Basic
Financial Statements

Basic Financial Statements

The Basic Financial Statements provide a summary overview of the financial position of all funds as well as the operating results of all funds. They also serve as a condensed introduction to the more detail statements and schedules that follow.

EXHIBIT 1

TOWN OF MATTHEWS
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 5,592,352
Taxes receivables (net)	346,234
Accounts receivable	1,789
Due from other governments	767,112
Capital assets (Note 3):	
Land	229,295,065
Other capital assets , net of depreciation	59,820,695
Total capital assets	289,115,760
Total assets	295,823,247
LIABILITIES	
Accounts payable	430,510
Accrued interest payable	28,157
Long-term liabilities:	
Due within one year	1,915,379
Due in more than one year	12,960,928
Total liabilities	15,334,974
NET ASSETS	
Invested in capital assets, net of related debt	279,681,491
Unrestricted	806,782
Total net assets	$ 280,488,273

The notes to the financial statements are an integral part of this statement.

EXHIBIT 2

TOWN OF MATTHEWS
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2006

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
					Primary Government
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental Activities:					
General government	$ 6,625,826	$ 461,468	$ 9,000	$ 1,568,015	$ (4,587,343)
Public Safety	6,263,505	120,015	166,759	-	(5,976,731)
Public Works	2,609,510	511,389	728,654	-	(1,369,467)
Environmental protection	1,880,068	-	-	-	(1,880,068)
Economic and physical development	419,433	23,864	25,000	-	(370,569)
Cultural and recreational	946,996	303,100	-	217,820	(426,076)
Interest on long-term debt	660,906	-	636,625	-	(24,281)
Total primary government	$ 19,406,244	$ 1,419,836	$ 1,566,038	$ 1,785,835	(14,634,535)

General Revenues:	
Taxes:	
Property taxes, levied for general purpose	8,186,383
Other taxes	1,044,201
Grants and contributions not restricted to specific programs	3,637,353
Investment earnings	220,660
Miscellaneous	97,074
Total general revenues	13,185,671
Change in net assets	(1,448,864)
Net assets-beginning	281,937,137
Net assets-ending	$ 280,488,273

The notes to the financial statements are an integral part of this statement.

EXHIBIT 3

TOWN OF MATTHEWS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	Major Fund		
	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 4,375,742	$ 1,216,610	$ 5,592,352
Taxes receivable, net	346,234	-	346,234
Accounts receivable	1,789	-	1,789
Due from other funds	-	127,647	127,647
Due from other governments	723,682	43,430	767,112
Total assets	$ 5,447,447	$ 1,387,687	$ 6,835,134
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	$ 430,510	$ -	430,510
Due to other funds	127,647		127,647
Deferred revenue	346,234	-	346,234
Total liabilities	904,391	-	904,391
Fund balances:			
Reserved for:			
Tourism	-	458,058	458,058
Encumbrances	52,298	-	52,298
Storm Water - appropriated	37,000	-	37,000
Storm Water - unappropriated	159,933	-	159,933
State statute	725,471	43,430	768,901
Unreserved, General Fund:			
Designated for subsequent year's expenditures	190,146	-	190,146
Undesignated	3,378,208	-	3,378,208
Unreserved, Capital Project Funds:			
Designated for recreation center	-	344,549	344,549
Undesignated	-	541,650	541,650
Total fund balances	4,543,056	1,387,687	5,930,743
Total liabilities and fund balances	$ 5,447,447	$ 1,387,687	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds	289,115,759
Liabilities for earned but deferred revenues in fund statements	346,234
Some liabilities, including bonds payable, accrued interest, and compensated absences, are not due and payable in the current period and therefore are not reported in the funds (Note 2)	(14,904,463)
Net assets of governmental activities	$280,488,273

The notes to the financial statements are an integral part of this statement.

EXHIBIT 4

TOWN OF MATTHEWS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	Major Fund		
	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	$ 8,239,209	$ -	$ 8,239,209
Other taxes and licenses	480,817	740,002	1,220,819
Unrestricted intergovernmental	3,637,353	-	3,637,353
Restricted intergovernmental	2,096,540	-	2,096,540
Permits and fees	25,000	-	25,000
Sales and services	614,762	244,661	859,423
Investment earnings	220,660	-	220,660
Miscellaneous	94,027	-	94,027
Total revenues	15,408,368	984,663	16,393,031
EXPENDITURES			
Current:			
General government	1,219,626	-	1,219,626
Public safety	6,082,993	-	6,082,993
Public works	2,960,024	-	2,960,024
Environmental protection	2,052,783	-	2,052,783
Economic and physical development	409,860	-	409,860
Cultural and recreational	4,802,284	1,361,935	6,164,219
Debt service:			
Principal	1,543,400	208,796	1,752,196
Interest and other charges	575,481	85,103	660,584
Total expenditures	19,646,451	1,655,834	21,302,285
Excess of revenues over expenditures	(4,238,083)	(671,171)	(4,909,254)
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	224,913	127,850	352,763
Transfers to other funds	(127,850)	(224,913)	(352,763)
Total other financing sources (uses)	97,063	(97,063)	-
Net change in fund balance	(4,141,020)	(768,234)	(4,909,254)
Fund balances-beginning of year	8,684,076	2,155,921	10,839,997
Fund balances-end of year	$ 4,543,056	$ 1,387,687	$ 5,930,743

The notes to the financial statements are an integral part of this statement.

TOWN OF MATTHEWS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:	
Net changes in fund balances - total governmental funds	$(4,909,254)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (Note 2)	200,339
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Amount of donated assets	1,568,015
Change in deferred revenue	(3,665)
The issuance of long-term debt 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 has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (Note 2)	1,796,494
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 governmental funds.	
Compensated absences	(48,307)
Net pension obligation	(52,486)
Total changes in net assets of governmental activities	$(1,448,864)

The notes to the financial statements are an integral part of this statement.

EXHIBIT 6

TOWN OF MATTHEWS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget- Positive
	Original	Final	Actual	(Negative)
Revenues:				
Ad valorem taxes	$ 7,978,490	$ 7,991,090	$ 8,239,209	$ 248,119
Other taxes and licenses	371,611	371,611	480,817	109,206
Unrestricted intergovernmental	3,365,970	3,365,970	3,637,353	271,383
Restricted intergovernmental	2,215,633	2,287,371	2,096,540	(190,831)
Permits and fees	25,000	25,000	25,000	-
Sales and services	566,277	589,977	614,762	24,785
Investment earnings	75,000	75,000	220,660	145,660
Miscellaneous	59,000	99,975	94,027	(5,948)
Total Revenues	14,656,981	14,805,994	15,408,368	602,374
Expenditures:				
Current:				
General government	1,261,023	1,316,306	1,219,626	96,680
Public Safety	6,070,773	6,167,553	6,082,993	84,560
Public works	2,631,999	3,129,143	2,960,024	169,119
Environmental protection	2,110,858	2,136,155	2,052,783	83,372
Economic and physical development	393,057	441,007	409,860	31,147
Cultural and recreational	682,560	4,822,681	4,802,284	20,397
Contingency	147,300	240	-	240
Debt service:				
Principal retirement	1,566,281	1,566,281	1,543,400	22,881
Interest and other charges	575,481	575,481	575,481	-
Total Expenditures	15,439,332	20,154,847	19,646,451	508,396
Excess (deficiency) of revenues over (under) expenditures	(782,351)	(5,348,853)	(4,238,083)	1,110,770
Other financing sources (uses):				
Appropriated Fund Balance	557,438	5,123,940	-	(5,123,940)
Transfers from other funds	224,913	224,913	224,913	-
Transfers to other funds	-	-	(127,850)	127,850
Total Other Financing Sources (Uses)	782,351	5,348,853	97,063	(5,251,790)
Excess of revenues and other financing sources over expenditures and other financing uses	$ -	$ -	(4,141,020)	$ (4,141,020)
Fund balance:				
Beginning of year			8,684,076	
End of year			$ 4,543,056	

The notes to the financial statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the **Town of Matthews** conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The **Town of Matthews** is a municipal corporation that is governed by an elected mayor and a six-member town council. As required by generally accepted accounting principles, these financial statements present the Town, which has no component units

B. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Town reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, public works, and general government services.

The Town reports the following non-major governmental funds:

Tourism Special Revenue Fund. This fund is used to account for tourism funds received for the exclusive purpose of promoting the Town's activities and events.

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -** Continued

Storm Water Projects Capital Reserve Fund. This fund is used to account for money collected strictly for the purpose of upgrading and maintaining the Town's Storm Water System.

Parks and Recreation Projects Capital Reserve Fund. This fund is used to account for money set aside by the Town to build new parks within the Town.

Parks and Recreation Land Dedication Capital Reserve Fund. This fund is used to account for money collected from land developers to comply with zoning requirements. This money will be used to subsidize the purchase of land and development of parks within the Town.

Depot Land Sale Capital Reserve Fund. This fund is used to account for money received from sales of excess land parcels around the new Town Hall. This money is to be used to reduce the debt from the construction of the Town Hall.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -** Continued

procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Mecklenburg County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the **Town of Matthews**. For motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Mecklenburg County from March 2005 through February 2006 apply to the fiscal year ended June 30, 2006. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annually registration expired December 31st each year with taxes due by May 1st of the following year. To transition from staggered into the annual registration, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by North Carolina General Statutes. An annual budget is adopted for the General Fund and the Tourism Special Revenue Fund. All annual appropriations lapse at fiscal year end. Project ordinances are adopted for the Capital Reserve Funds and the Capital Projects Funds. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds, and at the object level for the multi-year funds. The Town's manager may make transfers of functional appropriations within a fund not to exceed ten percent of the appropriated monies for the department whose allocation is reduced without seeking approval from the Town Council. The legal level of budgetary control is at the department level for all annually budgeted funds, and any transfers of appropriations between functions require the approval of the Town Council. The legal level of budgetary control is at the object level for the Capital Projects Funds and any transfers of appropriations between objects require the approval of the Town Council. During the year, several amendments to the original budgets were

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -** Continued

necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, and Fund Equity

Deposits and Investments
All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations for the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances; and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earnings and investment contracts are reported at cost.

Cash and Cash Equivalents
The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

Ad Valorem Taxes Receivable
In accordance with State Law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. The taxes levied are based on the assessed values as of January 1, 2005.

Allowance for Doubtful Accounts
Virtually all ad valorem taxes and accounts receivable are collected, and accordingly, an allowance for uncollectible receivables is not considered material or necessary.

Capital Assets
Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, $10,000; buildings, improvements, substations, lines, and other plant and distribution systems, $15,000; infrastructure, $20,000; furniture

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -** Continued

and equipment, $5,000; and vehicles, $10,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and storm water system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	15 - 25
Buildings	40
Improvements	25
Vehicles	5
Furniture and equipment	5 - 10
Computer equipment	5

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide financial statements, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes.

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -** Continued

Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

In lieu of such payment the employee is entitled to additional time off for such holiday hours worked. In lieu of payment for overtime hours worked, an employee may take additional hours off. For the Town's government-wide financial statements, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

Net Assets/Fund Balances
Net assets in government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved
Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables which have not been offset by deferred revenues.

Reserved for storm water expenditures - portion of fund balance available for appropriation but legally segregated for activities related to storm water services. This amount represents the balance of unexpended funds from storm water fees.

Reserved for tourism - portion of fund balance available for appropriation but legally segregated for activities and programs aiding and encouraging tourism. This amount represents the balance of unexpended funds from room occupancy taxes.

Reserved for encumbrances – portion of fund balance available to pay for commitments related to purchase orders or contracts which remain unperformed at year-end.

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -** Continued

Unreserved
Designated for subsequent year's expenditures - portion of total fund balance available for appropriation which has been designated for the adopted 2006 - 2007 budget ordinance.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

Designated for receration center - portion of fund balance in the Parks and Recreation Land Dedication Captial Reserve fund which has been designated for the completion of the recreation center project.

NOTE 2 - **RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

A. **Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.**

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Long-term liabilities, including bonds payable, accrued interest, and compensated absences, are not due and payable in the current period and therefore are not reported in the funds". The details of this ($14,904,463) difference are as follows:

Bonds payable	$ (4,835,000)
Notes payable	(9,434,268)
Accrued interest payable	(28,157)
Bond premium, net of amortization	130,313
Compensated absences	(423,311)
Net pension obligation	(314,040)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net assets - governmental activities*	$ (14,904,463)

B. **Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total government funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that, "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense". The details of this $200,339 difference are as follows:

NOTE 2 - **RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS -** *Continued*

Capital outlay	$	6,315,124
Depreciation expense		(6,114,785)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	200,339

Another element of that reconciliation states that "the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.

Also, governmental funds report the effect of issuance costs, premium discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities". The details of this $1,796,494 difference are as follows:

Principal repayments:		
General obligation bonds	$	480,000
Notes payable		1,323,290
Accrued interest		3,293
Amortization of current year bond premium		(10,089)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	1,796,494

NOTE 3 - **DETAIL NOTES ON ALL FUNDS**

A. Assets

Deposits

All of the Town's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed federal depository insurance coverage level are collateralized with securities held by the Town's agent in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits.

NOTE 3 - **DETAIL NOTES ON ALL FUNDS** - *Continued*

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under The Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2006 the Town's deposits had a carrying amount of $1,563,083 and a bank balance of $1,727,367. Of the bank balance, $229,020 was covered by federal depository insurance and $1,498,346 was covered by collateral held under the pooling method.

Investments

At June 30, 2006, the Town had $4,029,269 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAm by Standard and Poor's.

As a means of limiting the Town's exposure to fair value losses arising from interest rate fluctuations, the Town's investment policy allows the maximum amount to be invested in an instrument as follows: US Treasury obligations, US Government agencies, and certificate of deposits, 100% of total portfolio; North Carolina Management Trust, 90% of total portfolio; bankers acceptances/commercial paper, 40% of total portfolio; and repurchase agreements, 25% of total portfolio. In addition, the Town limits the maximum amount of each instrument that can be invested in a given financial institution to the following: bankers acceptances/commercial paper, 25%, repurchase agreements, 15%, certificate of deposits, 75% and North Carolina Management Trust, 90%. The Town has no policy regarding credit risk.

Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 225,227,062	$ 4,068,003	$ -	$ 229,295,065
Construction in Progress	-	1,726,681	-	1,726,681
Total capital assets not being Depreciated	225,227,062	5,794,684	-	231,021,746
Capital assets being depreciated:				
Buildings	21,343,741	195,353	-	21,539,094
Equipment	1,279,300	66,845	-	1,346,145
Vehicles and motorized equipment	3,145,229	258,241	(14,296)	3,389,175
Infrastructure	98,515,386	1,568,015	-	100,083,400
Total capital assets being depreciated	124,283,656	2,088,454	(14,296)	126,357,814

NOTE 3 - **DETAIL NOTES ON ALL FUNDS** – *Continued*

Less: accumulated depreciation for:				
Buildings	2,407,670	539,562	-	2,947,232
Equipment	880,779	102,290	-	983,069
Vehicles and motorized equipment	2,469,668	292,692	(14,296)	2,748,064
Infrastructure	56,405,196	5,180,239	-	61,585,435
Total accumulated depreciation	$ 62,163,313	$ 6,114,783	$ (14,296)	$ 68,263,800
Total capital assets being depreciated, net	62,120,343			58,094,014
Governmental activity capital assets, net	$ 287,347,405			$ 289,115,760

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

General government	5,427,860
Public safety	$ 375,675
Public works	170,482
Economic and Physical development	6,116
Cultural and recreational	134,650
Total depreciation	$ 6,114,783

B. Liabilities

1. Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G. S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.40% and 7.24%, respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2006, 2005, and 2004 were $366,105, $336,311, and $332,525, respectively. The contributions made by the Town equaled the required contributions for each year.

NOTE 3 - **DETAIL NOTES ON ALL FUNDS** - *Continued*

Supplemental Retirement Income Plan

(1) Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of G. S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2006 were $168,707, which consisted of $132,643 from the Town and $36,064 from the law enforcement officers.

(2) General Employees

The Town has elected to contribute to the Supplemental Retirement Income Plan for general employees as well as for law enforcement officers. Participation begins at the date of employment. The Town has elected to contribute each month an amount equal to five percent of each employee's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2006 were $202,701, which consisted of $125,746 from the Town and $76,955 from the employees.

Law Enforcement Officers' Special Separation Allowance

Plan Description. The **Town of Matthews** administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2004, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to But not yet receiving benefits	-
Active plan members	55
Total	57

NOTE 3 - **DETAIL NOTES ON ALL FUNDS** - *Continued*

A separate report was not issued for the Plan.

Summary of Significant Accounting Policies:

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions. The Town is required by Article 12D of G. S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2004 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.9% to 9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases.

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	$	58,946
Interest on net pension obligation		18,963
Adjustment to annual required contribution		(15,022)
Annual pension cost		62,887
Contributions made		10,401
Increase in net pension obligation		52,486
Net pension obligation beginning of year		261,554
Net pension obligation end of year	$	314,040

3 Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	53,365	8.12%	208,488
6/30/05	58,915	9.93%	261,554
6/30/06	62,887	16.54%	314,040

Other Postemployment Benefits

According to a Town resolution, the Town provides post-employment health care benefits to retirees of the Town, provided they meet certain qualifications. The Town will pay for the cost of the Medicare supplement for retirees over age 65 with twenty-five years of

NOTE 3 - **DETAIL NOTES ON ALL FUNDS** - *Continued*

continuous service with the Town. Currently, one retiree is eligible for post-employment benefits. For the fiscal year ended June 30, 2006, the Town made payments for post-employment health benefit premiums of $3,930. The Town obtains health care coverage through private insurers.

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed $50,000 or be less than $25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2006, the Town made contributions to the State for death benefits of $6,996. The Town's required contributions for employees not engaged in law enforcement and law enforcement officers represented .14% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

Deferred / Unearned Revenues

The balance in deferred / unearned revenues at year-end is composed of the following element:

	Deferred Revenue
Taxes Receivable (General Fund)	$ 346,234

Commitments

Fire Protection – On November 15, 2004 the Town of Matthews entered into a four year agreement with the Matthews-Morningstar Volunteer Fire Department in which the department is to receive $88,764 during the 2004-2005 fiscal year and a mutually agreeable amount for each fiscal year during the balance of the term of the contract. The Town received $88,764 during the year ended June 30, 2006.

Sanitation – The Town of Matthews has entered into contracts with Browning-Ferris Industries of South Atlantic, Inc. for the curbside pick-up and disposal of rubbish, yard waste and recyclable materials, and the use of a sanitary landfill. The contracts have various dates and terms and have renewal options of like terms. The costs of such contracts are dependent upon usage and consumer price index adjustments.

NOTE 3 - **DETAIL NOTES ON ALL FUNDS** - *Continued*

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of $1,000,000 per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to the statutory limits, and employee health coverage up to a $2,000,000 lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of $500,000 and $300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of $150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values. The Town does not carry flood insurance due to the fact that it is not located in a flood plane. But, the Town's general liability policy, does cover acts of nature.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with General Statute 159-29, the Town's employees that have access to $100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for $100,000 each. The remaining employees that have access to funds are bonded under a blanket bond for $210,000.

Claims and Judgments

At June 30, 2006, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

Long-Term Obligations

General Obligation Indebtedness

The Town's general obligation bonds serviced by the governmental funds were issued for the water and sewer lines. All general obligation bonds are collateralized by the faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

The Town has entered into an agreement with Charlotte Mecklenburg Utility Department (CMUD), whereby CMUD pays the Town the principal and interest due on the bonds issued by the Town to finance the construction of water and sewer projects. Title to the assets has been transferred to CMUD who operates the facilities.

NOTE 3 - **DETAIL NOTES ON ALL FUNDS** - *Continued*

Bonds payable at June 30, 2006 are comprised of the following:

General obligation bonds	
Serviced by the General Fund:	
$5,830,000 Water and Sewer Refunding bonds dated April 1, 2004 and due in increasing annual principal installments through June 1, 2018, interest at variable rates from 2.0% to 4.0% .	$ 4,835,000

Notes Payable

As of June 30, 2006, the Town was obligated under the following notes payable to banks used to renovate buildings and acquire equipment. The notes payable were as follows:

Note payable requiring semi-annual payments including principal and interest at the rate of 5.35% per annum; secured by real estate.	$ 3,500,000
Note payable requiring monthly payments of $20,316 including principal and interest at the rate of 4.25% per annum; secured by real estate.	1,563,350
Note payable requiring monthly payments of $3,933 including principal and interest at the rate of 4.50% per annum; secured by real estate.	299,920
Note payable requiring monthly payments of $13,499 including principal and interest at the rate of 4.99% per annum; secured by real estate and equipment.	1,091,060
Note payable requiring monthly payments of $10,357 including principal and interest at the rate of 5.04% per annum; secured by real estate and equipment.	160,000
Note payable requiring monthly principal payments of $13,334 plus interest at the rate of 5.04% per annum; secured by real estate and equipment.	1,359,966
Note payable requiring monthly principal payments of $17,186 plus interest at the rate of 5.22% per annum; secured by real estate and equipment.	1,440,814
Note payable requiring monthly principal payments of $1,440 including interest at the rate of 2.86% per annum; secured by equipment.	19,158
	$ 9,434,268

NOTE 3 - **DETAIL NOTES ON ALL FUNDS** – Continued

Annual debt service requirements to maturity for governmental activities long-term obligations are as follows:

	General Obligation Bonds		Notes Payable		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
General Long-Term Debt:						
2007	470,000	147,026	1,127,897	454,627	1,597,897	601,653
2008	450,000	137,626	975,544	402,216	1,425,544	539,842
2009	440,000	126,376	996,831	353,504	1,436,831	479,880
2010	420,000	115,376	1,019,087	301,082	1,449,087	416,458
2011	420,000	102,475	1,046,988	253,427	1,466,988	355,902
2012-2016	2,045,000	316,938	4,101,251	495,015	6,146,251	811,953
2017-2018	580,000	32,039	166,670	4,471	746,670	36,510
	$ 4,835,000	$ 977,856	$ 9,434,268	$ 2,264,342	$ 14,269,268	$ 3,242,198

At June 30, 2006, the Town of Matthews had bonds authorized but unissued of $10,500,000 and a legal debt margin of $204,467,157.

Advance Refunding

On April 1, 2004, the Town issued $5,830,000 in general obligation Water and Sewer Refunding Bonds with an interest rate of 2.0%-4.0% to advance refund $3,795,000 of outstanding 1995 Water and Sewer general obligation bonds with an interest rate of 5.4%–5.5% and to currently refund $1,605,000 of 1992 Water general obligation bonds. The portion of the net proceeds of $5,830,000 used to advance refund the 1995 Water and Sewer general obligation bonds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1995 Water and Sewer general obligation bonds. As a result, the 1995 Water and Sewer bonds are considered to be defeased and the liability for the 1995 Water and Sewer bonds has been removed from the General Fund.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $151,328. This difference, net of the accumulated amortization of $10,930, is reported in the accompanying financial statements as a deduction from bonds payable and is being charged to operations through the year 2018, the life of the new debt using the effective-interest method. The Town completed the advance refunding to reduce its total debt service payments over the next 15 years by $580,642 and to obtain an economic gain (difference between the present values of the old and the new debt service payments) of $496,576.

NOTE 3 - **DETAIL NOTES ON ALL FUNDS** – Continued

Changes in Long-Term Liabilities

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Current Portion of Balance
Governmental activities:					
General obligation bonds	$ 5,315,000	$ -	$ 480,000	$ 4,835,000	$ 470,000
Less deferred amount for loss on defeasance	140,400	-	10,088	130,312	-
Total general obligation bonds	5,174,600	-	469,912	4,704,688	470,000
Notes payable	10,757,559	-	1,323,291	9,434,268	1,127,897
Compensated absences	375,002	358,613	310,304	423,311	317,482
Net pension obligation	261,554	62,887	10,401	314,040	-
Governmental activity long-term liabilities	$ 16,568,715	$ 421,500	$ 2,113,908	$ 14,876,307	$ 1,915,379

Compensated absences for governmental activities has typically been liquidated in the General Fund.

C. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2006, consist of the following:

Due to the Parks & Recreation Land Dedication Fund from the General Fund $127,647.

Transfers to/from Other Funds
Transfers to/from other funds at June 30, 2006, consist of the following:

From Fund	To Fund	Amount
Special Revenue Fund	General Fund	$ 224,913
General Fund	Capital Project Funds	127,850

NOTE 4 - **SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES**

Federal and State Assisted Programs

The Town has received proceeds from Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.