CITY OF GRAY, GEORGIA



ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2012

CITY OF GRAY, GEORGIA

AUDIT REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2012

CITY OF GRAY, GEORGIA

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Gray
Gray, Georgia

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2012, and the respective changes in financial position and, where applicable, cash flows 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress on pages 4-9 and 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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, budgetary comparison schedules, schedule of projects constructed with special sales tax proceeds and component unit fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, budgetary comparison schedules, schedule of projects constructed with special sales tax proceeds, and component unit fund financial statements are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, budgetary comparison schedules, schedule of projects constructed with special sales tax proceeds, and component unit fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2013 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* in considering the City of Gray, Georgia's internal control over financial reporting and compliance.

Macon, Georgia
June 4, 2013

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, 2012.

Financial Highlights

- The assets of the City exceeded its liabilities as of December 31, 2012 by $12,037,418.
- The government's total net position increased by $643,104 for the year ended December 31, 2012.
- As of December 31, 2012, total net position consisted of $8,073,642 invested in capital equipment, net of related debt, $578,292 restricted and $3,385,484 unrestricted.
- As of the close of the current year the City's governmental funds reported combined ending fund balances of $3,005,971 an increase of $555,780 in comparison with the prior year.
- For the year ended December 31, 2012, fund balance for the general fund increased from $2,325,775 to $2,671,871.

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 position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent year. All changes in net position 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 10 and 11 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

The City maintains six individual governmental funds: the general fund, one SPLOST fund, a law enforcement confiscation fund, a capital improvement fund, a CDBG 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 12 through 19 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 20 through 24 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 position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $12,037,418 at the close of the most recent year.

A portion of the City's net position 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, 2012 the investment consists of $16,144,746 in assets, with accumulated depreciation of $5,808,623 and outstanding debt of $2,262,481.

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

As of December 31, 2012, current liabilities decreased by $58,235 and net position increased by $643,104 compared to December 31, 2011.

Summary of Net Position

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	$ 3,291,328	$ 2,852,926	$ 1,237,650	$ 1,012,836	$ 4,528,978	$ 3,865,762
Noncurrent assets	-	-	12,131	13,863	12,131	13,863
Capital assets	3,692,107	3,815,822	6,644,016	6,758,966	10,336,123	10,574,788
Total Assets	$ 6,983,435	$ 6,668,748	$ 7,893,797	$ 7,785,665	$ 14,877,232	$ 14,454,413
Liabilities						
Current and other liabilities	$ 240,490	$ 367,157	$ 408,799	$ 340,457	$ 649,289	$ 707,614
Long-term liabilities	404,121	422,379	1,786,404	1,930,106	2,190,525	2,352,485
Total Liabilities	644,611	789,536	2,195,203	2,270,563	2,839,814	3,060,099
Net Position						
Net investment in capital assets	3,269,729	3,376,010	4,803,913	4,758,518	8,073,642	8,134,528
Restricted	333,963	126,551	244,329	391,043	578,292	517,594
Unrestricted	2,735,132	2,376,651	650,352	365,541	3,385,484	2,742,192
Total Net Position	6,338,824	5,879,212	5,698,594	5,515,102	12,037,418	11,394,314
Total Liabilities and Net Position	$ 6,983,435	$ 6,668,748	$ 7,893,797	$ 7,785,665	$ 14,877,232	$ 14,454,413

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	$ 320,117	$ 308,093	$ 1,834,078	$ 1,730,552	$ 2,154,195	$ 2,038,645
Capital grants and contributions	475,350	482,098	129,014	654,821	604,364	1,136,919
General revenues						
Taxes	1,845,644	1,774,483	-	-	1,845,644	1,774,483
Investment revenues	9,360	24,474	2,544	10,543	11,904	35,017
Sale of Property	31,115	17,550			31,115	17,550
Miscellaneous	16,081	28,889	-	-	16,081	28,889
Total Revenues	2,697,667	2,635,587	1,965,636	2,395,916	4,663,303	5,031,503
Expenses						
General government	543,607	550,494	-	-	543,607	550,494
Public safety	1,013,847	983,398	-	-	1,013,847	983,398
Public works	572,717	1,080,104	-	-	572,717	1,080,104
Other	27,247	27,529	-	-	27,247	27,529
Water and Sewer	-	-	1,721,946	1,610,648	1,721,946	1,610,648
Sanitation	-	-	140,835	134,042	140,835	134,042
Total Expenses	2,157,418	2,641,525	1,862,781	1,744,690	4,020,199	4,386,215
Increase (decrease) in net position before transfers	540,249	(5,938)	102,855	651,226	643,104	645,288
Transfers	(80,637)	(83,460)	80,637	83,460	-	-
Increase (decrease) in net position	459,612	(89,398)	183,492	734,686	643,104	645,288
Net position - Beginning	5,879,212	5,968,610	5,515,102	4,780,416	11,394,314	10,749,026
Net position - Ending	$ 6,338,824	$ 5,879,212	$ 5,698,594	$ 5,515,102	$ 12,037,418	$ 11,394,314

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, 2012, the City's governmental funds reported combined ending fund balances of $3,005,971. The unreserved fund balance reflects a balance of $2,536,655. A total of $469,316 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 $555,780 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 position of the water and sewerage and sanitation operations at the end of the year amounted to $650,352.

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 16 through 19 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, 2012 totals $10,336,123 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, infrastructure, machinery and equipment, and vehicles. The total decrease in the City's investment in capital assets for the current year was $238,665. Detailed information regarding the capital asset activity for 2012 can be found in Note 8 of this report.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
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	-	-	406,280	388,494	406,280	388,494
Infrastructure	1,795,099	1,895,154	5,524,564	5,797,929	7,319,663	7,693,083
Buildings	629,639	645,904	-	-	629,639	645,904
Storm Drainage Improve.	-	-	130,364	137,255	130,364	137,255
Equipment	55,538	71,001	174,633	93,945	230,171	164,946
Vehicles	207,369	199,301	68,325	1,493	275,694	200,794
Total	$ 3,692,107	$ 3,815,822	$ 6,644,016	$ 6,758,966	$ 10,336,123	$ 10,574,788

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, 2012. Bonds payable equal $885,000 as of December 31, 2012, 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 $949,030 as of December 31, 2012, with $47,626 due within one year. Detailed information regarding the long-term debt activity for 2012 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, 2012 is $6,073 including $6,073 due within one year.

Accomplishments/Growth for 2012

In 2012, the City of Gray continued to make great strides in upgrading its water and sewer infrastructure. The Police Department sold four vehicles and purchased four new vehicles. The Police Department also installed 3 in-car computers, upgraded their security system and added a videoed interrogation room. In September of 2012 the City was awarded a Community Development Block Grant in the amount of $385,531 from the Georgia Department of Community Affairs.

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 POSITION
DECEMBER 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
ASSETS				
Cash and cash equivalents	$ 1,887,299	$ 489,362	$ 2,376,661	$ 100
Certificates of deposit	1,137,047	385,329	1,522,376	-
Receivables (net of allowance):				
Accrued interest	648	2,751	3,399	-
Taxes	155,241	-	155,241	-
Accounts	5,025	117,262	122,287	-
Due from other governments	80,310	-	80,310	-
Internal balances	25,758	(25,758)	-	-
Prepaid Items	-	24,375	24,375	-
Restricted assets:				
Cash and cash equivalents	-	244,329	244,329	-
Capital assets:				
Nondepreciable assets	1,004,462	746,130	1,750,592	-
Depreciable assets, net	2,687,645	5,897,886	8,585,531	-
Bond issuance costs	-	12,131	12,131	-
Total assets	6,983,435	7,893,797	14,877,232	100
LIABILITIES				
Accounts payable	190,406	149,987	340,393	-
Accrued liabilities	21,735	8,710	30,445	-
Customer deposits	-	190,483	190,483	-
Noncurrent liabilities:				
Due within one year	28,349	59,619	87,968	-
Due in more than one year	404,121	1,786,404	2,190,525	-
Total liabilities	644,611	2,195,203	2,839,814	-
NET POSITION				
Net investment in capital assets	3,269,729	4,803,913	8,073,642	-
Restricted for:				
Debt service	-	244,329	244,329	-
Perpetual care	117,401	-	117,401	-
Capital outlay	211,340	-	211,340	-
Public safety	5,222	-	5,222	-
Unrestricted	2,735,132	650,352	3,385,484	100
Total net position	$ 6,338,824	$ 5,698,594	$ 12,037,418	$ 100

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

CITY OF GRAY, GEORGIA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

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 Position: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Unit: Downtown Development Authority
Primary Government								
Governmental activities								
General government	$ 543,607	$ 57,623	$ -	$ -	$ (485,984)	$ -	$ (485,984)	$ -
Public safety	1,013,847	262,494	-	10,000	(741,353)	-	(741,353)	-
Public works	572,717	-	-	465,350	(107,367)	-	(107,367)	-
Culture and recreation	6,910	-	-	-	(6,910)	-	(6,910)	-
Interest on long-term debt	20,337	-	-	-	(20,337)	-	(20,337)	-
Total governmental activities	2,157,418	320,117	-	475,350	(1,361,951)	-	(1,361,951)	-
Business-type activities								
Water & Sewer	1,721,946	1,690,667	-	129,014	-	97,735	97,735	-
Sanitation	140,835	143,411	-	-	-	2,576	2,576	-
Total business-type activities	1,862,781	1,834,078	-	129,014	-	100,311	100,311	-
Total primary government	$ 4,020,199	$ 2,154,195	$ -	$ 604,364	(1,361,951)	100,311	(1,261,640)	-
Component Unit:								
Downtown Development Authority	$ 17,340	$ -	$ 7,000	$ -				(10,340)
General Revenues:								
Property taxes					890,476	-	890,476	-
Sales taxes					383,112	-	383,112	-
Insurance premium tax					163,211	-	163,211	-
Franchise tax					254,754	-	254,754	-
Other taxes					154,091	-	154,091	-
Unrestricted investment earnings					9,360	2,544	11,904	-
Proceeds from sale of property					31,115	-	31,115	-
Miscellaneous					16,081	-	16,081	-
Total general revenues					1,902,200	2,544	1,904,744	-
Transfers					(80,637)	80,637	-	-
Change in net position					459,612	183,492	643,104	(10,340)
Net position - beginning of year					5,879,212	5,515,102	11,394,314	10,440
Net position - end of year					$ 6,338,824	$ 5,698,594	$ 12,037,418	$ 100

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

CITY OF GRAY, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

ASSETS	General	SPLOST 2009	Non-Major Governmental Funds	Total Governmental Funds
Cash and cash equivalents	$ 1,672,414	$ 202,252	$ 12,633	$ 1,887,299
Certificates of deposit	1,027,550	-	109,497	1,137,047
Accounts receivables (net of allowances for uncollectibles):				
Taxes	155,241	-	-	155,241
Accounts	5,025	-	648	5,673
Due from other governments	43,582	36,728	-	80,310
Due from other funds	25,776	-	-	25,776
Total Assets	$ 2,929,588	$ 238,980	$ 122,778	$ 3,291,346
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 162,766	$ 27,640	$ -	$ 190,406
Accrued liabilities	21,735	-	-	21,735
Due to other funds	-	-	18	18
Deferred revenue	73,216	-	-	73,216
Total Liabilities	257,717	27,640	18	285,375
Fund Balances:				
Restricted	-	211,340	122,623	333,963
Assigned	135,216	-	137	135,353
Unassigned	2,536,655	-	-	2,536,655
Total fund balances	2,671,871	211,340	122,760	3,005,971
Total liabilities and fund balances	$ 2,929,588	$ 238,980	$ 122,778	$ 3,291,346

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 POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

Amounts reported for governmental activities in the statement of net position are different because:		
Fund balances reported on balance sheet of governmental funds	$	3,005,971
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.		73,216
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 Position. Long-term liabilities at year-end consist of the following:		
Capital leases payable		(422,378)
Compensated absences		(10,092)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		3,692,107
Net position of governmental activities	$	6,338,824

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, 2012

	General	SPLOST 2009	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property	$ 878,835	$ -	$ -	$ 878,835
Sales	383,112	-	-	383,112
Other taxes	572,056	-	-	572,056
Licenses and permits	57,623	-	-	57,623
Intergovernmental	10,000	465,104	-	475,104
Fines and forfeitures	258,327	-	4,167	262,494
Investment earnings	8,508	246	852	9,606
Miscellaneous	15,621	-	460	16,081
Total revenues	2,184,082	465,350	5,479	2,654,911
EXPENDITURES:				
Current:				
General government	495,748	-	-	495,748
Public safety	875,114	-	2,497	877,611
Public works	274,477	50,554	22,582	347,613
Culture and recreation	-	-	6,910	6,910
Intergovernmental	105,272	-	-	105,272
Debt service:				
Principal	17,434	-	-	17,434
Interest	20,337	-	-	20,337
Capital outlay	-	178,684	-	178,684
Total Expenditures	1,788,382	229,238	31,989	2,049,609
Excess (deficiency) of revenues over (under) expenditures	395,700	236,112	(26,510)	605,302
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of property	31,115	-	-	31,115
Transfers in	-	-	82	82
Transfers out	(80,719)	-	-	(80,719)
Total other financing sources and (uses)	(49,604)	-	82	(49,522)
Net change in fund balances	346,096	236,112	(26,428)	555,780
Fund balance - beginning of year	2,325,775	(24,772)	149,188	2,450,191
Fund balance - end of year	$ 2,671,871	$ 211,340	$ 122,760	$ 3,005,971

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 CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

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

Net change in fund balances - total governmental funds	$	555,780
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.		11,641
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		17,434
Compensated Absences		
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences		(1,528)
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		100,591
Total depreciation		(198,580)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, donations, annexing) is to increase (decrease) net position.		(25,726)
Change in net position of governmental activities	$	459,612

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, 2012

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive/(Negative)
REVENUES:				
Taxes:				
General property taxes	$ 790,729	$ 799,244	$ 878,835	$ 79,591
Local option sales tax	351,500	351,500	383,112	31,612
Other taxes:				
Insurance premium tax	109,000	109,000	163,211	54,211
Motor vehicle tax	54,065	54,065	56,034	1,969
Franchise tax	219,908	219,908	254,754	34,846
Beer and wine tax	80,000	80,000	80,637	637
Real estate transfer tax	1,500	1,500	1,915	415
Recording intangible taxes	5,000	5,000	6,819	1,819
Mobile Home Tax	869	869	-	(869)
Penalties and interest	5,000	5,000	8,686	3,686
Other taxes	93	93	-	(93)
Total Taxes	1,617,664	1,626,179	1,834,003	207,824
Licenses and Permits:				
Business licenses and permits	60,000	60,000	57,623	(2,377)
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	216,000	216,000	258,327	42,327
Miscellaneous:				
Interest earnings	14,000	14,000	8,508	(5,492)
Miscellaneous	15,100	15,100	15,621	521
Total Miscellaneous	29,100	29,100	24,129	(4,971)
Total Revenues	$ 1,932,764	$ 1,941,279	$ 2,184,082	$ 242,803

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, 2012
(CONTINUED)

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive/(Negative)
EXPENDITURES:				
General Government:				
Salaries	$ 114,517	$ 116,739	$ 124,781	$ (8,042)
Payroll taxes	55,373	59,068	59,068	-
Pension expenditures	39,019	44,555	44,555	-
General expenditures	2,500	3,172	3,172	-
Legal fees	30,000	30,749	30,749	-
Codification	2,500	2,278	2,278	-
Office supplies	3,500	3,762	3,762	-
Insurance	152,965	150,981	145,417	5,564
Audit and accounting	10,000	9,125	9,125	-
Convention and training	10,000	11,708	11,708	-
Dues	5,000	3,920	3,920	-
Repairs and maintenance	5,000	10,613	10,613	-
Telephone and utilities	8,600	7,545	7,545	-
Postage	5,000	3,369	3,369	-
Computer maintenance	5,100	4,647	4,647	-
Miscellaneous	38,550	28,414	25,936	2,478
Professional services	-	5,103	5,103	-
Total General Government	487,624	495,748	495,748	-
Public Safety:				
Police:				
Salaries	495,000	449,150	439,660	9,490
Vehicle expenditures	15,800	11,500	10,639	861
Gas and oil	70,000	69,500	67,940	1,560
Uniforms	8,000	10,079	9,745	334
Repairs and maintenance	5,000	12,782	12,714	68
Utilities and telephone	20,000	20,000	17,430	2,570
Office supplies	7,000	7,000	6,568	432
Supplies and small equipment	36,200	78,253	75,078	3,175
Training	5,000	2,921	2,921	-
Miscellaneous	13,360	8,390	7,404	986
Capital outlay	-	26,850	26,850	-
Total Police	$ 675,360	$ 696,425	$ 676,949	$ 19,476

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, 2012
(CONTINUED)

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive/(Negative)
Recorder's Court:				
SIR Charges	$ 55,200	$ 50,438	$ 36,068	$ 14,370
Fines and penalties	72,400	72,400	54,582	17,818
Salaries	30,062	34,824	34,824	-
Miscellaneous	1,700	1,700	809	891
Court Judge	12,000	12,000	12,000	-
Total Recorders Court	171,362	171,362	138,283	33,079
Fire Department:				
Salaries	6,000	6,000	6,000	-
Operating	52,200	56,180	47,900	8,280
Capital outlay	12,000	8,020	5,982	2,038
Total Fire Department	70,200	70,200	59,882	10,318
Total Public Safety	916,922	937,987	875,114	62,873
Public Works:				
Salaries	70,000	81,973	81,973	-
Street lights	75,000	75,780	75,780	-
Traffic signals - maintenance	8,500	8,500	2,641	5,859
General street	110,000	109,220	85,885	23,335
Vehicle	19,000	18,555	9,712	8,843
Repairs and maintenance	5,000	5,445	2,470	2,975
Uniforms	1,500	1,500	816	684
Capital outlay	24,000	24,000	14,000	10,000
Contract labor	20,000	8,027	1,200	6,827
Total Public Works	$ 333,000	$ 333,000	$ 274,477	$ 58,523

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, 2012
(CONTINUED)

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive/(Negative)
Payments to Other Governmental Agencies:				
Better Hometown	$ 20,000	$ 20,052	$ 20,052	$ -
Civil Defense	1,000	1,000	1,000	-
Clean Community	8,000	8,110	8,110	-
Downtown Development	5,000	5,000	5,000	-
Jones County Dispatching	62,000	61,510	61,510	-
Jones County Planning & Zoning	9,700	9,700	9,600	100
Total Payments to Other Governmental Agencies	105,700	105,372	105,272	100
Debt Service:				
Principal	37,772	17,435	17,434	1
Interest	-	20,337	20,337	-
Total Debt Service	37,772	37,772	37,771	1
Total Expenditures	1,881,018	1,909,879	1,788,382	121,497
Excess (Deficiency) of Revenues over Expenditures	51,746	31,400	395,700	364,300
Other Financing Sources (Uses):				
Proceeds from sale of property	-	21,065	31,115	10,050
Transfer to CDBG Fund	-	(82)	(82)	-
Transfer to Water and Sewer Fund	(80,000)	(80,637)	(80,637)	-
Total Other Financing Sources (Uses)	(80,000)	(59,654)	(49,604)	10,050
Net change in fund balance	(28,254)	(28,254)	346,096	374,350
Fund balance - beginning of year	2,325,775	2,325,775	2,325,775	-
Fund balance - end of year	$ 2,297,521	$ 2,297,521	$ 2,671,871	$ 374,350

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

CITY OF GRAY, GEORGIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 468,874	$ 20,488	$ 489,362
Certificates of deposit	385,329	-	385,329
Restricted cash, cash equivalents and investments:			
Revenue bond covenant accounts	244,329	-	244,329
Accrued interest receivable	2,751	-	2,751
Accounts receivable (net of allowance for uncollectibles)	105,893	11,369	117,262
Due from other funds	7,436	-	7,436
Prepaid items	24,375	-	24,375
Total current assets	1,238,987	31,857	1,270,844
Noncurrent assets:			
Capital assets:			
Nondepreciable assets	746,130	-	746,130
Depreciable assets, net	5,897,886	-	5,897,886
Total capital assets	6,644,016	-	6,644,016
Bond issuance costs	12,131	-	12,131
Total noncurrent assets	6,656,147	-	6,656,147
Total assets	$ 7,895,134	$ 31,857	$ 7,926,991

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

CITY OF GRAY, GEORGIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012
(CONTINUED)

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
LIABILITIES			
Current liabilities:			
Accounts payable	$ 138,152	$ 11,835	$ 149,987
Accrued liabilities	7,066	-	7,066
Customer deposits payable	190,483	-	190,483
Accrued interest payable	1,644	-	1,644
Compensated absences	5,920	-	5,920
Due to other funds	25,758	7,436	33,194
Notes payable - current	47,626	-	47,626
Water rights contract payable - current	6,073	-	6,073
Total current liabilities	422,722	19,271	441,993
Noncurrent liabilities:			
Revenue bonds payable	885,000	-	885,000
Notes payable	901,404	-	901,404
Total noncurrent liabilities	1,786,404	-	1,786,404
Total liabilities	2,209,126	19,271	2,228,397
NET POSITION			
Net investment in capital assets	4,803,913	-	4,803,913
Restricted:			
Restricted for debt service	244,329	-	244,329
Unrestricted	637,766	12,586	650,352
Total net position	$ 5,686,008	$ 12,586	$ 5,698,594

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

CITY OF GRAY, GEORGIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities Enterprise Funds		
		Nonmajor	
	Water and Sewer Fund	Sanitation Fund	Total
Operating Revenues:			
Charges for sales and services:			
Water sales	$ 877,488	$ -	$ 877,488
Sewerage fees	709,088	-	709,088
Garbage fees	-	143,411	143,411
Connection fees	20,400	-	20,400
Penalties and other fees	37,997	-	37,997
Miscellaneous	45,694	-	45,694
Total operating revenues	1,690,667	143,411	1,834,078
Operating Expenses:			
Salaries	315,549	-	315,549
Employee benefits	46,968	-	46,968
Depreciation	300,509	-	300,509
Utilities	161,470	-	161,470
Maintenance and supplies	292,741	-	292,741
Insurance	119,568	-	119,568
Gas, oil, tires	19,804	-	19,804
Professional fees	59,024	-	59,024
Contracted services	-	140,835	140,835
Travel	5,518	-	5,518
Amortization	1,733	-	1,733
Engineering fees	30,509	-	30,509
County water expense	263,184	-	263,184
Other operating expenses	34,438	-	34,438
Total Operating Expenses	1,651,015	140,835	1,791,850
Operating Income (Loss)	39,652	2,576	42,228
Non-Operating Revenues (Expenses):			
Interest revenue	2,544	-	2,544
Interest expense	(70,931)	-	(70,931)
Total Non-Operating Revenues (Expenses)	(68,387)	-	(68,387)
Net Income (Loss) before Contributions and Transfers	(28,735)	2,576	(26,159)
Capital contributions	129,014	-	129,014
Transfers in	80,637	-	80,637
Change in net position	180,916	2,576	183,492
Net position - beginning of year	5,505,092	10,010	5,515,102
Net position - end of year	$ 5,686,008	$ 12,586	$ 5,698,594

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

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CITY OF GRAY, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities Enterprise Funds		
		Nonmajor	
	Water and	Sanitation	
Cash Flows from Operating Activities:	Sewer Fund	Fund	Total
Cash received from customers	$ 1,694,803	$ 143,365	$ 1,838,168
Cash paid to suppliers for good and services	(910,441)	(142,341)	(1,052,782)
Cash paid to employees	(362,758)	-	(362,758)
Net Cash Provided by (Used for) Operating Activities	421,604	1,024	422,628
Cash Flows from Noncapital Financing Activities:			
Transfer from General Fund	80,637	-	80,637
Net Cash Provided by (Used for) Noncapital Financing Activities	80,637	-	80,637
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of assets	(74,349)	-	(74,349)
Loss on disposal of assets	17,804		
Principal paid on revenue bonds	(90,000)	-	(90,000)
Principal paid on notes	(70,345)	-	(70,345)
Interest paid on revenue bonds	(71,254)	-	(71,254)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(288,144)	-	(305,948)
Cash Flows from Investing Activities:			
Interest received	5,482	-	5,482
Net Cash Provided by (Used for) Investing Activities	5,482	-	5,482
Net Increase (Decrease) in Cash and Cash Equivalents	219,579	1,024	220,603
Cash and Cash Equivalents - Beginning of Year	878,953	19,464	898,417
Cash and Cash Equivalents - End of Year	$ 1,098,532	$ 20,488	$ 1,119,020
Reconciliation of Cash Equivalents:			
Cash	$ 854,203	$ 20,488	$ 874,691
Restricted cash	244,329	-	244,329
Total Cash and Cash Equivalents	$ 1,098,532	$ 20,488	$ 1,119,020

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, 2012
(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)	$ 39,652	$ 2,576	$ 42,228
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Depreciation	300,509	-	300,509
Amortization	1,733	-	1,733
Changes in Assets and Liabilities:			
(Increase) decrease in accounts receivables	836	(46)	790
(Increase) decrease in due from other funds	2,074	-	2,074
(Increase) decrease in prepaids	2,125	-	2,125
Increase (decrease) in accounts payable	81,681	568	82,249
Increase (decrease) in accrued liabilities	(1,045)	-	(1,045)
Increase (decrease) in customer water deposits	3,300	-	3,300
Increase (decrease) in due to other funds	(10,065)	(2,074)	(12,139)
Increase (decrease) in compensated absences	804	-	804
Total adjustments	381,952	(1,552)	380,400
Net Cash Provided by (Used for) Operating Activities	$ 421,604	$ 1,024	$ 422,628
NONCASH CAPITAL FINANCING ACTIVITIES			
Contributions of capital assets from government	$ 129,014	$ -	$ 129,014

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, 2012, 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 Position and Statement of Changes in Net Position) 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.

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
Infrastructure	20 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, 2012 and amount to $10,092.

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 position.

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, 2012:

	General Fund	2009 SPLOST	Nonmajor Governmental	Total
Fund Balances				
Restricted:				
Perpetual care	$ -	$ -	$ 117,401	$ 117,401
Public safety	-	-	5,222	5,222
Capital outlay	-	211,340	-	211,340
Assigned for:				
Public safety	16,226	-	-	16,226
Capital outlay	-	-	137	137
Debt service	118,990	-	-	118,990
Unassigned	2,536,655	-	-	2,536,655
Total fund balances	$ 2,671,871	$ 211,340	$ 122,760	$ 3,005,971

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, 2012, the City's total contribution was $29,958. 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, 2012, the City's total contribution was $36,245 for the Workers Compensation Fund.

N. Bond Discounts/Issuance Costs

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

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

A. Budget Process

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

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

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

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

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

B. Encumbrances

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

NOTE 3 – DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits

The custodial credit risk of deposits is the risk that in the event of the failure of a bank, the government will not be able to recover deposits. The City's bank balances of deposits as of December 31, 2012 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	December 31, 2012	Staggered
Lien Date	February 28, 2013	N/A

NOTE 5 – OTHER RECEIVABLES

Receivables at December 31, 2012 consist of the following:

	General Fund	Water & Sewer	Sanitation Fund	Nonmajor Funds	Total
Receivables:					
Taxes	$ 255,212	$ -	$ -	$ -	$ 255,212
Accounts	35	126,089	16,436	-	142,560
Accrued interest	4,990	2,751	-	648	8,389
Gross Receivables	260,237	128,840	16,436	648	406,161
Less: Allowance for Uncollectibles	(99,971)	(20,196)	(5,067)	-	(125,234)
Net Receivables	$ 160,266	$ 108,644	$ 11,369	$ 648	$ 280,927

NOTE 6 – DUE FROM OTHER GOVERNMENTS

The General Fund reflects $43,582 in Due from Other Governments, which represents vehicle taxes due from Jones County of $4,336 and local option sales tax (LOST) due from the State of $39,246.

The SPLOST 2009 Fund reflects $36,728 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, 2012, was as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund	$ 25,758
General Fund	Nonmajor Governmental Fund	18
Water and Sewer Fund	Sanitation Fund	7,436
Total		$ 33,212

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

Interfund transfers:

	Transfer In:		
Transfer out:	Nonmajor Governmental	Water and Sewer Fund	Total
General Fund	$ 82	$ 80,637	$ 80,719
Total	$ 82	$ 80,637	$ 80,719

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, 2012, 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	8,340	-	2,175,540
Buildings	791,612	-	-	791,612
Equipment	238,441	-	-	238,441
Vehicles	907,702	92,251	(120,028)	879,925
Total capital assets, being depreciated	4,104,955	100,591	(120,028)	4,085,518
Less accumulated depreciation for:				
Infrastructure	(272,046)	(108,395)	-	(380,441)
Buildings	(145,708)	(16,265)	-	(161,973)
Equipment	(167,440)	(15,463)	-	(182,903)
Vehicles	(708,401)	(58,457)	94,302	(672,556)
Total accumulated depreciation	(1,293,595)	(198,580)	94,302	(1,397,873)
Total capital assets being depreciated, net	2,811,360	(97,989)	(25,726)	2,687,645
Governmental capital assets, net	$ 3,815,822	$ (97,989)	$ (25,726)	3,692,107
Less related long-term debt outstanding				(422,378)
Net investment in capital assets				$ 3,269,729

	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	388,494	17,786	-	-	406,280
Total capital assets, not being depreciated	728,344	17,786	-	-	746,130
Capital assets, being depreciated					
Sewer system	2,159,550	-	-	-	2,159,550
Water system	4,901,557	-	-	-	4,901,557
Wastewater treatment plant	2,605,152	-	-	-	2,605,152
Building	41,526	-	-	-	41,526
Equipment	291,729	110,950	(126,327)	-	276,352
Storm drainage improvements	137,829	-	-	-	137,829
Vehicles	117,196	74,627	(5,153)	-	186,670
Total capital assets, being depreciated	10,254,539	185,577	(131,480)	-	10,308,636
Less accumulated depreciation for:					
Sewer system	(1,086,073)	(47,642)	-	-	(1,133,715)
Water system	(1,851,692)	(151,290)	-	-	(2,002,982)
Wastewater treatment plant	(930,565)	(74,433)	-	-	(1,004,998)
Building	(41,526)	-	-	-	(41,526)
Equipment	(197,784)	(12,458)	108,523	-	(101,719)
Storm drainage improvements	(574)	(6,891)	-	-	(7,465)
Vehicles	(115,703)	(7,795)	5,153	-	(118,345)
Total accumulated depreciation	(4,223,917)	(300,509)	113,676	-	(4,410,750)
Total capital assets, being depreciated, Net	6,030,622	(114,932)	(17,804)	-	5,897,886
Business-type activities capital assets, Net	$ 6,758,966	$ (97,146)	$ (17,804)	$ -	6,644,016
Less related long-term debt outstanding					(1,840,103)
Net investment in capital assets					$ 4,803,913

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

Governmental activities	
General government	$ 4,097
Public safety	74,002
Public works	120,481
Total	$ 198,580
Business-type activities	
Water & Sewer	$ 300,509
Total	$ 300,509

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
2013	$ 18,257	$ 19,315	$ 37,772
2014	19,120	18,652	37,772
2015	20,023	17,749	37,772
2016	20,968	16,804	37,772
2017	21,960	15,812	37,772
2018-2022	126,376	62,481	188,857
2023-2027	159,186	29,671	188,857
2028	36,488	1,283	37,771
Total	$ 422,378	$ 181,767	$ 604,145

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, 2012, 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, 2012 is $885,000.

Cash requirements to maturity for this issue are as follows:

	Principal	Interest	Total
2013	$ -	$ 46,500	$ 46,500
2014	95,000	41,875	136,875
2015	100,000	37,000	137,000
2016	100,000	32,000	132,000
2017	105,000	26,875	131,875
2018-2021	485,000	50,125	535,125
Total	$ 885,000	$ 234,375	$ 1,119,375

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, 2012, the City made total transfers to the County for debt service of $23,663.

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
2013	$ 6,073	$ 77	$ 6,150
Total	$ 6,073	$ 77	$ 6,150

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
2013	$ 47,626	$ 18,545	$ 66,171
2014	48,588	17,583	66,171
2015	49,569	16,602	66,171
2016	50,568	15,603	66,171
2017	51,589	14,582	66,171
2018-2022	273,990	5,276	279,266
2023-2027	302,780	28,075	330,855
2028-2029	124,320	2,501	126,821
Total	$ 949,030	$ 118,767	$ 1,067,797

Restricted Assets

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

Revenue bond covenant accounts	$ 244,329
Certificates of deposit	161,341
Total	$ 405,670

C. Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital lease-building	$ 439,812	$ -	$ (17,434)	$ 422,378	$ 18,257
Compensated absences	8,564	21,409	(19,881)	10,092	10,092
Governmental activities Long-term liabilities	$ 448,376	$ 21,409	$ (37,315)	$ 432,470	$ 28,349
Business-type activities:					
Bonds payable:					
Revenue bonds-2005	$ 975,000	$ -	$ (90,000)	$ 885,000	$ -
GEFA Loan payable	995,712	-	(46,682)	949,030	47,626
Water rights contract	29,736	-	(23,663)	6,073	6,073
Compensated absences	5,116	11,759	(10,955)	5,920	5,920
Business-type activities Long-term liabilities	$ 2,005,564	$ 11,759	$ (171,300)	$ 1,846,023	$ 59,619

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

NOTE 10 – 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, 2012, the current plan membership is as follows:

Retirees & beneficiaries currently receiving benefits	7
Terminated employees entitled to benefits but not receiving them	8
Currently active employees:	
Fully vested	17
Non-vested	11
Total membership	43
Total current year covered payroll	$ 737,480
Total current year payroll	$ 737,480

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, 2012, were $66,856, 7.16% of covered payroll, and were made in accordance with contribution requirements determined by an actuarial valuation of July 1, 2012. The total recommended contribution consisted of $45,530 normal costs, $18,877 to amortize to unfunded accrued liability and $2,449 of interest. The City's actuarially determined contribution requirement for the period ending June 30, 2012, was $66,856, 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 $42,550. 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
2012	$ 66,856	7.2%	100%	-
2011	60,478	6.3%	100%	-
2010	53,504	5.8%	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	$ 47,979
Payment on unfunded actuarial accrued liability	18,877
Annual pension cost	66,856
Contributions	(66,856)
Increase in net pension obligation (asset)	-
Net pension obligation (asset) 12/31/11	-
Net pension obligation (asset) 12/31/12	$ -

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2012, 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)
7/1/12	$515,068	$614,734	$99,666	83.79%	$737,480	13.51%

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, 2012.

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, 2012, based upon employee data as of July 1, 2012, and based upon the available pension assets as of July 1, 2012.

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 11 – 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

CITY OF GRAY, GEORGIA

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

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
7/1/2012	$ 515,068	$ 614,734	83.79%	$ 99,666	$ 737,480	13.51%
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%

SUPPLEMENTARY INFORMATION

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, 2012

	Special Revenue	Capital Projects		Permanent Fund	Total Nonmajor
	Law Enforcement Confiscation	Capital Improvements	2012 CDBG	Perpetual Care	Governmental Funds
ASSETS					
Cash and cash equivalents	$ 5,222	$ 137	$ 18	$ 7,256	$ 12,633
Certificates of deposit	-	-	-	109,497	109,497
Interest receivable	-	-	-	648	648
Total Assets	$ 5,222	$ 137	$ 18	$ 117,401	$ 122,778
LIABILITIES					
Due to other funds	$ -	$ -	$ 18	$ -	$ 18
Total Liabilities	-	-	18	-	18
FUND BALANCES					
Restricted	5,222	-	-	117,401	122,623
Assigned	-	137	-	-	137
Total Fund Balances	5,222	137	-	117,401	122,760
Total Liabilities and Fund Balances	$ 5,222	$ 137	$ 18	$ 117,401	$ 122,778

CITY OF GRAY, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Special Revenue	Capital Projects		Permanent Fund	Total Nonmajor
	Law Enforcement Confiscation	Capital Improvements	2012 CDBG	Perpetual Care	Governmental Funds
REVENUES					
Fines and forfeitures	$ 4,167	$ -	$ -	$ -	$ 4,167
Investment earnings	-	-	-	852	852
Miscellaneous	-	-	-	460	460
Total Revenues	4,167	-	-	1,312	5,479
EXPENDITURES					
Current					
Public safety	2,497	-	-	-	2,497
Public works	-	22,500	82	-	22,582
Culture and recreation	-	-	-	6,910	6,910
Total Expenditures	2,497	22,500	82	6,910	31,989
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,670	(22,500)	(82)	(5,598)	(26,510)
Other Financing Sources (Uses)					
Transfer from other funds	-	-	82	-	82
Total Other Financing Sources (Use	-	-	82	-	82
Net change in fund balance	1,670	(22,500)	-	(5,598)	(26,428)
Fund balances - beginning of year	3,552	22,637	-	122,999	149,188
Fund balances - end of year	$ 5,222	$ 137	$ -	$ 117,401	$ 122,760

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, 2012

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Fines and forfeitures	$ 10,000	$ 4,167	$ (5,833)
Total Revenues	10,000	4,167	(5,833)
EXPENDITURES			
Current			
Public safety	10,000	2,497	7,503
Total Expenditures	10,000	2,497	7,503
Excess (Deficiency) of Revenues over Expenditures	-	1,670	1,670
Net change in fund balance	-	1,670	1,670
Fund balance - beginning of year	-	3,552	3,552
Fund balance - end of year	$ -	$ 5,222	$ 5,222

CITY OF GRAY, GEORGIA

COMMUNITY DEVELOPMENT BLOCK GRANT
#12h-x-084-2-5455
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES-BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED DECEMBER 31, 2012

	Prior Years	Current Year	Total to Date	Project Authorization
Revenues:				
Department of Community Affairs	$ -	$ -	$ -	$ 385,531
Total Revenues	-	-	-	385,531
Expenditures:				
H-001-01 Acquisition of Property (Public)	-	-	-	5,800
H-004-00 Clearance	-	-	-	20,000
C-022-00 Contingencies - Unprogrammed Funds	-	-	-	38,553
H-14A-01 Rehabilitation of Private Properties	-	-	-	294,191
A-21A-00 Administration	-	82	82	26,987
Total Expenditures	-	82	82	385,531
Excess of Revenues Over (Under) Expenditures	-	(82)	(82)	-
Other Financing Sources (Uses):				
Transfer from General Fund	-	82	82	-
Total Other Financing Sources (Uses)	-	82	82	-
Net change in fund balances	-	-	-	-
Fund Balance - beginning of year	-	-	-	-
Fund balance - end of year	$ -	$ -	$ -	$ -

CITY OF GRAY, GEORGIA

SCHEDULE OF PROJECTS CONSTRUCTED
WITH SPECIAL SALES TAX PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Estimated Cost	Expenditures		
		Prior Years	Current Year	Total
2009 SPLOST				
Water & sewer system Improvements	$ 1,688,000	$ 888,868	$ 76,580	$ 965,448
Police Vehicles	400,000	144,393	49,670	194,063
Street Improvements	250,000	108,731	20,946	129,677
Fire Equipment	200,000	-	-	-
Public Works Vehicles and Equipment	150,000	-	82,042	82,042
Total 2009 SPLOST	$ 2,688,000	$ 1,141,992	$ 229,238	$ 1,371,230

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CITY OF GRAY, GEORGIA

BALANCE SHEET
COMPONENT UNIT-DOWNTOWN DEVELOPMENT AUTHORITY
DECEMBER 31, 2012

ASSETS	
Cash and cash equivalent	$ 100
Total Assets	$ 100
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	$ -
Total Liabilities	-
Fund Balances:	
Unassigned	100
Total Fund Balance	100
Total Liabilities and Fund Balance	$ 100

CITY OF GRAY, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
COMPONENT UNIT-DOWNTOWN DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 2012

Revenues:		
Contributions	$	7,000
Total Revenues		7,000
Expenditures:		
Current:		
Professional services		17,340
Total Expenditures		17,340
Net change in fund balances		(10,340)
Fund Balance, beginning of year		10,440
Fund Balance, end of year	$	100

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GOVERNMENTAL REPORTS

CLIFTON, LIPFORD, HARDISON & PARKER, LLC

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American Institute of
Certified Public Accountants
Truman W. Clifton (1902-1989)

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

Mayor and City Council
City of Gray
Gray, Georgia

We have audited 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, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control 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, 2012-01, 2012-02, 2012-03 and 2012-04.

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Compliance and Other Matters

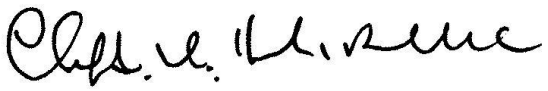
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect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

City of Gray, Georgia's Response to Findings

The City of Gray, Georgia's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Macon, Georgia
June 4, 2013

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.

CONTEXT
City employees lack the training to assess the need for certain year-end accruals which have a material effect on the fair presentation of the City's financial statements.

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 and most of our employees perform numerous functions. However, we will evaluate the cost and benefit of improving internal controls for the preparation of year-end financial statements.

2012-01 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.

CONTEXT

General Fund
Material adjustments totaling $187,587 were required to correct property taxes receivable and the related deferral and allowance for uncollectible accounts. Additionally, an adjustment totaling $39,246 was required to record LOST tax receivable at year-end.

SPLOST 2009 Fund
An audit adjustment of $36,728 was required to record SPLOST tax receivable as of December 31, 2012.

EFFECT
The City produced financial reports, which contained material errors. The audit procedures for 2012 identified the need for a number of material adjustments to correct accounting records and financial reports.

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 the City produced financial reports that contained material errors and 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 additional training to personnel.

2012-02 Accounts Payable/Expenditures

CRITERIA
Accounts payable should reflect obligations which have been incurred, but remain unpaid at year-end.

CONDITION
The City's SPLOST 2009 Fund reflected at obligation that was no longer outstanding at December 31, 2012.

CONTEXT
An audit adjustment of $120,000 was required for the SPLOST 2009 to reverse a 2011 accounts payable accrual.

EFFECT
Expenditures for the SPLOST 2009 Fund were overstated by $120,000.

CAUSE
The City personnel lack adequate training to determine the required year-end accruals/reversals.

RECOMMENDATION
We recommend that the City provide the appropriate training to instruct City personnel in the proper governmental accounting procedures.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS
We agree that the City's SPLOST fund reflected an obligation that was no longer outstanding at December 31, 2012. The City plans to invest in additional training. This would include governmental accounting classes provided by the Carl Vinson Institute of Government. The additional knowledge should ensure a higher standard of accounting procedures.

2012-03 Bank Accounts

CRITERIA
Disbursements should be recorded in the period in which the check in written.

CONDITION
Checks written from the General Fund in January, 2013, were recorded as disbursements in December, 2012.

CONTEXT
Checks totaling $152,995 were written in 2013, but were recorded as being disbursed in December 2012.

EFFECT
The condition resulted in cash being understated and accounts payable overstated by $152,995.

CAUSE
City personnel were not adequately trained on how to record year-end accruals in the accounting software.

RECOMMENDATION
We recommend that the City provide the appropriate training for use of the accounting software.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS
We agree checks written from the General Fund in January 2013 were recorded as being disbursed in December 2012. The City of Gray plans to review year-end procedures to properly effect current year activity. The City also plans to provide additional training on the current accounting software.

2012-04 Capital Assets – Water/Sewer Fund

CRITERIA
Capital assets represent tangible and intangible assets which benefit the entity for a period of greater than one year. For proprietary funds, the assets are presented on the statement of net position.

CONDITION
Various capital asset transactions were unrecorded for the year-ended December 31, 2012.

CONTEXT
Material adjustments were required to record the following transactions:

- Capital contributions totaling $129,013 which were received during 2012.
- Capital asset purchases totaling $74,350 which had been expensed by the accounting staff.
- Sale and retirement of various capital assets totaling $131,479.
- Year-end depreciation accrual of $300,509.

EFFECT
There were material errors in the amounts reported as capital assets for the Water & Sewer Fund.

CAUSE
City personnel were not adequately trained in governmental accounting procedures.

RECOMMENDATION
We recommend that the City provide the appropriate training in governmental accounting procedures.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS
We agree that various capital asset transactions were unrecorded for the year ending December 31, 2012 and there were material errors in the amounts reported as capital assets for the Water & Sewer Fund. The City plans to invest in additional training. This would include governmental accounting classes provided by the Carl Vinson Institute of Government. The additional knowledge should ensure a higher standard of accounting procedures.

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