

**Borough of Honesdale**

**Audit Report**

**December 31, 2017**

***Rainey & Rainey***  
***Certified Public Accountants***

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## CERTIFIED PUBLIC ACCOUNTANTS

Thomas P. Rainey, CPA  
Richard P. Rainey, CPA

### INDEPENDENT AUDITOR'S REPORT

To the Borough Council  
Borough of Honesdale, Pennsylvania

We have audited the accompanying modified accrual basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Borough of Honesdale, Pennsylvania, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Borough'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 the modified accrual basis of accounting described in Note 1; this includes determining that the modified accrual basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

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 modified accrual basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Borough of Honesdale, Pennsylvania as of December 31, 2017, and the respective changes in modified accrual basis financial position and, where applicable, accrual flows thereof for the year then ended in accordance with the modified accrual basis of accounting described in Note 1.

**Basis of Accounting**

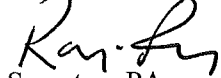
We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified accrual basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

**Other Matters***Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Honesdale's basic financial statements. The budgetary comparison information on page 9 is the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the financial statements is not affected by the missing information.

Rainey & Rainey



Scranton, PA

May 31, 2018

**Borough of Honesdale  
Statement of Net Position  
As of December 31, 2017**

|   | <b>Governmental<br/>Activities</b> |
|---|------------------------------------|
| <b><u>ASSETS</u></b>                            |                                    |
| <b><u>Current Assets</u></b>                    |                                    |
| Cash and Cash Equivalents                       | \$ 565,505                         |
| Investments                                     | -                                  |
| Taxes Receivable - Net                          | 68,323                             |
| Other Receivables                               | 24,861                             |
| Prepaid Expense                                 | 36,696                             |
| Total Current Assets                            | \$ 695,385                         |
| <br>Fixed Assets, Net                           | <br>\$ 381,429                     |
| <b>Total Assets</b>                             | <b>\$ 1,076,814</b>                |
| <br><b><u>LIABILITIES</u></b>                   |                                    |
| <b><u>Current Liabilities</u></b>               |                                    |
| Accounts Payable                                | \$ 139,784                         |
| Accrued Wages                                   | 35,342                             |
| Debt Service-Due Within One Year                | 60,607                             |
| <b><u>Non Current Liabilities</u></b>           |                                    |
| Debt Service-Due After One Year                 | 105,707                            |
| <b>Total Liabilities</b>                        | <b>\$ 341,440</b>                  |
| <b><u>Net Position</u></b>                      |                                    |
| Invested in Capital Assets, Net of Related Debt | \$ 215,115                         |
| Restricted for:                                 |                                    |
| Debt Services                                   | 39,322                             |
| Liquied Fuels                                   | 78,484                             |
| Unrestricted Net Position                       | 402,453                            |
| <b>Total Net Positon</b>                        | <b>\$ 735,374</b>                  |

See Independent Auditor's Report And Notes To Financial Statements

**Borough of Honesdale  
Statement of Activities  
For The Year Ended December 31, 2017**

|   | Program Revenues    |                        |                     | Net (Expense)<br>Revenue and Changes<br>in Net Assets |                            |
|---|---------------------|------------------------|---------------------|---|----------------------------|
|   | Expenditures        | Charge For<br>Services | Operating<br>Grants | Capital<br>Grants                                     | Governmental<br>Activities |
| <b>Governmental Activities</b>                  |                     |                        |                     |   |                            |
| Depreciation                                    | \$ 55,154           | \$ -                   | \$ -                | -   | (55,154)                   |
| General Government                              | 307,861             | -                      | -                   | -   | (307,861)                  |
| Public Safety                                   | 932,807             | 534,970                | 25,789              | -   | (372,048)                  |
| Public Works                                    | 544,934             | 205,842                | 145,609             | 411,085   | 217,602                    |
| Culture & Recreation                            | 57,662              | 29,883                 | -                   | -   | (27,779)                   |
| Community Development                           | 243,695             | -                      | -                   | -   | (243,695)                  |
| Pension, Taxes and Insurance                    | 851,831             | -                      | 73,412              | -   | (778,419)                  |
| Interest on Long-Term Debt                      | 3,831               | -                      | -                   | -   | (3,831)                    |
| <b>Total Governmental Activities</b>            | <b>\$ 2,997,775</b> | <b>\$ 770,695</b>      | <b>\$ 244,810</b>   | <b>\$ 411,085</b>                                     | <b>\$ (1,571,185)</b>      |
| <b>Total Primary Government</b>                 | <b>\$ 2,997,775</b> | <b>\$ 770,695</b>      | <b>\$ 244,810</b>   | <b>\$ 411,085</b>                                     | <b>\$ (1,571,185)</b>      |
| <b>General Revenues:</b>                        |                     |                        |                     |   |                            |
| Taxes Levied for General Purposes               |                     |                        |                     |   | \$ 1,890,934               |
| Grants, Subsidies, Contributions Not Restricted |                     |                        |                     |   | 14,450                     |
| License and Permits                             |                     |                        |                     |   | 18,355                     |
| Fines and Forfeits                              |                     |                        |                     |   | 19,891                     |
| Investment Earnings                             |                     |                        |                     |   | 8,192                      |
| Miscellaneous Income                            |                     |                        |                     |   | 1,140                      |
| <b>Total General Revenues</b>                   |                     |                        |                     |   | <b>\$ 1,952,962</b>        |
| <b>Change In Net Position</b>                   |                     |                        |                     |   | <b>\$ 381,777</b>          |
| <b>Net Position - January 1, 2017</b>           |                     |                        |                     |   | <b>353,597</b>             |
| <b>Net Position - December 31, 2017</b>         |                     |                        |                     |   | <b>\$ 735,374</b>          |

**Borough of Honesdale**  
**Balance Sheet - Governmental Funds**  
**As of December 31, 2017**

|   | <u>General<br/>Fund</u> | <u>Special<br/>Revenue</u> | <u>Debt<br/>Service</u> | <u>Total<br/>Governmental<br/>Fund Types</u> |
|---|-------------------------|----------------------------|-------------------------|--|
| <b>Assets</b>                             |                         |                            |                         |  |
| Cash - Checking                           | \$ 447,000              | \$ 79,183                  | \$ 39,322               | \$ 565,505                                   |
| Certificates of Deposit                   |                         |                            |                         | -  |
| Taxes Receivables                         | 68,323                  | -                          | -                       | 68,323                                       |
| Other Receivables                         | 24,861                  | -                          | -                       | 24,861                                       |
| Other Asset                               | <u>36,696</u>           | <u>-</u>                   | <u>-</u>                | <u>36,696</u>                                |
| <b>Total Assets</b>                       | <u>\$ 576,880</u>       | <u>\$ 79,183</u>           | <u>\$ 39,322</u>        | <u>\$ 695,385</u>                            |
| <b>Liabilities</b>                        |                         |                            |                         |  |
| Accounts Payable                          | \$ 139,085              | \$ 699                     | \$ -                    | \$ 139,784                                   |
| Accrued Wages                             | <u>35,342</u>           | <u>-</u>                   | <u>-</u>                | <u>35,342</u>                                |
| <b>Total Liabilities</b>                  | <u>\$ 174,427</u>       | <u>\$ 699</u>              | <u>\$ -</u>             | <u>\$ 175,126</u>                            |
| <b>Fund Balance</b>                       |                         |                            |                         |  |
| Unreserved                                | \$ 402,453              | \$ -                       | \$ -                    | \$ 402,453                                   |
| Reserved For Debt Retirement              | -                       | -                          | 39,322                  | 39,322                                       |
| Designated For Specific Fund Purpose      | <u>-</u>                | <u>78,484</u>              | <u>-</u>                | <u>78,484</u>                                |
| <b>Total Fund Balance</b>                 | <u>\$ 402,453</u>       | <u>\$ 78,484</u>           | <u>\$ 39,322</u>        | <u>\$ 520,259</u>                            |
| <b>Total Liabilities and Fund Balance</b> | <u>\$ 576,880</u>       | <u>\$ 79,183</u>           | <u>\$ 39,322</u>        | <u>\$ 695,385</u>                            |

**Borough of Olyphant**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position**  
**Year Ended December 31, 2017**

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|  |                   |
|--|-------------------|
| Total fund balance – total governmental funds  | \$ 520,259        |
| Capital assets (net) used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. | 381,429           |
| Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.               | <u>(166,314)</u>  |
| Net position governmental activities   | <u>\$ 735,374</u> |



**Borough of Honesdale**  
**Statement of Revenues, Expenditures and Changes in Fund**  
**Balances - Governmental Funds**  
**For the Year Ended December 31, 2017**

|   | <u>General<br/>Fund</u>  | <u>Special<br/>Revenue</u> | <u>Debt<br/>Service</u> | <u>Total<br/>Governmental<br/>Fund Types</u> |
|---|--------------------------|----------------------------|-------------------------|--|
| <b>Revenues</b>                         |                          |                            |                         |  |
| Taxes and assessments                   | \$ 1,788,715             | \$ 63,526                  | \$ 38,693               | \$ 1,890,934                                 |
| Licenses and permits                    | 18,355                   | -                          | -                       | 18,355                                       |
| Fines and forfeits                      | 19,891                   | -                          | -                       | 19,891                                       |
| Interest                                | 7,779                    | 342                        | 71                      | 8,192  |
| Intergovernmental revenues              | 524,736                  | 145,609                    | -                       | 670,345                                      |
| Charges for services                    | 770,695                  | -                          | -                       | 770,695                                      |
| Tax Anticipation Loan                   | 75,000                   | -                          | -                       | 75,000                                       |
| Miscellaneous Income                    | 1,140                    | -                          | -                       | 1,140  |
| Operating transfers in                  | 805                      | 183,412                    | -                       | 184,217                                      |
| <b>Total revenues</b>                   | <b>\$ 3,207,116</b>      | <b>\$ 392,889</b>          | <b>\$ 38,764</b>        | <b>\$ 3,638,769</b>                          |
| <b>Expenditures</b>                     |                          |                            |                         |  |
| General government                      | \$ 306,645               | \$ 1,216                   | -                       | \$ 307,861                                   |
| Public safety                           | 932,807                  | -                          | -                       | 932,807                                      |
| Public Works                            | 627,144                  | 184,234                    | -                       | 811,378                                      |
| Culture - recreation                    | 57,662                   | -                          | -                       | 57,662                                       |
| Community Development                   | 243,695                  | -                          | -                       | 243,695                                      |
| Debt Service - Principal                | 75,000                   | -                          | 60,607                  | 135,607                                      |
| Debt Service - Interest                 | 229                      | -                          | 3,602                   | 3,831  |
| Pension, Insurance and Miscellaneous    | 609,617                  | 242,214                    | -                       | 851,831                                      |
| Operating transfers out                 | 183,412                  | 805                        | -                       | 184,217                                      |
| <b>Total Expenditures</b>               | <b>\$ 3,036,211</b>      | <b>\$ 428,469</b>          | <b>\$ 64,209</b>        | <b>\$ 3,528,889</b>                          |
| <b>Net Change In Fund Balance</b>       | <b>\$ 170,905</b>        | <b>\$ (35,580)</b>         | <b>\$ (25,445)</b>      | <b>\$ 109,880</b>                            |
| <b>Fund balance - January 1, 2017</b>   | <b>231,548</b>           | <b>114,064</b>             | <b>64,767</b>           | <b>410,379</b>                               |
| <b>Fund balance - December 31, 2017</b> | <b><u>\$ 402,453</u></b> | <b><u>\$ 78,484</u></b>    | <b><u>\$ 39,322</u></b> | <b><u>\$ 520,259</u></b>                     |

**Borough of Honesdale**  
**Reconciliation of Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Activities to the Statement of Net Position**  
**As of December 31, 2017**

|  |    |         |
|--|----|---------|
| Net change in fund balances – total governmental funds | \$ | 109,880 |
|--|----|---------|

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 as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period:

|                      |             |         |
|----------------------|-------------|---------|
| Depreciation expense | \$ (55,154) |         |
| Capital Outlays      | 266,444     | 211,290 |

Repayment (Borrowing) of the debt principal is an expenditure (income) in the governmental funds, but the repayment reduces, (borrowing) increases long-term liabilities

60,607

Change in net position of governmental activities

\$ 381,777

**Borough of Honesdale**  
**Statement of Revenues, Expenditures and Changes in Fund**  
**Balance - General Fund - Budget vs Actual**  
**For the Year Ended December 31, 2017**

|                                      | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>         | <u>Variance</u>       |
|--------------------------------------|----------------------------|-------------------------|-----------------------|-----------------------|
| <b>Revenues</b>                      |                            |                         |                       |                       |
| Taxes and assessments                | \$ 1,703,723               | \$ 1,703,723            | \$ 1,788,715          | \$ 84,992             |
| Licenses and permits                 | 1,550                      | 1,550                   | 18,355                | 16,805                |
| Fines and forfeits                   | 26,800                     | 26,800                  | 19,891                | (6,909)               |
| Interest                             | 4,800                      | 4,800                   | 7,779                 | 2,979                 |
| Intergovernmental revenues           | 373,070                    | 373,070                 | 524,736               | 151,666               |
| Charges for services                 | 678,650                    | 678,650                 | 770,695               | 92,045                |
| Tax Anticipation Loan                | 300,000                    | 300,000                 | 75,000                | (225,000)             |
| Miscellaneous Income                 | 20,594                     | 20,594                  | 1,140                 | (19,454)              |
| Operating transfers in               | -                          | -                       | 805                   | 805                   |
| <b>Total revenues</b>                | <u>\$ 3,109,187</u>        | <u>\$ 3,109,187</u>     | <u>\$ 3,207,116</u>   | <u>\$ 97,124</u>      |
| <b>Expenditures</b>                  |                            |                         |                       |                       |
| General government                   | \$ 248,039                 | \$ 248,039              | \$ 306,645            | \$ (58,606)           |
| Public safety                        | 1,063,307                  | 1,063,307               | 932,807               | 130,500               |
| Public Works                         | 445,098                    | 445,098                 | 627,144               | (182,046)             |
| Culture - recreation                 | 73,460                     | 73,460                  | 57,662                | 15,798                |
| Community Development                | 391,911                    | 391,911                 | 243,695               | 148,216               |
| Debt Service - Principal             | 300,000                    | 300,000                 | 75,000                | 225,000               |
| Debt Service - Interest              | 2,000                      | 2,000                   | 229                   | 1,771                 |
| Pension, Insurance and Miscellaneous | 483,229                    | 483,229                 | 609,617               | (126,388)             |
| Operating transfers out              | 84,468                     | 84,468                  | 183,412               | (98,944)              |
| <b>Total expenditures</b>            | <u>\$ 3,091,512</u>        | <u>\$ 3,091,512</u>     | <u>\$ 3,036,211</u>   | <u>\$ 55,301</u>      |
| <br>Change in Fund Balance           | <br><u>\$ 17,675</u>       | <br><u>\$ 17,675</u>    | <br><u>\$ 170,905</u> | <br><u>\$ 152,425</u> |
| <br>Fund balance - January 1, 2017   | <br><u>\$ 15,000</u>       | <br><u>\$ 15,000</u>    | <br><u>231,548</u>    |                       |
| <br>Fund balance - December 31, 2017 | <br><u>\$ 32,675</u>       | <br><u>\$ 32,675</u>    | <br><u>\$ 402,453</u> |                       |

**Borough of Honesdale**  
**Statement of Fiduciary Net Position - Fiduciary Funds**  
**As of December 31, 2017**

|  | <u>Private-Purpose<br/>Trust Fund</u> | <u>Pension Trust Funds</u>     |                            |
|--|---------------------------------------|--------------------------------|----------------------------|
|  | <u>Rev. Doherty<br/>Fuel Fund</u>     | <u>Non Uniform<br/>Pension</u> | <u>Uniform<br/>Pension</u> |
| <b><u>Assets</u></b>                       |                                       |                                |                            |
| <b>Current Assets</b>                      |                                       |                                |                            |
| Cash and Cash Equivalents                  | \$ 25,963                             | \$ -                           | \$ -                       |
| Investments                                | <u>552,240</u>                        | <u>397,110</u>                 | <u>3,338,078</u>           |
| <b>Total Assets</b>                        | <b><u>\$ 758,190</u></b>              | <b><u>\$ 397,110</u></b>       | <b><u>\$ 3,338,078</u></b> |
| <b><u>Liabilities and Net Position</u></b> |                                       |                                |                            |
| <b>Liabilities</b>                         |                                       |                                |                            |
| Other Liabilities                          | <u>\$ -</u>                           | <u>\$ -</u>                    | <u>\$ -</u>                |
| Total Liabilities                          | \$ -                                  | \$ -                           | \$ -                       |
| <b>Net Position</b>                        |                                       |                                |                            |
| Held in accordance with trust agreement    | \$ 758,190                            | \$ -                           | \$ -                       |
| Held in trust for pension benefits         | <u>-</u>                              | <u>397,110</u>                 | <u>3,338,078</u>           |
| Total Net Position                         | <u>\$ 758,190</u>                     | <u>\$ 397,110</u>              | <u>\$ 3,338,078</u>        |
| <b>Total Liabilities and Net Position</b>  | <b><u>\$ 758,190</u></b>              | <b><u>\$ 397,110</u></b>       | <b><u>\$ 3,338,078</u></b> |

**Borough of Honesdale**  
**Statement of Changes in Fiduciary Net Position - Fiduciary Funds**  
**For the Year Ended December 31, 2017**

|  | Private-Purpose           |                        |                     |
|--|---------------------------|------------------------|---------------------|
|  | Trust Fund                | Pension Trust Funds    |                     |
|  | Rev. Doherty<br>Fuel Fund | Non Uniform<br>Pension | Uniform<br>Pension  |
| <b>Additions</b>   |                           |                        |                     |
| State Aid  | \$ -                      | \$ -                   | \$ -                |
| Contributions - Employee                                       | -                         | -                      | 14,535              |
| Contributions - Employer                                       | -                         | 27,524                 | 217,214             |
| Interest / Dividend Income                                     | 15,371                    | 4,714                  | 51,279              |
| Realized Gain(Loss) on Sale of Investments                     | -                         | 11,056                 | 60,255              |
| Net Appreciation/Depreciation<br>in Fair Values of Investments | -                         | -                      | -                   |
|  | <u>184,080</u>            | <u>29,073</u>          | <u>454,787</u>      |
| <b>Total Additions</b>   | <b>\$ 199,451</b>         | <b>\$ 72,367</b>       | <b>\$ 798,070</b>   |
| <b>Deductions</b>  |                           |                        |                     |
| Expenditures in Accordance with Trust Instrument               | \$ 19,464                 |                        |                     |
| Pension Benefits   | -                         | 9,850                  | 244,246             |
| Administrative Expenses  | -                         | 3,948                  | 29,149              |
|  | <u>19,464</u>             | <u>13,798</u>          | <u>273,395</u>      |
| <b>Total Deductions</b>  | <b>\$ 19,464</b>          | <b>\$ 13,798</b>       | <b>\$ 273,395</b>   |
| <b>Change in Net Position</b>                                  | <b>\$ 179,987</b>         | <b>\$ 58,569</b>       | <b>\$ 524,675</b>   |
| <b>Net Position - January 1, 2017</b>                          | <b>\$ 578,203</b>         | <b>\$ 338,541</b>      | <b>\$ 2,813,403</b> |
| <b>Net Position - December 31, 2017</b>                        | <b>\$ 758,190</b>         | <b>\$ 397,110</b>      | <b>\$ 3,338,078</b> |

**Borough of Honesdale**  
**Notes to Financial Statements**  
**December 31, 2017**

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

**Nature of Operations**

The Borough provides municipal services to its residents. A seven-member Borough Council elected by residents governs the Borough. The Borough's main sources of funding are property taxes and sewer user fees.

**Financial Reporting Entity**

In evaluating how to define the Borough for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic, but not the only criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The manifestation of the ability to exercise oversight responsibilities includes (but is not limited to): financial interdependency; selection of the governing members; designation of management; and the ability to significantly influence operations and accountability. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless if the Municipality is able to exercise oversight responsibilities.

As defined above, there are no other related organizations that should be included in the Borough's financial statement presentation.

**Basis of Presentation - Fund Accounting**

The accounts of the Borough are organized on the basis of funds, 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. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent. There are three fund types presented in this report. A brief description of each is presented below.

A. Governmental Fund Types

**General Fund** - The General Fund is used to account for all Borough resources and expenditures except for those required to be accounted for in another fund.

**Special Revenue Fund** - Restricted Funds are used to account for specific projects or activities.

**Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long term debt principal and interest.

B. Fiduciary Fund Types

**Trust and Agency Funds** - Fiduciary Funds are used to account for assets held by the Borough in a trustee capacity. The Borough maintains Pension Trust Funds, a Private-Purpose Trust Fund and an Agency Fund. Included in this category are:

- Pension Trust Fund - funds held for Borough Police and Non-Uniformed Employees.
- Private-Purpose Trust Fund - funds held by the Borough in a trustee capacity for others. Principal is restricted and only the income earned may be used for the specified purpose. The Rev. Doherty Fuel Fund

**Borough of Honesdale**  
**Notes to Financial Statements**  
**December 31, 2017**

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is accounted for as a private-purpose trust fund.

- Agency Fund – used to account for funds placed with the Borough acting as agent or custodian. These funds are only custodial (assets equal liabilities) and do not require measurement of results of operations assets held for other funds, governments or individuals. The Borough maintains a Fire Loss Escrow Account as an agency fund.

**Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) are prepared using the economic measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for the Borough. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which the Borough is self-financing.

**Fund Financial Statements**

All governmental funds are accounted for using the modified-accrual method of accounting. Under this method of accounting, revenues are recognized in the period that they are available and expenditures are recognized in the accounting period in which the fund liability is incurred.

**Budgets and Budgetary Accounting**

An operating budget is adopted each year by Borough Council for the General Fund, Special Revenue, and Debt Service Fund on the modified cash basis of accounting.

The Borough, before levying annual taxes, is required to prepare an operating budget for the succeeding fiscal year. The Borough is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action that the proposed budget has been prepared and is available for public inspection at the administrative office of the Borough. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Borough Council.

**Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and investments with original maturities of three months or less.

**Fixed Assets and Depreciation**

Under the modified-accrual method of accounting, capital assets and the related depreciation are not recognized in the balance sheet. This differs from GAAP which requires that capital assets are recorded

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**Notes to Financial Statements**  
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and depreciated over their estimated useful lives. Capital expenditures are recorded as expenses when incurred.

**Use of Estimates**

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

**Interfund Transactions**

Advances between funds are accounted for in the appropriate inter-fund receivable and payable accounts. These advances, reported in the asset accounts, are considered "available spendable resources."

**Fund Balances**

In the year ending December 31, 2017, the Borough implemented Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. Statement No. 54 changes the terminology and classification of fund balance to reflect spending constraints on resources, rather than availability for appropriation. This approach is intended to provide users more consistent and understandable information about a fund's net resources.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted fund balance.* This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance.* These amounts can only be used for specific purposes pursuant to constraints imposed by formal action (board resolution) of the school board - the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment.

*Assigned fund balance.* This classification reflects amounts constrained by the school's "intent" to be used for specific purposes, but are neither restricted nor committed. The business manager has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

*Unassigned fund balance.* This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.



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On the Borough's financial statements, the fund balance of the general fund is classified as unassigned which includes amounts available for any purpose. The fund balance of the special revenue is restricted for a specific purpose. The fund balance of the debt service fund is assigned.

**NOTE 2 – REAL ESTATE TAXES:**

The Borough Tax Collector, an official elected by the voters, collects and remits to the Borough the real estate taxes collected during the year. The tax rate for the year ended December 31, 2017 was 6.15 mills on an assessed valuation of \$269,506,681. During the year, the Borough collected \$1,551,843 after various adjustments for discounts, penalties and credits on a total tax levied in the amount of \$1,657,466. The Borough's rate of collection approximated 94% of total taxes due during the year.

The 2017 tax duplicates were issued April 1, 2017 and were due within 120 days of issue. A 2% rebate is granted to those who pay their tax within 60 days of issue. For those who pay after 120 days of issue, a 5% penalty is added. At December 31 of each year any current year unpaid real estate taxes are returned to the County for collection.

A breakdown of the millage is as follows:

|                     |                   |
|---------------------|-------------------|
| Borough Tax         | 5.13 Mills        |
| Recreation/Fire Tax | 0.62 Mills        |
| Borough Special Tax | 0.25 Mills        |
| Borough Debt        | <u>0.30 Mills</u> |
|                     | <u>6.15 Mills</u> |

**NOTE 3 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

These balances resulted 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 are summarized as follows:

|                 | Interfund<br>Transfers – In | Interfund<br>Transfers - Out |
|-----------------|-----------------------------|------------------------------|
| General Fund    | \$ -0-                      | \$ 184,217                   |
| Special Revenue | <u>184,217</u>              | <u>-0-</u>                   |
|                 | <u>\$ 184,217</u>           | <u>\$ 184,217</u>            |

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires them, 2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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**NOTE 4 – DEPOSITS & INVESTMENTS:**

The Borough's investment policy is to invest in: (1) United States Treasury Bills, (2) short-term obligations of the United States Government or its agencies or instrumentalities, (3) deposits in savings or time accounts or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund to the extent such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by the law therefore shall be pledged by the depository, (4) obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision, and (5) shares of certain investment companies registered under the Investment Companies in (1) – (4) listed above, maintain a constant per share net asset value and are related in the highest category by a nationally recognized rating agency.

Custodial credit risk is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. As of December 31, 2017, \$345,921 of the Borough's bank balance of \$702,636 was exposed to custodial credit risk. Of that amount, \$345,921 was uninsured but was collateralized by securities pledged by the financial institutions for such funds but not in the Borough's name in accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended.

**NOTE 5 – LONG TERM DEBT:**

The following is a summary of changes in Long-Term Debt for the year ended December 31, 2017.

| <u>Type of Debt</u>             | <u>Rate of Interest</u> | <u>Monthly Payment</u> | <u>Balance 1/01/2017</u> | <u>Additions</u> | <u>Payments</u>   | <u>Balance 12/31/2017</u> | <u>Due Within One Year</u> |
|---------------------------------|-------------------------|------------------------|--------------------------|------------------|-------------------|---------------------------|----------------------------|
| <b>Governmental Activities:</b> |                         |                        |                          |                  |                   |                           |                            |
| 2017 Tax Anticip Note           |                         |                        | -                        | 75,000           | 75,000            | -                         | -                          |
| General Obligation Note         | 1.13%                   | \$ 943                 | 28,176                   | -                | 9,392             | 18,784                    | 9,392                      |
| General Obligation Note         | 1.79%                   | \$ 2,554               | 141,667                  | -                | 28,333            | 113,334                   | 28,333                     |
| General Obligation Note         | 1.79%                   | \$ 1,007               | 33,939                   | -                | 11,313            | 22,626                    | 11,313                     |
| General Obligation Note         | 1.83%                   | \$ 1,018               | 23,139                   | -                | 11,569            | 11,570                    | 11,569                     |
| Total Governmental              |                         |                        | <u>\$ 226,921</u>        | <u>\$ 75,000</u> | <u>\$ 135,607</u> | <u>\$ 166,314</u>         | <u>\$ 60,607</u>           |

**Annual Debt Service Requirements**

Annual requirements to amortize principal and interest on debt outstanding as of December 31, 2017, are:

| <u>Year Ending</u> | <u>Governmental Activities</u> |                 |
|--------------------|--------------------------------|-----------------|
|                    | <u>Principal</u>               | <u>Interest</u> |
| 2018               | 60,607                         | 2,786           |
| 2019               | 49,040                         | 1,800           |
| 2020               | 28,334                         | 1,028           |
| 2021               | 28,333                         | 514             |
|                    | <u>\$ 166,314</u>              | <u>\$6,128</u>  |



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Date..... No other requirements.

Eligibility.....

**4. Normal Retirement**

Eligibility..... Age 50 and the completion of 25 years of service.

Amount of Monthly benefit equal to 50 percent of Average Monthly Salary.

Benefit.....

**5. Disability**

Eligibility..... Total and permanent disablement that occurs while performing the duties of a police officer for the Borough of Honesdale.

Benefits Same benefit as Normal Retirement but based on the average base and longevity pay during the last 36-months prior to disablement.

..... First day of calendar month following disablement and continuing for duration of Disability prior to Normal Retirement date and life thereafter.

Benefit

Commencement.....

**6. Vesting**

Schedule..... 100 percent after the completion of 12 years of Service.

Amount of Accrued Benefit at date of termination payable at Normal Retirement.

Benefit..... A monthly benefit equal to 50 percent of the pension the participant was receiving or entitled to receive on the day of the participant's death is payable to the participant's spouse.

After Retirement Effective each January 1, a retiree will receive an increase in the monthly benefit equal to the percentage change in the CPI during the last year times the pension benefit. The total of all increases may not exceed 30 percent of the retiree's original benefit.

Eligibility..

**7. Cost-of-Living Adjustment**

Effective each January 1, a retiree will receive an increase in the monthly benefit equal to the percentage change in the CPI during the last year times the pension benefit. The total of all increases may not exceed 30 percent of the retiree's original benefit.

**8. Employee Contributions**

Mandatory..... Participants will contribute 5.0 percent of salary.

Refund..... Accumulated contributions and 2.5 percent compound interest credited from the mid-point of the year or part of a year when made through the first day of the month in which distribution occurs.

**Non-Uniformed Plan**

The Borough has a pension plan, which covers all full-time non-uniformed employees who are at least 20 years of age and have completed 12 months of service. The Plan is administered by the Pennsylvania State Association of Borough Municipal Retirement Trust. The Plan provides for normal retirement at age 65 with 100% vesting after seven years of service. The Borough Council may establish and amend plan provisions. The Minimum Municipal Obligation for 2017 is calculated to be \$27,100.

According to the actuary, the financial reporting and the actuarial and historical data for this plan satisfies the reporting requirements of Government Accounting Standards Board (GASB), 5, 25 and 27.

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**Notes to Financial Statements**  
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**NOTE 7 – COLLECTIVE BARGAINING AGREEMENT:**

The following collective bargaining agreements were in effect during the year ended December 31, 2013:

|        | <u>Contract</u><br><u>Inception</u> | <u>Contract</u><br><u>Expiration</u> |
|--------|-------------------------------------|--------------------------------------|
| Police | January 1, 2014                     | December 31, 2020                    |

All non-uniform employees are covered by policies and procedures as set forth in the employee handbook dated March 1, 2008.

**NOTE 8 - COMMITMENTS AND CONTINGENCIES:**

From time to time, the Borough is named as a defendant in lawsuits. No provision has been provided for in these financial statements for any future losses that may result from these lawsuits. It is the opinion of management and supported by legal counsel, that the impact of these lawsuits will not have a material adverse effect on the financial position of the Borough.

**NOTE 9 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD PRONOUNCEMENTS**

Governmental Accounting Standards Board (“GASB”) Statement No. 34 Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments (“Statement 34”) was issued in 1999. Statement 34 establishes accounting and financial reporting standards for general purpose external financial reporting by state and local governments as well as specific standards for basic financial statements, management’s discussion and analysis, and certain other required supplementary information. The borough has not fully implemented this pronouncement.

Governmental Accounting Standards Board (“GASB”) Statement No. 68 Accounting and Financial Reporting for Pensions – for State and Local Governments (“Statement 68”) was issue. Statement 68 changes the accounting for pensions by recording the Borough’s portion of the net pension liability and deferred inflows and outflows related to pensions. The Borough has not implemented this pronouncement.

**NOTE 10 – SUBSEQUENT EVENTS**

The Organization has evaluated events subsequent to the balance sheet date of December 31, 2017 through May 31, 2018 which is the date these financial statements where available and issued, and has determined the following to require disclosure under FASB Accounting Standards Codification Topic – Subsequent Events.