CITY OF GRAY, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2013

CITY OF GRAY, GEORGIA

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT ..... 1 – 3

MANAGEMENT'S DISCUSSION AND ANALYSIS ..... 4 – 9

FINANCIAL STATEMENTS

Government-wide Financial Statements:
- Statement of Net Position 10
- Statement of Activities 11

Fund Financial Statements:
- Balance Sheet – Governmental Funds 12
- Reconciliation of Balance Sheet – Governmental Funds to the Statement of Net Position 13
- Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds 14
- Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities 15
- Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund ..... 16 – 19
- Statement of Net Position – Proprietary Funds ..... 20 – 21
- Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds 22
- Statement of Cash Flows – Proprietary Funds ..... 23 – 24

Notes to the Financial Statements ..... 25 – 44

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress 45

SUPPLEMENTARY INFORMATION

Combining and Individual Fund Statements and Schedules:
- Combining Balance Sheet – Nonmajor Governmental Funds 46
- Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds 47

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Special Revenue Funds 48

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual – From Inception: Housing Improvements CDBG 49

Schedule of Projects Constructed with Special Sales Tax Proceeds 50

Component Unit
Balance Sheet – Downtown Development Authority 51
Statement of Revenues, Expenditures, and
Changes in Fund Balances-Downtown Development Authority 52

GOVERNMENTAL REPORTS

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 ..... 53 – 54

Schedule of Findings and Responses ..... 55 – 58

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 (the "City"), as of and for the year ended December 31, 2013, 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, 2013, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matter of Emphasis

As discussed in Note 12 to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 through 9, and the schedule of funding progress on page 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 were 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 13, 2014 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 13, 2014

MANAGEMENT'S DISCUSSION & 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, 2013.

Financial Highlights

- The assets of the City exceeded its liabilities as of December 31, 2013 by $12,456,439.
- The government's total net position increased by $431,152 for the year ended December 31, 2013.
- As of December 31, 2013, total net position consisted of $7,911,615 net investment in capital assets, $759,916 restricted and $3,784,908 unrestricted.
- As of the close of the current year the City's governmental funds reported combined ending fund balances of $3,451,746 an increase of $445,775 in comparison with the prior year.
- For the year ended December 31, 2013, fund balance for the general fund increased from $2,671,871 to $2,958,367.

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 one type of proprietary fund. 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 funds 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, 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 $12,456,439 at the close of the most recent year.

A portion of the City's net position reflects its net investment in capital assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. As of December 31, 2013 the investment consists of $16,402,383 in assets, with accumulated depreciation of $6,300,243 and outstanding debt of $2,190,525.

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, 2013, current liabilities decreased by $97,239 and net position increased by $431,152 compared to December 31, 2012.

Summary of Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	Restated 2012	2013	2012
Assets						
Current and other assets	$ 3,793,065	$ 3,291,328	$ 1,328,199	$ 1,237,650	$ 5,121,264	$ 4,528,978
Capital assets	3,602,608	3,692,107	6,499,532	6,644,016	10,102,140	10,336,123
Total Assets	$ 7,395,673	$ 6,983,435	$ 7,827,731	$ 7,881,666	$ 15,223,404	$ 14,865,101
Liabilities						
Current and other liabilities	$ 254,709	$ 240,490	$ 297,341	$ 408,799	$ 552,050	$ 649,289
Long-term liabilities	419,934	404,121	1,794,981	1,786,404	2,214,915	2,190,525
Total Liabilities	674,643	644,611	2,092,322	2,195,203	2,766,965	2,839,814
Net Position						
Net investment in capital assets	3,198,487	3,269,729	4,713,128	4,803,913	7,911,615	8,073,642
Restricted	402,969	333,963	356,947	244,329	759,916	578,292
Unrestricted	3,119,574	2,735,132	665,334	638,221	3,784,908	3,373,353
Total Net Position	6,721,030	6,338,824	5,735,409	5,686,463	12,456,439	12,025,287
Total Liabilities and Net Position	$ 7,395,673	$ 6,983,435	$ 7,827,731	$ 7,881,666	$ 15,223,404	$ 14,865,101

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	Restated 2012	2013	2012
Revenues						
Program revenues						
Charges for services	$ 341,417	$ 320,117	$ 1,711,703	$ 1,834,078	$ 2,053,120	$ 2,154,195
Operating grants and contributions	277,366	-	-	-	277,366	-
Capital grants and contributions	383,719	475,350	171,104	129,014	554,823	604,364
General revenues						
Taxes	1,829,386	1,845,644	-	-	1,829,386	1,845,644
Investment revenues	3,260	9,360	1,572	2,544	4,832	11,904
Gain on sale of assets	4,134	31,115	880	-	5,014	31,115
Miscellaneous	24,370	16,081	-	-	24,370	16,081
Total Revenues	2,863,652	2,697,667	1,885,259	1,965,636	4,748,911	4,663,303
Expenses						
General government	436,580	543,607	-	-	436,580	543,607
Public safety	967,009	1,013,847	-	-	967,009	1,013,847
Public works	590,115	572,717	-	-	590,115	572,717
Other	410,517	27,247	-	-	410,517	27,247
Water and Sewer	-	-	1,767,110	1,734,077	1,767,110	1,734,077
Sanitation	-	-	146,428	140,835	146,428	140,835
Total Expenses	2,404,221	2,157,418	1,913,538	1,874,912	4,317,759	4,032,330
Increase (decrease) in net position before transfers	459,431	540,249	(28,279)	90,724	431,152	630,973
Transfers	(77,225)	(80,637)	77,225	80,637	-	-
Increase (decrease) in net position	382,206	459,612	48,946	171,361	431,152	630,973
Net position - Beginning	6,338,824	5,879,212	5,686,463	5,515,102	12,025,287	11,394,314
Net position - Ending	$ 6,721,030	$ 6,338,824	$ 5,735,409	$ 5,686,463	$ 12,456,439	$ 12,025,287

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, 2013, the City's governmental funds reported combined ending fund balances of $3,451,746. The unassigned fund balance reflects a balance of $2,778,484. A total of $673,262 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 $445,775 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 $665,334.

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, 2013 totals $10,102,140, 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 $233,983. Detailed information regarding the capital asset activity for 2013 can be found in Note 8 of this report.

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
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	-	-	430,920	406,280	430,920	406,280
Infrastructure	1,686,322	1,795,099	5,398,370	5,524,564	7,084,692	7,319,663
Buildings	613,374	629,639	-	-	613,374	629,639
Storm Drainage Improve.	-	-	123,473	130,364	123,473	130,364
Equipment	41,687	55,538	153,520	174,633	195,207	230,171
Vehicles	256,763	207,369	53,399	68,325	310,162	275,694
Total	$ 3,602,608	$ 3,692,107	$ 6,499,532	$ 6,644,016	$10,102,140	$ 10,336,123

Long-Term Debt

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, 2013. Bonds payable equal $885,000 as of December 31, 2013, including $95,000 due within one year. In 2009, the City borrowed an additional $1,090,026 from GEFA for a belt press for the wastewater treatment. Notes payable equal $901,404 as of December 31, 2013, with $48,587 due within one year. Detailed information regarding the long-term debt activity for 2013 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, 2013 is $0.

Accomplishments/Growth for 2013

In 2013, the City of Gray continued to make great strides in upgrading its water and sewer infrastructure. The Police Department purchased three new vehicles to replace aging patrol cars. During the year ending December 31, 2013 six houses were rehabbed with Community Development Block Grant funds awarded to the City by 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.

FINANCIAL STATEMENTS

CITY OF GRAY, GEORGIA

STATEMENT OF NET POSITION
DECEMBER 31, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
ASSETS				
Cash and cash equivalents	$ 2,377,219	$ 659,819	$ 3,037,038	$ 3,660
Certificates of deposit	1,131,722	224,239	1,355,961	-
Receivables (net of allowance):				
Accrued interest		1,297	1,297	-
Taxes	151,049	-	151,049	-
Accounts	1,666	116,587	118,253	-
Due from other governments	100,719	-	100,719	-
Internal balances	30,690	(30,690)	-	-
Restricted assets:				
Cash and cash equivalents	-	356,947	356,947	-
Capital assets:				
Nondepreciable assets	1,004,462	770,770	1,775,232	-
Depreciable assets, net	2,598,146	5,728,762	8,326,908	-
Total assets	7,395,673	7,827,731	15,223,404	3,660
LIABILITIES				
Accounts payable	233,315	90,761	324,076	-
Accrued liabilities	21,394	12,347	33,741	-
Customer deposits	-	194,233	194,233	-
Noncurrent liabilities:				
Due within one year	34,933	152,164	187,097	-
Due in more than one year	385,001	1,642,817	2,027,818	-
Total liabilities	674,643	2,092,322	2,766,965	-
NET POSITION				
Net investment in capital assets	3,198,487	4,713,128	7,911,615	-
Restricted for:				
Debt service	-	356,947	356,947	-
Perpetual care	111,326	-	111,326	-
Capital outlay	284,216	-	284,216	-
Public safety	7,427	-	7,427	-
Unrestricted	3,119,574	665,334	3,784,908	3,660
Total net position	$ 6,721,030	$ 5,735,409	$ 12,456,439	$ 3,660

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

CITY OF GRAY, GEORGIA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

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	Net (Expense) Revenue and Changes in Net Position: Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Total	Component Unit: Downtown Development Authority
Primary Government								
Governmental activities								
General government	$ 436,580	$ 66,744	$ -	$ -	$ (369,836)	$ -	$ (369,836)	$ -
Public safety	967,009	274,673	10,000	-	(682,336)	-	(682,336)	-
Public works	590,115	-	-	383,719	(206,396)	-	(206,396)	-
Housing development	267,366	-	267,366	-	-	-	-	-
Culture and recreation	6,104	-	-	-	(6,104)	-	(6,104)	-
Intergovernmental	117,533	-	-	-	(117,533)	-	(117,533)	-
Interest on long-term debt	19,514	-	-	-	(19,514)	-	(19,514)	-
Total governmental activities	2,404,221	341,417	277,366	383,719	(1,401,719)	-	(1,401,719)	-
Business-type activities								
Water & Sewer	1,767,110	1,564,497	-	171,104	-	(31,509)	(31,509)	-
Sanitation	146,428	147,206	-	-	-	778	778	-
Total business-type activities	1,913,538	1,711,703	-	171,104	-	(30,731)	(30,731)	-
Total primary government	$ 4,317,759	$ 2,053,120	$ 277,366	$ 554,823	(1,401,719)	(30,731)	(1,432,450)	-
Component Unit:								
Downtown Development Authority	$ 1,440	$ -	$ 5,000	$ -				3,560
General Revenues:								
Property taxes					886,486	-	886,486	-
Sales taxes					318,650	-	318,650	-
Insurance premium tax					168,989	-	168,989	-
Franchise tax					210,748	-	210,748	-
Other taxes					244,513	-	244,513	-
Unrestricted investment earnings					3,260	1,572	4,832	-
Gain on sale of asset					4,134	-	4,134	-
Miscellaneous					24,370	880	25,250	-
Total general revenues					1,861,150	2,452	1,863,602	-
Transfers					(77,225)	77,225	-	-
Change in net position					382,206	48,946	431,152	3,560
Net position - beginning of year, restated					6,338,824	5,686,463	12,025,287	100
Net position - end of year					$ 6,721,030	$ 5,735,409	$ 12,456,439	$ 3,660

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

CITY OF GRAY, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

ASSETS	General	2009 SPLOST	2012 CDBG	Non-Major Governmental Funds	Total Governmental Funds
Cash and cash equivalents	$ 1,941,434	$ 320,357	$ 18	$ 115,410	$ 2,377,219
Certificates of deposit	1,028,225	-	-	103,497	1,131,722
Receivables, net of allowance					
Taxes	151,049	-	-	-	151,049
Accounts	1,598	-	-	68	1,666
Due from other governments	41,808	28,702	30,209	-	100,719
Due from other funds	30,708	-	-	-	30,708
Total Assets	$ 3,194,822	$ 349,059	$ 30,227	$ 218,975	$ 3,793,083
LIABILITIES					
Accounts payable	$ 128,451	$ 74,570	$ 30,209	$ 85	$ 233,315
Accrued liabilities	21,394	-	-	-	21,394
Due to other funds	-	-	18	-	18
Total Liabilities	149,845	74,570	30,227	85	254,727
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	86,610	-	-	-	86,610
Total Deferred Inflows of Reources	86,610	-	-	-	86,610
FUND BALANCES					
Restricted	-	274,489	-	118,753	393,242
Assigned	179,883	-	-	100,137	280,020
Unassigned	2,778,484	-	-	-	2,778,484
Total fund balances	2,958,367	274,489	-	218,890	3,451,746
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 3,194,822	$ 349,059	$ 30,227	$ 218,975	$ 3,793,083

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, 2013

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

Total fund balances - governmental funds	$	3,451,746
Capital assets used in governmental activities are not financed resources and, therefore, are not reported in the funds.		3,602,608
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		86,610
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(419,934)
Net position of governmental activities	$	6,721,030

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, 2013

REVENUES:	General	2009 SPLOST	2012 CDBG	Non-Major Governmental Funds	Total Governmental Funds
Taxes:					
Property	$ 873,092	$ -	$ -	$ -	$ 873,092
Sales	318,650	-	-	-	318,650
Other taxes	624,250	-	-	-	624,250
Licenses and permits	66,744	-	-	-	66,744
Intergovernmental	10,000	383,257	267,366	-	660,623
Fines and forfeitures	271,478	-	-	3,195	274,673
Investment earnings	3,231	462	-	29	3,722
Miscellaneous	24,370	-	-	-	24,370
Total revenues	2,191,815	383,719	267,366	3,224	2,846,124
EXPENDITURES:					
Current:					
General government	427,162	-	-	-	427,162
Public safety	883,570	8,740	-	990	893,300
Public works	272,573	-	-	-	272,573
Housing and development	-	-	267,366	-	267,366
Culture and recreation	-	-	-	6,104	6,104
Intergovernmental	117,533	-	-	-	117,533
Debt service:					
Principal	18,257	-	-	-	18,257
Interest	19,514	-	-	-	19,514
Capital outlay	-	311,830	-	-	311,830
Total Expenditures	1,738,609	320,570	267,366	7,094	2,333,639
Excess (deficiency) of revenues over (under) expenditures	453,206	63,149	-	(3,870)	512,485
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of property	10,515	-	-	-	10,515
Transfers in	-	-	-	100,000	100,000
Transfers out	(177,225)	-	-	-	(177,225)
Total other financing sources and (uses)	(166,710)	-	-	100,000	(66,710)
Net change in fund balances	286,496	63,149	-	96,130	445,775
Fund balance - beginning of year	2,671,871	211,340	-	122,760	3,005,971
Fund balance - end of year	$ 2,958,367	$ 274,489	$ -	$ 218,890	$ 3,451,746

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

CITY OF GRAY, GEORGIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

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

Net change in fund balances - total governmental funds	$	445,775
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		(83,119)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		13,394
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net position.		(6,380)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		18,257
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(5,721)
Change in net position of governmental activities	$	382,206

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, 2013

	Budget			Variance with
	Original	Final	Actual	Final Budget
REVENUES:				
Taxes:				
General property taxes	$ 752,976	$ 752,976	$ 873,092	$ 120,116
Local option sales tax	395,000	395,000	318,650	(76,350)
Other taxes:				
Insurance premium tax	153,600	153,600	168,989	15,389
Motor vehicle tax	47,908	123,256	139,600	16,344
Franchise tax	225,700	225,700	210,748	(14,952)
Beer and wine tax	80,000	80,000	77,225	(2,775)
Real estate transfer tax	1,500	1,500	2,449	949
Recording intangible taxes	5,500	5,500	7,514	2,014
Mobile Home Tax	739	739	-	(739)
Penalties and interest	5,000	5,000	17,725	12,725
Total Taxes	1,667,923	1,743,271	1,815,992	72,721
Licenses and Permits:				
Business licenses and permits	58,000	58,000	66,744	8,744
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	240,652	271,478	30,826
Total Fines, Forfeitures and Penalties	216,000	240,652	271,478	30,826
Miscellaneous:				
Interest earnings	9,000	9,000	3,231	(5,769)
Miscellaneous	13,624	24,353	24,370	17
Total Miscellaneous	22,624	33,353	27,601	(5,752)
Total Revenues	$ 1,974,547	$ 2,085,276	$ 2,191,815	$ 106,539

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, 2013
(CONTINUED)

	Budget			Variance with
	Original	Final	Actual	Final Budget
EXPENDITURES:				
General Government:				
Salaries	$ 121,415	$ 121,415	$ 87,834	$ 33,581
Payroll taxes	58,000	58,000	58,058	(58)
Pension expenditures	47,200	47,200	31,176	16,024
General expenditures	2,500	2,500	4,275	(1,775)
Legal fees	40,000	40,000	28,680	11,320
Codification	2,500	2,500	2,182	318
Office supplies	3,500	3,500	2,614	886
Insurance	153,500	159,717	129,272	30,445
Audit and accounting	9,200	9,200	12,371	(3,171)
Convention and training	9,500	9,500	16,426	(6,926)
Dues	5,000	5,000	4,686	314
Repairs and maintenance	6,000	6,000	1,550	4,450
Telephone and utilities	10,840	10,840	10,747	93
Postage	4,040	4,040	4,024	16
Computer maintenance	4,000	4,000	4,749	(749)
Miscellaneous	36,988	36,987	28,516	8,471
Total General Government	514,183	520,399	427,160	93,239
Public Safety:				
Police:				
Salaries	486,000	486,000	476,695	9,305
Vehicle expenditures	15,800	15,800	8,163	7,637
Gas and oil	70,000	70,000	68,530	1,470
Uniforms	8,000	8,060	13,978	(5,918)
Repairs and maintenance	5,000	5,000	4,958	42
Utilities and telephone	20,000	20,044	19,501	543
Office supplies	7,000	7,000	6,289	711
Supplies and small equipment	38,200	52,961	52,521	440
Training	5,000	5,000	3,281	1,719
Miscellaneous	13,400	13,400	11,610	1,790
Total Police	$ 668,400	$ 683,265	$ 665,526	$ 17,739

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, 2013
(CONTINUED)

	Budget			Variance with
	Original	Final	Actual	Final Budget
Recorder's Court:				
SIR Charges	$ 50,200	$ 50,200	$ 37,208	$ 12,992
Fines and penalties	72,400	72,400	63,097	9,303
Salaries	35,960	35,960	35,919	41
Miscellaneous	6,700	6,700	1,939	4,761
Court Judge	12,000	12,000	12,000	-
Total Recorders Court	177,260	177,260	150,163	27,097
Fire Department:				
Salaries	6,000	6,000	6,000	-
Operating	59,400	59,563	52,141	7,422
Capital outlay	5,000	5,000	9,742	(4,742)
Total Fire Department	70,400	70,563	67,883	2,680
Total Public Safety	916,060	931,088	883,572	47,516
Public Works:				
Salaries	88,000	88,000	86,672	1,328
Street lights	75,000	75,000	75,737	(737)
Traffic signals - maintenance	8,500	8,500	3,600	4,900
General street	82,000	82,000	84,027	(2,027)
Vehicle	14,000	14,000	11,376	2,624
Uniforms	1,500	1,500	1,161	339
Capital outlay	20,000	20,000	10,000	10,000
Contract labor	20,000	20,000	-	20,000
Total Public Works	$ 309,000	$ 309,000	$ 272,573	$ 36,427

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, 2013
(CONTINUED)

	Budget			Variance with
	Original	Final	Actual	Final Budget
Payments to Other Governmental Agencies:				
Better Hometown	$ 25,000	$ 25,000	$ 25,000	$ -
Emergency management	1,000	1,000	1,000	-
Clean Community	6,460	6,460	6,460	-
Downtown Development	5,000	5,000	5,000	-
Jones County Dispatching	70,473	70,473	70,473	-
Jones County Planning & Zoning	9,600	9,600	9,600	-
Total Payments to Other Governmental Agencies	117,533	117,533	117,533	-
Debt Service:				
Principal	18,257	18,257	18,257	-
Interest	19,514	19,514	19,514	-
Total Debt Service	37,771	37,771	37,771	-
Total Expenditures	1,894,547	1,915,791	1,738,609	177,182
Excess (Deficiency) of Revenues over Expenditures	80,000	169,485	453,206	283,721
Other Financing Sources (Uses):				
Proceeds from sale of property	-	10,515	10,515	-
Transfer to Water and Sewer Fund	(80,000)	(80,000)	(77,225)	2,775
Transfer to Capital Improvements	-	(100,000)	(100,000)	-
Total Other Financing Sources (Uses)	(80,000)	(169,485)	(166,710)	2,775
Net change in fund balance	-	-	286,496	286,496
Fund balance - beginning of year	2,671,871	2,671,871	2,671,871	-
Fund balance - end of year	$ 2,671,871	$ 2,671,871	$ 2,958,367	$ 286,496

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

CITY OF GRAY, GEORGIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 642,182	$ 17,637	$ 659,819
Certificates of deposit	224,239	-	224,239
Restricted cash, cash equivalents and investments:			
Revenue bond covenant accounts	356,947	-	356,947
Accrued interest receivable	1,297	-	1,297
Accounts receivable (net of allowance for uncollectibles)	104,880	11,707	116,587
Due from other funds	3,772	-	3,772
Total current assets	1,333,317	29,344	1,362,661
Noncurrent assets:			
Capital assets:			
Nondepreciable assets	770,770	-	770,770
Depreciable assets, net	5,728,762	-	5,728,762
Total capital assets	6,499,532	-	6,499,532
Total noncurrent assets	6,499,532	-	6,499,532
Total assets	$ 7,832,849	$ 29,344	$ 7,862,193

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

CITY OF GRAY, GEORGIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013
(CONTINUED)

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
LIABILITIES			
Current liabilities:			
Accounts payable	$ 78,553	$ 12,208	$ 90,761
Accrued liabilities	10,845	-	10,845
Customer deposits payable	194,233	-	194,233
Accrued interest payable	1,502	-	1,502
Compensated absences	8,577	-	8,577
Due to other funds	30,690	3,772	34,462
Notes payable - current	48,587	-	48,587
Revenue bonds payable - current	95,000	-	95,000
Total current liabilities	467,987	15,980	483,967
Noncurrent liabilities:			
Revenue bonds payable	790,000	-	790,000
Notes payable	852,817	-	852,817
Total noncurrent liabilities	1,642,817	-	1,642,817
Total liabilities	2,110,804	15,980	2,126,784
NET POSITION			
Net investment in capital assets	4,713,128	-	4,713,128
Restricted:			
Restricted for debt service	356,947	-	356,947
Unrestricted	651,970	13,364	665,334
Total net position	$ 5,722,045	$ 13,364	$ 5,735,409

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

CITY OF GRAY, GEORGIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
Operating Revenues:			
Charges for sales and services:			
Water sales	$ 827,675	$ -	$ 827,675
Sewerage fees	673,582	-	673,582
Garbage fees	-	147,206	147,206
Connection fees	29,900	-	29,900
Penalties and other fees	33,340	-	33,340
Miscellaneous	880	-	880
Total operating revenues	1,565,377	147,206	1,712,583
Operating Expenses:			
Salaries	338,808	-	338,808
Employee benefits	47,952	-	47,952
Depreciation	315,588	-	315,588
Utilities	150,771	-	150,771
Maintenance and supplies	307,485	-	307,485
Insurance	128,414	-	128,414
Gas, oil, tires	21,953	-	21,953
Professional fees	39,687	-	39,687
Contracted services	-	146,428	146,428
Travel	3,547	-	3,547
County water expense	275,377	-	275,377
Other operating expenses	72,560	-	72,560
Total Operating Expenses	1,702,142	146,428	1,848,570
Operating Income (Loss)	(136,765)	778	(135,987)
Non-Operating Revenues (Expenses):			
Interest revenue	1,572	-	1,572
Interest expense	(64,968)	-	(64,968)
Total Non-Operating Revenues (Expenses)	(63,396)	-	(63,396)
Net Income (Loss) before Contributions and Transfers	(200,161)	778	(199,383)
Capital contributions	171,104	-	171,104
Transfers in	77,225	-	77,225
Change in net position	48,168	778	48,946
Net position - beginning of year, restated	5,673,877	12,586	5,686,463
Net position - end of year	$ 5,722,045	$ 13,364	$ 5,735,409

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, 2013

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	$ 1,570,140	$ 146,868	$ 1,717,008
Cash paid to suppliers for good and services	(1,026,706)	(149,719)	(1,176,425)
Cash paid to employees	(380,324)	-	(380,324)
Net Cash Provided by (Used for) Operating Activities	163,110	(2,851)	160,259
Cash Flows from Noncapital Financing Activities:			
Transfer from General Fund	77,225	-	77,225
Net Cash Provided by (Used for) Noncapital Financing Activities	77,225	-	77,225
Cash Flows from Capital and Related Financing Activities:			
Principal paid on notes	(53,699)	-	(53,699)
Interest paid on revenue bonds	(64,826)	-	(64,826)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(118,525)	-	(118,525)
Cash Flows from Investing Activities:			
Interest received	3,026	-	3,026
Net Cash Provided by (Used for) Investing Activities	3,026	-	3,026
Net Increase (Decrease) in Cash and Cash Equivalents	124,836	(2,851)	121,985
Cash and Cash Equivalents - Beginning of Year	1,098,532	20,488	1,119,020
Cash and Cash Equivalents - End of Year	$ 1,223,368	$ 17,637	$ 1,241,005
Reconciliation of Cash Equivalents:			
Cash	$ 866,421	$ 17,637	$ 884,058
Restricted cash	356,947	-	356,947
Total Cash and Cash Equivalents	$ 1,223,368	$ 17,637	$ 1,241,005

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, 2013
(CONTINUED)

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Nonmajor Sanitation Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	$ (136,765)	$ 778	$ (135,987)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Depreciation	315,588	-	315,588
Changes in Assets and Liabilities:			
(Increase) decrease in accounts receivables	1,013	(338)	675
(Increase) decrease in due from other funds	3,664	-	3,664
(Increase) decrease in prepaids	24,375	-	24,375
Increase (decrease) in accounts payable	(59,883)	373	(59,510)
Increase (decrease) in accrued liabilities	3,779	-	3,779
Increase (decrease) in customer water deposits	3,750	-	3,750
Increase (decrease) in due to other funds	4,932	(3,664)	1,268
Increase (decrease) in compensated absences	2,657	-	2,657
Total adjustments	299,875	(3,629)	296,246
Net Cash Provided by (Used for) Operating Activities	$ 163,110	$ (2,851)	$ 160,259
NONCASH CAPITAL FINANCING ACTIVITIES			
Contributions of capital assets from government	$ 171,104	$ -	$ 171,104

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. 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 Activities) 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. 2012 Community Development Block Grant (CDBG) - The 2012 CDBG Fund is used to account for the grant funds received to be used for housing and development within the City.

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, 2013 and amount to $15,813.

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. Management Estimates

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

M. Deferred Outflows / Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

N. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

O. 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, 2013:

	General Fund	2009 SPLOST	Nonmajor Governmental	Total
Fund Balances				
Restricted:				
Perpetual care	$ -	$ -	$ 111,326	$ 111,326
Public safety	-	-	7,427	7,427
Capital outlay	-	274,489	-	274,489
Assigned for:				
Public safety	21,665	-	-	21,665
Capital outlay	-	-	100,137	100,137
Debt service	158,218	-	-	158,218
Unassigned	2,778,484	-	-	2,778,484
Total fund balances	$ 2,958,367	$ 274,489	$ 218,890	$ 3,451,746

P. 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, 2013, the City's total contribution was $69,325. 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, 2013, the City's total contribution was $54,267 for the Workers Compensation Fund.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

A. Budget Process

An annual operating budget is prepared for the General Fund and Special Revenue 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 – have been prepared on the basis described above.

NOTE 3 – DEPOSITS AND INVESTMENTS

Credit risk

State statutes authorize the City to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime bankers' acceptances; the local government investment pool established by state law (Georgia Fund 1); repurchase agreements; and obligations of other political subdivisions of the State of Georgia. At December 31, 2013, the City's only investments were in certificates of deposit.

At December 31, 2013, the City's investments in certificates of deposit were as follows:

Investment	Maturity	Amount
Certificates of deposit - General Fund	1 - 5 months	$ 415,881
	6 - 10 months	55,421
	11 - 20 months	556,923
Certificates of deposit - Water and Sewer Fund	1 - 5 months	158,590
	6 - 10 months	35,159
	11 - 20 months	30,490
Certificates of deposit - Nonmajor Governmental Fund	11 - 20 months	103,497
		$ 1,355,961

Interest rate risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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, 2013 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, 2013	Staggered
Lien Date	May 1, 2014	N/A

NOTE 5 – OTHER RECEIVABLES

Receivables at December 31, 2013 consist of the following:

	General Fund	Water & Sewer Fund	Nonmajor Proprietary Fund	Nonmajor Governmental Funds	Total
Receivables:					
Taxes	$ 174,985	$ -	$ -	$ -	$ 174,985
Accounts	366	125,076	17,415	-	142,857
Accrued interest	1,232	1,297	-	68	2,597
Gross Receivables	176,583	126,373	17,415	68	320,439
Less: Allowances for Uncollectibles	(23,936)	(20,196)	(5,708)	-	(49,840)
Net Receivables	$ 152,647	$ 106,177	$ 11,707	$ 68	$ 270,599

NOTE 6 – DUE FROM OTHER GOVERNMENTS

The General Fund reflects $41,808 in Due from Other Governments, which mainly represents vehicle taxes due from Jones County of $12,008 and local option sales tax (LOST) due from the State of $28,603.

The SPLOST 2009 Fund reflects $28,702 in Due from Other Governments, which represents 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, 2013, was as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund	$ 30,690
General Fund	2012 CDBG Fund	18
Water and Sewer Fund	Sanitation Fund	3,772
Total		$ 34,480

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		
	Nonmajor	Water and	
Transfer out:	Governmental	Sewer Fund	Total
General Fund	$ 100,000	$ 77,225	$ 177,225
Total	$ 100,000	$ 77,225	$ 177,225

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, 2013, 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	2,175,540	-	-	2,175,540
Buildings	791,612	-	-	791,612
Equipment	238,441	-	-	238,441
Vehicles	879,925	125,711	(39,178)	966,458
Total capital assets, being depreciated	4,085,518	125,711	(39,178)	4,172,051
Less accumulated depreciation for:				
Infrastructure	(380,441)	(108,777)	-	(489,218)
Buildings	(161,973)	(16,265)	-	(178,238)
Equipment	(182,903)	(13,851)	-	(196,754)
Vehicles	(672,556)	(69,937)	32,798	(709,695)
Total accumulated depreciation	(1,397,873)	(208,830)	32,798	(1,573,905)
Total capital assets being depreciated, net	2,687,645	(83,119)	(6,380)	2,598,146
Governmental capital assets, net	$ 3,692,107	$ (83,119)	$ (6,380)	3,602,608
Less related long-term debt outstanding				(404,121)
Net investment in capital assets				$ 3,198,487

	Beginning Balance	Additions	Deductions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	$ 26,167	$ -	$ -	$ 26,167
Water rights	313,683	-	-	313,683
Construction in progress	406,280	24,640	-	430,920
Total capital assets, not being depreciated	746,130	24,640	-	770,770
Capital assets, being depreciated				
Sewer system	2,159,550	75,070	-	2,234,620
Water system	4,901,557	71,394	-	4,972,951
Wastewater treatment plant	2,605,152	-	-	2,605,152
Building	41,526	-	-	41,526
Equipment	276,352	-	-	276,352
Storm drainage improvements	137,829	-	-	137,829
Vehicles	186,670	-	-	186,670
Total capital assets, being depreciated	10,308,636	146,464	-	10,455,100
Less accumulated depreciation for:				
Sewer system	(1,133,715)	(49,276)	-	(1,182,991)
Water system	(2,002,982)	(148,949)	-	(2,151,931)
Wastewater treatment plant	(1,004,998)	(74,433)	-	(1,079,431)
Building	(41,526)	-	-	(41,526)
Equipment	(101,719)	(21,113)	-	(122,832)
Storm drainage improvements	(7,465)	(6,891)	-	(14,356)
Vehicles	(118,345)	(14,926)	-	(133,271)
Total accumulated depreciation	(4,410,750)	(315,588)	-	(4,726,338)
Total capital assets, being depreciated, Net	5,897,886	(169,124)	-	5,728,762
Business-type activities capital assets, Net	$ 6,644,016	$ (144,484)	$ -	6,499,532
Less related long-term debt outstanding				(1,786,404)
Net investment in capital assets				$ 4,713,128

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

Governmental activities	
General government	$ 3,697
Public safety	92,869
Public workks	112,264
Total	$ 208,830
Business-type activities	
Water & Sewer	$ 315,588
Total	$ 315,588

NOTE 9 – LONG-TERM DEBT

A. Governmental Funds

Capital Leases

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. This year, $9,260 was included in depreciation expense.

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

	Principal	Interest	Total
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	22,997	14,774	37,771
2019-2023	132,347	56,511	188,858
2024-2028	166,706	22,150	188,856
Total	$ 404,121	$ 162,452	$ 566,573

B. Proprietary Funds

Revenue Bonds

In 2009, the City issued $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, 2013 is $885,000.

Cash requirements to maturity for this issue are as follows:

	Principal	Interest	Total
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	110,000	21,500	131,500
2019-2021	375,000	28,625	403,625
Total	$ 885,000	$ 187,875	$ 1,072,875

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, 2013, the City made total transfers to the County for debt service of $6,073. Principal amount outstanding at December 31, 2013, is $0.

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

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
2014	$ 48,587	$ 17,583	$ 66,170
2015	49,569	16,602	66,171
2016	50,568	15,603	66,171
2017	51,589	14,582	66,171
2018	52,630	13,541	66,171
2019-2023	279,520	51,336	330,856
2024-2028	308,891	21,964	330,855
2029	60,050	602	60,652
Total	$ 901,404	$ 151,813	$ 1,053,217

Restricted Assets

The balance of the restricted asset accounts in the Water & Sewer enterprise fund as of December 31, 2013 is $356,947.

C. Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital lease-building	$ 422,378	$ -	$ (18,257)	$ 404,121	$ 19,120
Compensated absences	10,092	22,581	(16,860)	15,813	15,813
Governmental activities Long-term liabilities	$ 432,470	$ 22,581	$ (35,117)	$ 419,934	$ 34,933
Business-type activities:					
Bonds payable:					
Revenue bonds-2005	$ 885,000	$ -	$ -	$ 885,000	$ 95,000
GEFA Loan payable	949,030	-	(47,626)	901,404	48,587
Water rights contract	6,073	-	(6,073)	-	-
Compensated absences	5,920	14,092	(11,435)	8,577	8,577
Business-type activities Long-term liabilities	$ 1,846,023	$ 14,092	$ (65,134)	$ 1,794,981	$ 152,164

For the governmental activities, compensated absences are generally liquidated by the general fund and for the business-type activities, compensated absences are liquidated by the Water and Sewer Fund.

NOTE 10 – EMPLOYEE RETIREMENT PLANS

Georgia Municipal Employees Benefit System

Plan Description

The City contributes to the Georgia Municipal Employees Benefit System (the system), an agent multiple-employer public employee retirement system administered by the Georgia Municipal Association. The City of Gray Retirement Plan is a defined benefit plan that provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Public Retirement Systems Standard Law (Georgia Code Section 47-20-10) assigned the authority to establish and amend the plan to the City of Gray. The Georgia Municipal Employees Benefit System issues a publicly available financial report that includes financial statements and required supplementary information for the System. The report may be obtained by writing to the Georgia Municipal Employees Benefit System, 201 Pryor Street S.W., Atlanta, Georgia 30303.

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. At July 1, 2013, the date of the most recent actuarial valuation, there were 44 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	8
Terminated vested participants	10
Active vested employees	17
Active nonvested employees	9
Total	44

Funding Policy

The City's employee's participation is non-contributory. The City is required to contribute at an actuarially determined rate; the current rate is 6.82% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the system's Board of Trustees.

Annual Pension Cost

The funding policy for the Plan is to contribute an amount equal to the recommended contribution as determined by the Plan's actuary. The recommended contribution was determined as part of

the July 1, 2013 actuarial valuation. The chart below shows the annual pension cost for the current year and prior two years along with the percentage actually contributed by the City.

Fiscal Year Ended December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2013	$ 51,147	100%	-
2012	66,856	100%	-
2011	60,478	100%	-

As of the most recent valuation date, July 1, 2013, the funded status of the Plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded / (Surplus) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2013	$ 577,955	$ 694,800	$ 116,845	83.18%	$ 735,246	15.89%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability.

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, 2013.

The assumptions used in the July 1, 2013 actuarial valuation are as follows:

Actuarial Assumptions

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Closed level dollar for remaining unfunded liability
Remaining Amortization Period	Remaining amortization period varies for the bases, with a net effective amortization period of 10 years
Asset Valuation Method	Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 50% of market value for 2009, 44% of market value for 2010, 38% of market value for 2011, 32% of market value for 2012, 26% of market value for 2013, and 20% market value for 2014 and later years

Net Investment Rate of Return	7.75%
Projected Salary Increases	3.50% plus age and service based merit increases
Inflation Rate	3.50%
Cost of Living Adjustments	0.00%

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

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.

NOTE 12 – RESTATEMENT FOR NEW ACCOUNTING STANDARD

During 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

GASB No. 65 requires that bond issuance costs be written off as of January 1, 2013. The effect of this adjustment is as follows:

	Business-Type Activities	Water and Sewer Fund
Net Position December 31, 2012, as previously reported	$ 5,698,594	$ 5,686,008
Implementation of GASB 65 for bond issuance costs	(12,131)	(12,131)
Net Position December 31, 2012, restated	$ 5,686,463	$ 5,673,877

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GRAY, GEORGIA

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013

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
7/1/2013	$ 577,955	$ 694,800	83.18%	$ 116,845	$ 735,246	15.89%
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%

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 capital projects.

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 facilities and other capital assets.

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, 2013

	Special Revenue	Capital Projects	Permanent Fund	Total Nonmajor
	Law Enforcement Confiscation	Capital Improvements	Perpetual Care	Governmental Funds
ASSETS				
Cash and cash equivalents	$ 7,512	$ 100,137	$ 7,761	$ 115,410
Certificates of deposit	-	-	103,497	103,497
Interest receivable	-	-	68	68
Total Assets	$ 7,512	$ 100,137	$ 111,326	$ 218,975
LIABILITIES				
Accounts payable	$ 85	$ -	$ -	$ 85
Total Liabilities	85	-	-	85
FUND BALANCES				
Restricted	7,427	-	111,326	118,753
Assigned	-	100,137	-	100,137
Total Fund Balances	7,427	100,137	111,326	218,890
Total Liabilities and Fund Balances	$ 7,512	$ 100,137	$ 111,326	$ 218,975

CITY OF GRAY, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Special Revenue	Capital Projects	Permanent Fund	Total Nonmajor
	Law Enforcement Confiscation	Capital Improvements	Perpetual Care	Governmental Funds
REVENUES				
Fines and forfeitures	$ 3,195	$ -	$ -	$ 3,195
Investment earnings	-	-	29	29
Total Revenues	3,195	-	29	3,224
EXPENDITURES				
Current				
Public safety	990	-	-	990
Culture and recreation	-	-	6,104	6,104
Total Expenditures	990	-	6,104	7,094
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,205	-	(6,075)	(3,870)
Other Financing Sources (Uses)				
Transfer from other funds	-	100,000	-	100,000
Total Other Financing Sources (Uses)	-	100,000	-	100,000
Net change in fund balance	2,205	100,000	(6,075)	96,130
Fund balances - beginning of year	5,222	137	117,401	122,760
Fund balances - end of year	$ 7,427	$ 100,137	$ 111,326	$ 218,890

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, 2013

	Final Budget	Actual	Variance with Final Budget
REVENUES			
Fines and forfeitures	$ 10,000	$ 3,195	$ (6,805)
Total Revenues	10,000	3,195	(6,805)
EXPENDITURES			
Current			
Public safety	10,000	990	9,010
Total Expenditures	10,000	990	9,010
Excess (Deficiency) of Revenues over Expenditures	-	2,205	2,205
Net change in fund balance	-	2,205	2,205
Fund balance - beginning of year	5,222	5,222	-
Fund balance - end of year	$ 5,222	$ 7,427	$ 2,205

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, 2013

	Prior Years	Current Year	Total to Date	Project Authorization
Revenues:				
Department of Community Affairs	$ -	$ 267,366	$ 267,366	$ 385,531
Total Revenues	-	267,366	267,366	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	-	262,366	262,366	294,191
A-21A-00 Administration	-	5,000	5,000	26,987
Total Expenditures	-	267,366	267,366	385,531
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, 2013

	Original Estimated Cost	Expenditures		
		Prior Years	Current Year	Total
2009 SPLOST				
Water & sewer system Improvements	$ 1,688,000	$ 965,448	$ 171,104	$ 1,136,552
Police Vehicles	400,000	194,063	84,253	278,316
Street Improvements	250,000	129,677	12,717	142,394
Fire Equipment	200,000	-	21,038	21,038
Public Works Vehicles and Equipment	150,000	82,042	31,458	113,500
Total 2009 SPLOST	$ 2,688,000	$ 1,371,230	$ 320,570	$ 1,691,800

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CITY OF GRAY, GEORGIA

BALANCE SHEET
COMPONENT UNIT-DOWNTOWN DEVELOPMENT AUTHORITY
DECEMBER 31, 2013

ASSETS		
Cash and cash equivalent	$	3,660
Total Assets	$	3,660
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$	-
Total Liabilities		-
Fund Balances:		
Unassigned		3,660
Total Fund Balance		3,660
Total Liabilities and Fund Balance	$	3,660

CITY OF GRAY, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
COMPONENT UNIT-DOWNTOWN DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 2013

Revenues:	
Intergovernmental	$ 5,000
Total Revenues	5,000
Expenditures:	
Current:	
Housing and development	1,440
Total Expenditures	1,440
Net change in fund balances	3,560
Fund Balance, beginning of year	100
Fund Balance, end of year	$ 3,660

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GOVERNMENTAL REPORTS

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, 2013, 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 13, 2014.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses. 2013-001, 2013-002, and 2013-003

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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 is 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 13, 2014

FINANCIAL STATEMENT FINDINGS

Findings noted on the 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*:

2013-001 Accounts Receivable/Revenue

CRITERIA
Accounting procedures should be designed to insure that revenue is accrued and recognized when they become 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
Adjustments totaling $166,369 were required to increase property tax revenues and to correct the receivables, related deferred inflows, and the allowance for uncollectible accounts.

SPLOST 2009 Fund
An adjustment of $36,728 was required to decrease intergovernmental revenue in 2013. The City had incorrectly reported a prior year payment as current year activity.

CDBG 2012 Fund
An adjustment of $30,209 was required to increase grant revenues for activity that occurred for 2013.

EFFECT
The City's accounting records contained material errors which were identified and adjusted during the annual audit process.

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 are working 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 continue to continue to provide additional training to personnel.

2013-002 Accounts Payable/Expenditures

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

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

CONTEXT
The following adjustments were necessary:

- An adjustment of $30,209 was necessary to increase CDBG housing and development expenditures for current year accounts payable.
- An adjustment of $12,208 was necessary to increase the Sanitation Fund expenditures for current year accounts payable.

EFFECT
The City's accounting records contained material errors which were identified and adjusted during the annual audit process.

CAUSE
The City lacked accounting procedures to insure the recording and proper classification of incurred expenditures at the end of the year.

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

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS
We agree that the City's accounting records contained material errors and expenditures should be recorded and properly classified when the liability is incurred. We are working to implement procedures to insure the proper recording of incurred expenditures. This would include governmental finance classes provided by the Carl Vinson Institute of Government.

2013-003 Capital Assets – Water/Sewer Fund

CRITERIA
Accounting and control procedures should be designed to insure that capital asset activity is recorded and reported in the Business –type Activities financial statements. Capital 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. Capital assets are depreciated using the straight line method over the estimated useful lives.

CONDITION
Various capital asset transactions including capital contributions and depreciation were unrecorded for the year-ended December 31, 2013.

CONTEXT
Material adjustments of $161,377 were required to record capital contributions from the 2009 SPLOST Fund. In addition, a material audit adjustment of $315,588 was necessary to record depreciation expense.

EFFECT
The City's accounting records for capital assets contained material errors which were identified and corrected during the annual audit.

CAUSE
The City did not properly review, record and reconcile the capital assets.

RECOMMENDATION
The City should ensure that the proper review and reconciling procedures are being performed during the year and at year end prior to the start of the annual audit. The City should also consider providing additional training to personnel.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS
We agree that various capital asset transactions including capital contributions and depreciation were unrecorded for the year ending December 31, 2013. We will work to develop and implement procedures concerning the proper reconciling of these transactions during the year and at year end. This will include additional training for City personnel.