645,288 compared to December 31, 2010.

Summary of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current and other assets	$ 2,852,926	$ 2,662,883	$ 1,012,836	$ 1,053,543	$ 3,865,762	$ 3,716,426
Noncurrent assets	-	-	13,863	15,596	13,863	15,596
Capital assets	3,815,822	3,850,972	6,758,966	6,161,665	10,574,788	10,012,637
Total Assets	$ 6,668,748	$ 6,513,855	$ 7,785,665	$ 7,230,804	$ 14,454,413	$ 13,744,659
Liabilities						
Current and other liabilities	$ 367,157	$ 105,433	$ 340,457	$ 364,964	$ 707,614	$ 470,397
Long-term liabilities	422,379	439,812	1,930,106	2,085,424	2,352,485	2,525,236
Total Liabilities	789,536	545,245	2,270,563	2,450,388	3,060,099	2,995,633
Net Assets						
Invested in capital assets, net of related debt	3,376,010	3,394,513	4,758,518	4,007,797	8,134,528	7,402,310
Restricted	126,551	359,179	391,043	540,436	517,594	899,615
Unrestricted	2,376,651	2,214,918	365,541	232,183	2,742,192	2,447,101
Total Net Assets	5,879,212	5,968,610	5,515,102	4,780,416	11,394,314	10,749,026
Total Liabilities and Net Assets	$ 6,668,748	$ 6,513,855	$ 7,785,665	$ 7,230,804	$ 14,454,413	$ 13,744,659

Change in Net assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues						
Charges for services	$ 308,093	$ 322,793	$ 1,730,552	$ 1,588,732	$ 2,038,645	$ 1,911,525
Capital grants and contributions	482,098	533,610	654,821	255,356	1,136,919	788,966
General revenues						
Taxes	1,774,483	1,740,944	-	-	1,774,483	1,740,944
Investment revenues	24,474	25,221	10,543	8,064	35,017	33,285
Sale of Property	17,550	11,345			17,550	11,345
Miscellaneous	28,889	16,266	-	-	28,889	16,266
Total Revenues	2,635,587	2,650,179	2,395,916	1,852,152	5,285,766	2,650,179
Expenses						
General government	550,494	650,121	-	-	550,494	650,121
Public safety	983,398	901,190	-	-	983,398	901,190
Public works	1,080,104	768,802	-	-	1,080,104	768,802
Other	27,529	26,735	-	-	27,529	26,735
Water and Sewer	-	-	1,610,648	1,534,920	1,610,648	1,534,920
Sanitation	-	-	134,042	129,115	134,042	129,115
Total Expenses	2,641,525	2,346,848	1,744,690	1,664,035	4,386,215	4,010,883
Increase (decrease) in net assets before transfers	(5,938)	303,331	651,226	188,117	645,288	491,448
Transfers	(83,460)	(77,043)	83,460	77,043	-	-
Increase (decrease) in net assets	(89,398)	226,288	734,686	265,160	645,288	491,448
Net assets - Beginning	5,968,610	5,742,322	4,780,416	4,515,256	10,749,026	10,257,578
Net assets - Ending	$ 5,879,212	$ 5,968,610	$ 5,515,102	$ 4,780,416	$ 11,394,314	$ 10,749,026

Financial Analysis of the City's Funds

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, 2011, the City's governmental funds reported combined ending fund balances of $2,450,191. The unreserved fund balance reflects a balance of $2,184,706. A total of $265,485 is restricted or assigned 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 $12,182 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 $365,541.

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.

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, 2011 totals $10,574,788 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 $562,151. Detailed information regarding the capital asset activity for 2011 can be found in Note 8 of this report.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	$ 1,004,462	$ 1,004,462	$ 26,167	$ 26,167	$ 1,030,629	$ 1,030,629
Water Rights	-	-	313,683	313,683	313,683	313,683
Construction in progress	-	-	388,494	240,534	388,494	240,534
Infrastructure	1,895,154	2,003,514	5,797,929	5,457,219	7,693,083	7,460,733
Buildings	645,904	662,169	-	-	645,904	662,169
Storm Drainage Improve.	-	-	137,255	-	137,255	-
Equipment	71,001	25,398	93,945	116,596	164,946	141,994
Vehicles	199,301	155,429	1,493	7,466	200,794	162,895
Total	$ 3,815,822	$ 3,850,972	$ 6,758,966	$ 6,161,665	$ 10,574,788	$ 10,012,637

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, 2011. Bonds payable equal $975,000 as of December 31, 2011, 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 $995,712 as of December 31, 2011, with $46,679 due within one year. Detailed information regarding the long-term debt activity for 2011 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, 2011 is $29,736 including $23,663 due within one year.

Accomplishments/Growth for 2011

In 2011, the City of Gray continued to make great strides in upgrading its water and sewer infrastructure. Engineers are 95% complete with design work for a new wastewater treatment plant. Water lines in the Turnerwoods area were replaced and additional fire hydrants were installed for fire safety. Storm drainage improvements were made in the Dolly Street and Office Park areas. The City resurfaced seven streets. The Police Department sold five vehicles and purchased five new vehicles. The Police Department also upgraded to digital radios, installed five in-car camera systems and four in-car 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, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
ASSETS				
Cash and cash equivalents	$ 1,170,552	$ 304,062	$ 1,474,614	$ 10,440
Certificates of deposit	1,132,103	203,313	1,335,416	-
Receivables (net of allowance):				
Accrued interest	652	5,689	6,341	-
Taxes	425,809	-	425,809	-
Accounts	11,482	118,052	129,534	-
Due from other governments	76,505	-	76,505	-
Internal balances	35,823	(35,823)	-	-
Prepaid Items	-	26,500	26,500	-
Restricted assets:				
Cash and cash equivalents	-	231,303	231,303	-
Certificates of deposit	-	159,740	159,740	-
Capital assets:				
Nondepreciable assets	1,004,462	728,344	1,732,806	-
Depreciable assets, net	2,811,360	6,030,622	8,841,982	-
Bond issuance costs	-	13,863	13,863	-
Total assets	6,668,748	7,785,665	14,454,413	10,440
LIABILITIES				
Accounts payable	322,891	67,738	390,629	-
Accrued liabilities	18,269	10,078	28,347	-
Customer deposits	-	187,183	187,183	-
Noncurrent liabilities:				
Due within one year	25,997	75,458	101,455	-
Due in more than one year	422,379	1,930,106	2,352,485	-
Total liabilities	789,536	2,270,563	3,060,099	-
NET ASSETS				
Invested in capital assets, net of related debt	3,376,010	4,758,518	8,134,528	-
Restricted for:				
Debt service	-	391,043	391,043	-
Perpetual care	122,999	-	122,999	-
Public safety	3,552	-	3,552	-
Unrestricted	2,376,651	365,541	2,742,192	10,440
Total net assets	$ 5,879,212	$ 5,515,102	$ 11,394,314	$ 10,440

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

CITY OF GRAY, GEORGIA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

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	$ 550,494	$ 57,007	$ -	$ -	$ (493,487)	$ -	$ (493,487)	$ -
Public safety	983,398	251,086	-	10,000	(722,312)	-	(722,312)	-
Public works	1,080,104	-	-	472,098	(608,006)	-	(608,006)	-
Culture and recreation	6,300	-	-	-	(6,300)	-	(6,300)	-
Interest on long-term debt	21,229	-	-	-	(21,229)	-	(21,229)	-
Total governmental activities	2,641,525	308,093	-	482,098	(1,851,334)	-	(1,851,334)	-
Business-type activities								
Water & Sewer	1,610,648	1,593,357	-	654,821	-	637,530	637,530	-
Sanitation	134,042	137,195	-	-	-	3,153	3,153	-
Total business-type activities	1,744,690	1,730,552	-	654,821	-	640,683	640,683	-
Total primary government	$ 4,386,215	$ 2,038,645	$ -	$ 1,136,919	(1,851,334)	640,683	(1,210,651)	-
Component Unit:								
Downtown Development Authority	$ 8,040	$ -	$ 10,000	$ -				1,960
General Revenues:								
Property taxes					883,709	-	883,709	-
Sales taxes					382,343	-	382,343	-
Insurance premium tax					153,658	-	153,658	-
Franchise tax					198,611	-	198,611	-
Other taxes					156,162	-	156,162	-
Unrestricted investment earnings					24,474	10,543	35,017	-
Proceeds from sale of property					17,550	-	17,550	-
Miscellaneous					28,889	-	28,889	-
Total general revenues					1,845,396	10,543	1,855,939	-
Transfers					(83,460)	83,460	-	-
Change in net assets					(89,398)	734,686	645,288	1,960
Net assets - beginning of year					5,968,610	4,780,416	10,749,026	8,480
Net assets - end of year					$ 5,879,212	$ 5,515,102	$ 11,394,314	$ 10,440

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

CITY OF GRAY, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

ASSETS	General	SPLOST 2009	Non-Major Governmental Funds	Total Governmental Funds
Cash and cash equivalents	$ 980,794	$ 150,719	$ 39,039	$ 1,170,552
Certificates of deposit	1,022,606	-	109,497	1,132,103
Accounts receivables (net of allowances for uncollectibles):				
Taxes	425,809	-	-	425,809
Accounts	11,482	-	652	12,134
Due from other governments	39,784	36,721	-	76,505
Due from other funds	35,823	-	-	35,823
Total Assets	$ 2,516,298	$ 187,440	$ 149,188	$ 2,852,926
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 110,679	$ 212,212	$ -	$ 322,891
Accrued liabilities	18,269	-	-	18,269
Deferred revenue	61,575	-	-	61,575
Total Liabilities	190,523	212,212	-	402,735
Fund Balances:				
Restricted	-	-	126,551	126,551
Assigned	116,297	-	22,637	138,934
Unassigned	2,209,478	(24,772)	-	2,184,706
Total fund balances/(deficit)	2,325,775	(24,772)	149,188	2,450,191
Total liabilities and fund balances	$ 2,516,298	$ 187,440	$ 149,188	$ 2,852,926

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, 2011

Amounts reported for governmental activities in the statement of net assets are different because:	
Fund balances reported on balance sheet of governmental funds	$ 2,450,191
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.	61,575
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	(439,812)
Compensated absences	(8,564)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,815,822
Net assets of governmental activities	$ 5,879,212

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, 2011

	General	SPLOST 2009	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property	$ 970,985	$ -	$ -	$ 970,985
Sales	382,343	-	-	382,343
Other taxes	508,431	-	-	508,431
Licenses and permits	57,007	-	-	57,007
Intergovernmental	10,000	471,668	-	481,668
Fines and forfeitures	250,001	-	1,085	251,086
Investment earnings	22,943	430	1,531	24,904
Miscellaneous	28,889	-	-	28,889
Total revenues	2,230,599	472,098	2,616	2,705,313
EXPENDITURES:				
Current:				
General government	503,328	-	-	503,328
Public safety	893,009	-	153	893,162
Public works	277,771	-	-	277,771
Culture and recreation	-	-	6,300	6,300
Intergovernmental	105,829	-	-	105,829
Debt service:				
Principal	16,647	-	-	16,647
Interest	21,229	-	-	21,229
Capital outlay	-	725,661	77,294	802,955
Total Expenditures	1,817,813	725,661	83,747	2,627,221
Excess (deficiency) of revenues over (under) expenditures	412,786	(253,563)	(81,131)	78,092
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of property	17,550	-	-	17,550
Transfers out	(83,460)	-	-	(83,460)
Total other financing sources and (uses)	(65,910)	-	-	(65,910)
Net change in fund balances	346,876	(253,563)	(81,131)	12,182
Fund balances - beginning of year	1,978,899	228,791	230,319	2,438,009
Fund balances/(Deficit) - end of year	$ 2,325,775	$ (24,772)	$ 149,188	$ 2,450,191

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, 2011

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

Net change in fund balances - total governmental funds	$	12,182
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.		(87,276)
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		16,647
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		4,199
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		169,669
Total depreciation		(200,196)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, donations, annexing) is to increase (decrease) net assets.		(4,623)
Change in net assets of governmental activities	$	(89,398)

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, 2011

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive/(Negative)
REVENUES:				
Taxes:				
General property taxes	$ 958,129	$ 958,129	$ 970,985	$ 12,856
Local option sales tax	383,005	383,005	382,343	(662)
Other taxes:				
Insurance premium tax	111,180	111,180	153,658	42,478
Motor vehicle tax	52,111	52,111	54,298	2,187
Franchise tax	202,000	202,000	198,611	(3,389)
Beer and wine tax	75,000	75,000	83,460	8,460
Real estate transfer tax	1,500	1,500	1,421	(79)
Recording intangible taxes	4,000	4,000	6,034	2,034
Mobile Home Tax	644	644	817	173
Penalties and interest	4,000	4,000	10,132	6,132
Total Taxes	1,791,569	1,791,569	1,861,759	70,190
Licenses and Permits:				
Business licenses and permits	40,000	58,000	57,007	(993)
Intergovernmental Revenues:				
Jones County Board of Education				
Crossing Guards	10,000	10,000	10,000	-
Total Intergovernmental Revenues	10,000	10,000	10,000	-
Fines, Forfeitures and Penalties:				
Fine and forfeitures	236,280	192,000	250,001	58,001
Miscellaneous:				
Interest earnings	14,000	14,000	22,943	8,943
Miscellaneous	1,600	1,600	28,889	27,289
Total Miscellaneous	15,600	15,600	51,832	36,232
Total Revenues	$ 2,093,449	$ 2,067,169	$ 2,230,599	$ 163,430

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, 2011
(CONTINUED)

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive/(Negative)
EXPENDITURES:				
General Government:				
Salaries	$ 104,841	$ 115,701	$ 115,701	$ -
Payroll taxes	58,761	59,087	58,961	126
Pension expenditures	59,201	60,478	60,478	-
General expenditures	2,500	2,695	2,695	-
Legal fees	40,000	91,107	30,943	60,164
Codification	1,500	2,339	2,339	-
Office supplies	5,500	6,375	6,515	(140)
Insurance	139,524	133,264	132,465	799
Audit and accounting	10,000	9,321	9,200	121
Convention and training	13,000	16,100	16,100	-
Dues	3,500	3,525	3,525	-
Repairs and maintenance	15,000	3,836	3,727	109
Telephone and utilities	9,300	9,300	8,089	1,211
Employee insurance	2,957	2,957	9,783	(6,826)
Postage	5,000	4,292	3,679	613
Computer maintenance	4,200	6,188	6,188	-
Miscellaneous	62,059	60,828	31,940	28,888
Professional services	1,000	100	1,000	(900)
Total General Government	537,843	587,493	503,328	84,165
Public Safety:				
Police:				
Salaries	497,000	461,265	441,238	20,027
Vehicle expenditures	15,800	21,188	20,847	341
Gas and oil	60,000	79,309	79,309	-
Uniforms	8,000	9,747	9,747	-
Repairs and maintenance	5,000	5,475	5,475	-
Utilities and telephone	22,000	22,000	16,522	5,478
Office supplies	36,500	34,138	33,815	323
Supplies and small equipment	37,000	65,588	55,347	10,241
Training	5,000	5,000	2,689	2,311
Miscellaneous	12,900	13,040	7,591	5,449
Capital outlay	1,000	1,000	-	1,000
Total Police	$ 700,200	$ 717,750	$ 672,580	$ 45,170

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, 2011
(CONTINUED)

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive/(Negative)
Recorder's Court:				
SIR Charges	$ 58,200	$ 56,008	$ 41,151	$ 14,857
Fines and penalties	65,900	68,013	60,694	7,319
Salaries	46,271	29,350	29,350	-
Miscellaneous	15,842	1,700	1,219	481
Court Judge	12,000	12,000	12,000	-
Total Recorders Court	198,213	167,071	144,414	22,657
Fire Department:				
Salaries	6,000	6,000	6,000	-
Operating	52,250	51,678	51,678	-
Capital outlay	14,000	18,337	18,337	-
Total Fire Department	72,250	76,015	76,015	-
Total Public Safety	970,663	960,836	893,009	67,827
Public Works:				
Salaries	105,000	92,040	83,604	8,436
Street lights	75,000	75,000	74,992	8
Traffic signals - maintenance	8,500	8,500	2,858	5,642
General street	85,000	90,891	52,094	38,797
Vehicle	27,500	28,400	5,735	22,665
Repairs and maintenance	5,000	5,296	1,632	3,664
Uniforms	1,800	1,800	983	817
Capital outlay	10,000	10,000	-	10,000
Contract labor	50,000	55,873	55,873	-
Total Public Works	$ 367,800	$ 367,800	$ 277,771	$ 90,029

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, 2011
(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	1,250	1,250	-
Clean Community	6,671	8,369	8,369	-
Downtown Development	5,000	5,000	5,000	-
Jones County Dispatching	62,000	62,000	61,510	490
Jones County Planning & Zoning	9,700	9,700	9,700	-
Total Payments to Other Governmental Agencies	104,371	106,319	105,829	490
Debt Service:				
Principal	37,772	16,543	16,647	(104)
Interest	-	21,229	21,229	-
Total Debt Service	37,772	37,772	37,876	(104)
Total Expenditures	2,018,449	2,060,220	1,817,813	242,407
Excess (Deficiency) of Revenues over Expenditures	75,000	6,949	412,786	405,837
Other Financing Sources (Uses):				
Proceeds from sale of property	-	17,550	17,550	-
Transfer to Water and Sewer Fund	(75,000)	(83,460)	(83,460)	-
Total Other Financing Sources (Uses)	(75,000)	(65,910)	(65,910)	-
Net change in fund balance	$ -	$ (58,961)	346,876	$ 405,837
Fund balance - beginning of year			1,978,899	
Fund balance - end of year			$ 2,325,775	

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

CITY OF GRAY, GEORGIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 284,598	$ 19,464	$ 304,062
Certificates of deposit	203,313	-	203,313
Restricted cash, cash equivalents and investments:			
Revenue bond covenant accounts	231,303	-	231,303
Certificates of deposit	159,740	-	159,740
Accrued interest receivable	5,689	-	5,689
Accounts receivable (net of allowance for uncollectibles)	106,729	11,323	118,052
Due from other funds	9,510	-	9,510
Prepaid items	26,500	-	26,500
Total current assets	1,027,382	30,787	1,058,169
Noncurrent assets:			
Capital assets:			
Nondepreciable assets	728,344	-	728,344
Depreciable assets, net	6,030,622	-	6,030,622
Total capital assets	6,758,966	-	6,758,966
Bond issuance costs	13,863	-	13,863
Total noncurrent assets	6,772,829	-	6,772,829
Total assets	$ 7,800,211	$ 30,787	$ 7,830,998

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

CITY OF GRAY, GEORGIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011
(CONTINUED)

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
LIABILITIES			
Current liabilities:			
Accounts payable	$ 56,471	$ 11,267	$ 67,738
Accrued liabilities	8,111	-	8,111
Customer deposits payable	187,183	-	187,183
Accrued interest payable	1,967	-	1,967
Compensated absences	5,116	-	5,116
Due to other funds	35,823	9,510	45,333
Notes payable - current	46,679	-	46,679
Water rights contract payable - current	23,663	-	23,663
Revenue bonds payable - current	-	-	-
Total current liabilities	365,013	20,777	385,790
Noncurrent liabilities:			
Water purchase rights	6,073	-	6,073
Revenue bonds payable	975,000	-	975,000
Notes payable	949,033	-	949,033
Total noncurrent liabilities	1,930,106	-	1,930,106
Total liabilities	2,295,119	20,777	2,315,896
NET ASSETS			
Invested in capital assets, net of related debt	4,758,518	-	4,758,518
Restricted:			
Restricted for debt service	391,043	-	391,043
Unrestricted	355,531	10,010	365,541
Total net assets	$ 5,505,092	$ 10,010	$ 5,515,102

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, 2011

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
Operating Revenues:			
Charges for sales and services:			
Water sales	$ 893,333	$ -	$ 893,333
Sewerage fees	644,879	-	644,879
Garbage fees	-	137,195	137,195
Connection fees	9,000	-	9,000
Penalties and other fees	39,210	-	39,210
Miscellaneous	6,935	-	6,935
Total operating revenues	1,593,357	137,195	1,730,552
Operating Expenses:			
Salaries	336,113	-	336,113
Employee benefits	37,337	-	37,337
Depreciation	277,277	-	277,277
Utilities	178,322	-	178,322
Maintenance and supplies	258,756	-	258,756
Insurance	107,188	-	107,188
Gas, oil, tires	10,211	-	10,211
Professional fees	39,843	-	39,843
Contracted services	-	134,042	134,042
Travel	7,037	-	7,037
Amortization	1,733	-	1,733
County water expense	256,517	-	256,517
Other operating expenses	25,320	-	25,320
Total Operating Expenses	1,535,654	134,042	1,669,696
Operating Income (Loss)	57,703	3,153	60,856
Non-Operating Revenues (Expenses):			
Interest revenue	10,543	-	10,543
Interest expense	(74,994)	-	(74,994)
Total Non-Operating Revenues (Expenses)	(64,451)	-	(64,451)
Net Income (Loss) before Contributions and Transfers	(6,748)	3,153	(3,595)
Capital contributions	654,821	-	654,821
Transfers in	83,460	-	83,460
Change in net assets	731,533	3,153	734,686
Net assets - beginning of year	4,773,559	6,857	4,780,416
Net assets - end of year	$ 5,505,092	$ 10,010	$ 5,515,102

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, 2011

	Business-type Activities Enterprise Funds		
		Nonmajor	
	Water and Sewer Fund	Sanitation Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	$ 1,585,307	$ 143,285	$ 1,728,592
Cash paid to suppliers for good and services	(901,181)	(124,192)	(1,025,373)
Cash paid to employees	(380,213)	-	(380,213)
Net Cash Provided by (Used for) Operating Activities	303,913	19,093	323,006
Cash Flows from Noncapital Financing Activities:			
Transfer from General Fund	83,460	-	83,460
Net Cash Provided by (Used for) Noncapital Financing Activities	83,460	-	83,460
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of assets	(219,757)	-	(219,757)
Principal paid on revenue bonds	(85,000)	-	(85,000)
Principal paid on notes	(68,420)	-	(68,420)
Interest paid on revenue bonds	(75,304)	-	(75,304)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(448,481)	-	(448,481)
Cash Flows from Investing Activities:			
Interest received	8,342	-	8,342
Net Cash Provided by (Used for) Investing Activities	8,342	-	8,342
Net Increase (Decrease) in Cash and Cash Equivalents	(52,766)	19,093	(33,673)
Cash and Cash Equivalents - Beginning of Year	931,720	371	932,091
Cash and Cash Equivalents - End of Year	$ 878,954	$ 19,464	$ 898,418
Reconciliation of Cash Equivalents:			
Cash	$ 487,911	$ 19,464	$ 507,375
Restricted cash	391,043	-	391,043
Total Cash and Cash Equivalents	$ 878,954	$ 19,464	$ 898,418

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, 2011
(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)	$ 57,703	$ 3,153	$ 60,856
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Depreciation	277,277	-	277,277
Amortization	1,733	-	1,733
Changes in Assets and Liabilities:			
(Increase) decrease in accounts receivables	(36,067)	(233)	(36,300)
(Increase) decrease in due from other funds	(6,121)	6,323	202
(Increase) decrease in prepaids	-	-	-
Increase (decrease) in accounts payable	(47,689)	340	(47,349)
Increase (decrease) in accrued liabilities	(353)	-	(353)
Increase (decrease) in customer water deposits	28,017	-	28,017
Increase (decrease) in due to other funds	35,823	9,510	45,333
Increase (decrease) in compensated absences	(6,410)	-	(6,410)
Total adjustments	246,210	15,940	262,150
Net Cash Provided by (Used for) Operating Activities	$ 303,913	$ 19,093	$ 323,006
NONCASH CAPITAL FINANCING ACTIVITIES			
Contributions of capital assets from government	$ 654,821	$ -	$ 654,821

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, 2011, 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, 2011 and amount to $8,564.

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 financial statements, governmental funds report the following classifications of fund balance in accordance with Governmental Accounting Standards Board Statement No. 54:

- Nonspendable – amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted – amounts are restricted when constraints have been placed on the use of resources by (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council. The City Council approves committed resources through a motion and vote during the voting session of City Council meetings.
- Assigned – amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The intent is expressed by the City Council.
- Unassigned – amounts that have not been assigned to other funds, and that are not restricted, committed, or assigned to specific purposes within the General Fund.

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

The City does not have a formal minimum fund balance policy. The following is a summary of the fund balance classifications as of December 31, 2011:

	General Fund	2009 SPLOST	Nonmajor Governmental	Total
Fund Balances				
Restricted:				
Perpetual care	$ -	$ -	$ 122,999	$ 122,999
Public safety	-	-	3,552	3,552
Assigned for:				
Public safety	8,219	-	-	8,219
Capital outlay	-	-	22,637	22,637
Fund balance appropriation	28,254	-	-	28,254
Debt service	79,824	-	-	79,824
Unassigned	2,209,478	(24,772)	-	2,184,706
Total fund balances	$ 2,325,775	$ (24,772)	$ 149,188	$ 2,450,191

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, 2011, the City's total contribution was $23,686. 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, 2011, the City's total contribution was $27,318 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.

C. **Deficit Fund Equity**

The SPLOST 2009 capital projects fund had a deficit fund balance of $24,772. The fund incurred expenditures prior to receipt of the special local option sales taxes. The City plans to eliminate this deficit with future special local option sales taxes.

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, 2011 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 13	December 1
Due Date and Collection Date	January 15, 2012	Staggered
Lien Date	March 16, 2012	N/A

NOTE 5 – OTHER RECEIVABLES

Receivables at December 31, 2011 consist of the following:

	General Fund	Water & Sewer	Sanitation Fund	Nonmajor Funds	Total
Receivables:					
Taxes	$ 540,877	$ -	$ -	$ -	$ 540,877
Accounts	1,568	126,925	16,390	-	144,883
Accrued interest	9,914	5,689	-	652	16,255
Gross Receivables	552,359	132,614	16,390	652	702,015
Less: Allowance for Uncollectibles	(115,068)	(20,196)	(5,067)	-	(140,331)
Net Receivables	$ 437,291	$ 112,418	$ 11,323	$ 652	$ 561,684

NOTE 6 – DUE FROM OTHER GOVERNMENTS

The General Fund reflects $39,784 in Due from Other Governments, which represents vehicle taxes due from Jones County of $4,251 and local option sales tax (LOST) due from the State of $35,533.

The SPLOST 2009 Fund reflects $36,721 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, 2011, was as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund	$ 35,823
Water and Sewer Fund	Sanitation Fund	9,510
Total		$ 45,333

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:	
	Water and Sewer Fund	Total
Transfer out:		
General Fund	$ 83,460	$ 83,460
Total	$ 83,460	$ 83,460

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, 2011, 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	791,612	-	-	791,612
Equipment	180,550	57,891	-	238,441
Vehicles	916,560	111,778	(120,636)	907,702
Total capital assets, being depreciated	4,055,922	169,669	(120,636)	4,104,955
Less accumulated depreciation for:				
Infrastructure	(163,686)	(108,360)	-	(272,046)
Buildings	(129,443)	(16,265)	-	(145,708)
Equipment	(155,152)	(12,288)	-	(167,440)
Vehicles	(761,131)	(63,283)	116,013	(708,401)
Total accumulated depreciation	(1,209,412)	(200,196)	116,013	(1,293,595)
Total capital assets being depreciated, net	2,846,510	(30,527)	(4,623)	2,811,360
Governmental capital assets, net	$ 3,850,972	$ (30,527)	$ (4,623)	$ 3,815,822

	Beginning Balance	Additions	Deductions	Transfers	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	423,115	-	(275,155)	388,494
Total capital assets, not being depreciated	580,384	423,115	-	(275,155)	728,344
Capital assets, being depreciated					
Sewer system	2,159,550	-	-	-	2,159,550
Water system	4,312,768	451,463	-	137,326	4,901,557
Wastewater treatment plant	2,605,152	-	-	-	2,605,152
Building	41,526	-	-	-	41,526
Equipment	291,729	-	-	-	291,729
Storm drainage improvements	-	-	-	137,829	137,829
Vehicles	117,196	-	-	-	117,196
Total capital assets, being depreciated	9,527,921	451,463	-	275,155	10,254,539
Less accumulated depreciation for:					
Sewer system	(1,038,431)	(47,642)	-	-	(1,086,073
Water system	(1,725,688)	(126,004)	-	-	(1,851,692
Wastewater treatment plant	(856,132)	(74,433)	-	-	(930,565
Building	(41,526)	-	-	-	(41,526
Equipment	(175,133)	(22,651)	-	-	(197,784
Storm drainage improvements	-	(574)	-	-	(574
Vehicles	(109,730)	(5,973)	-	-	(115,703
Total accumulated depreciation	(3,946,640)	(277,277)	-	-	(4,223,917
Total capital assets, being depreciated, Net	5,581,281	174,186	-	275,155	6,030,622
Business-type activities capital assets, Net	$ 6,161,665	$ 597,301	$ -	$ -	$ 6,758,966

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

Governmental activities	
General government	$ 4,097
Public safety	84,943
Public works	111,156
Total	$ 200,196
Business-type activities	
Water & Sewer	$ 277,277
Total	$ 277,277

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
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	20,968	16,804	37,772
2017-2021	120,674	68,183	188,857
2022-2026	152,005	36,852	188,857
2027-2028	71,332	4,212	75,543
Total	$ 439,812	$ 202,306	$ 642,118

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, 2011, 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, 2011 is $1,060,000.

Cash requirements to maturity for this issue are as follows:

	Principal	Interest	Total
2012	$ -	$ 50,575	$ 50,575
2013	90,000	46,500	136,500
2014	95,000	41,875	136,875
2015	100,000	37,000	137,000
2016	105,000	32,000	137,000
2017-2021	585,000	77,000	662,000
Total	$ 975,000	$ 284,950	$ 1,259,950

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, 2011, the City made total transfers to the County for debt service of $22,683.

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
2012	$ 23,663	$ 889	$ 24,552
2013	6,073	77	6,150
Total	$ 29,736	$ 966	$ 30,702

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
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	50,568	15,603	66,171
2017-2021	268,569	62,286	330,855
2022-2026	296,790	34,065	330,855
2027-2029	187,318	5,672	192,990
Total	$ 995,712	$ 189,843	$ 1,185,555

Restricted Assets

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

Revenue bond covenant accounts	$ 231,303
Certificates of deposit	159,740
Total	$ 391,043

C. Changes in long-term liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital lease-building	$ 456,459	$ -	$ (16,647)	$ 439,812	$ 17,433
Compensated absences	12,763	17,949	(22,148)	8,564	8,564
Governmental activities Long-term liabilities	$ 469,222	$ 17,949	$ (38,795)	$ 448,376	$ 25,997
Business-type activities:					
Bonds payable:					
Revenue bonds-2005	$ 1,060,000	$ -	$ (85,000)	$ 975,000	$ -
GEFA Loan payable	1,041,449	-	(45,737)	995,712	46,679
Water rights contract	52,419	-	(22,683)	29,736	23,663
Compensated absences	11,526	12,266	(18,676)	5,116	5,116
Business-type activities Long-term liabilities	$ 2,165,394	$ 12,266	$ (172,096)	$ 2,005,564	$ 75,458

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, 2011, the current plan membership is as follows:

Retirees & beneficiaries currently receiving benefits	7
Terminated employees entitled to benefits but not receiving them	3
Currently active employees:	
Fully vested	22
Non-vested	12
Total membership	44
Total current year covered payroll	$ 918,085
Total current year payroll	$ 918,085

Actuarial Assumptions

1. Rate of return on investments of 7.75% per year
2. Projected salary increases, due to inflation, of 3.5% 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, 2011, were $60,478, 6.28% of covered payroll, and were made in accordance with contribution requirements determined by an actuarial valuation of October 1, 2010. The total recommended contribution consisted of $38,916 normal costs, $16,400 to amortize to unfunded accrued liability and $5,162 of interest. The City's actuarially determined contribution requirement for the period ending June 30, 2011, was $60,479, 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.

There were no changes in the methods or assumptions from the prior valuation.

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
2011	$ 60,478	6.3%	100%	-
2010	53,504	5.8%	100%	-
2009	53,410	6.3%	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	$ 44,078
Payment on unfunded actuarial accrued liability	16,400
Annual pension cost	60,478
Contributions	(60,478)
Increase in net pension obligation (asset)	-
Net pension obligation (asset) 12/31/10	-
Net pension obligation (asset) 12/31/11	$ -

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2011, 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)
7/1/11	$459,056	$609,715	$150,659	75.29%	$918,085	16.41%

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, 2011.

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, 2011, based upon employee data as of July 1, 2011, and based upon the available pension assets as of July 1, 2011.

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, 2011 are as follows:

	Governmental Activities	Business-Type Activities	Total
Investment in capital assets, net of related debt:			
Cost of capital assets	$ 5,109,417	$ 10,982,883	$ 16,092,300
Less accumulated depreciation	(1,293,595)	(4,223,917)	(5,517,512)
Book value	3,815,822	6,758,966	10,574,788
Less capital related debt	(439,812)	(2,000,448)	(2,440,260)
Investment in capital assets, net of related debt:	$ 3,376,010	$ 4,758,518	$ 8,134,528

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF GRAY, GEORGIA

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

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
7/1/2011	$ 459,056	$ 609,715	75.29%	$ 150,659	$ 918,085	16.41%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2011	$ 60,478	100.00%
2010	53,504	100.00%
2009	53,410	100.00%

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SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or

Law Enforcement Confiscation Fund - This fund accounts for condemned funds received and disbursed for Law enforcement expenditures.

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of

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

PERMANENT FUND

Permanent funds are used to account for and report financial resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

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, 2011

	Special Revenue	Capital Projects	Permanent Fund	Total Nonmajor Governmental Funds
	Law Enforcement Confiscation	Capital Improvements	Perpetual Care	
ASSETS				
Cash and cash equivalents	$ 3,552	22,637	$ 12,850	$ 39,039
Certificates of deposit	-	-	109,497	109,497
Interest receivable	-	-	652	652
Total Assets	$ 3,552	$ 22,637	$ 122,999	$ 149,188
LIABILITIES				
Due to other funds	$ -	$ -	$ -	$ -
Total Liabilities	-	-	-	-
FUND BALANCES				
Restricted	3,552	-	122,999	126,551
Assigned	-	22,637	-	22,637
Total Fund Balances	3,552	22,637	122,999	149,188
Total Liabilities and Fund Balances	$ 3,552	$ 22,637	$ 122,999	$ 149,188

CITY OF GRAY, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Special Revenue	Capital Projects	Permanent Fund	Total Nonmajor Governmental Funds
	Law Enforcement Confiscation	Capital Improvements	Perpetual Care	
REVENUES				
Fines and forfeitures	$ 1,085	$ -	$ -	$ 1,085
Investment earnings	-	-	1,531	1,531
Miscellaneous	-	-	-	-
Total Revenues	1,085	-	1,531	2,616
EXPENDITURES				
Current				
Public works	-	-	-	-
Public safety	153	-	-	153
Culture and recreation	-	-	6,300	6,300
Capital outlay	-	77,294	-	77,294
Total Expenditures	153	77,294	6,300	83,747
Net change in fund balance	932	(77,294)	(4,769)	(81,131)
Fund balances - beginning of year	2,620	99,931	127,768	230,319
Fund balances - end of year	$ 3,552	$ 22,637	$ 122,999	$ 149,188

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, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Fines and forfeitures	$ 8,000	$ 1,085	$ (6,915)
Total Revenues	8,000	1,085	(6,915)
EXPENDITURES			
Current			
Public safety	8,000	153	7,847
Total Expenditures	8,000	153	7,847
Excess (Deficiency) of Revenues over Expenditures	-	932	932
Net change in fund balance	-	932	932
Fund balance - beginning of year	-	2,620	2,620
Fund balance - end of year	$ -	$ 3,552	$ 3,552

CITY OF GRAY, GEORGIA

SCHEDULE OF PROJECTS CONSTRUCTED
WITH SPECIAL SALES TAX PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Estimated Cost	Expenditures			Estimated Percentage of Completion
		Prior Years	Current Year	Total	
2009 SPLOST					
Water & sewer system Improvements	$ 1,688,000	$ 355,566	$ 533,302	$ 888,868	52.66%
Police Vehicles	400,000	32,615	111,778	144,393	36.10%
Street Improvements	250,000	28,150	80,581	108,731	43.49%
Fire Equipment	200,000	-	-	-	0.00%
Public Works Vehicles and Equipment	150,000	-	-	-	0.00%
Total 2009 SPLOST	$ 2,688,000	$ 416,331	$ 725,661	$ 1,141,992	42.48%

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GOVERNMENTAL REPORTS

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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 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 (the "City") as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Gray, Georgia is responsible for establishing and maintaining effective 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 the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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, 2011-01 and 2011-02.

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Compliance and Other Matters

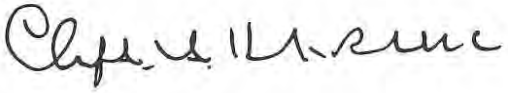
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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 May 17, 2012.

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
May 17, 2012



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 we do not have an employee with adequate qualifications and training to prepare the year-end financial statements. Being a small local government, we do not currently have a full time financial/accounting position with most of our employees performing numerous functions. However, we will evaluate the cost and benefit of improving internal controls for the preparation of year-end financial statements.

2011-01 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 2011 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 allowance and deferrals of $27,175 and $87,276 respectively in the General Fund.
- A material audit adjustment of $654,821 was needed in the Water and Sewer Fund to record contributed capital from the SPLOST and General funds. A material audit adjustment of $326,373 was also needed in the Water and Sewer Fund to record current year capital asset additions.
- Audit adjustments were needed to record current year accrued interest of $9,914 and $5,689 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. We will work to develop and implement adequate accounting procedures to ensure the recording of revenues when they become both measurable and available to finance expenditures of the fiscal period. We will also provide appropriate training to personnel.

2011-02 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 did not perform monthly reconciliation between customer deposit subsidiary records and the general ledger. The City will establish and implement a reconciliation procedure between the customer deposit subsidiary records and the general ledger.

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