

Borough of Honesdale

Audit Report

December 31, 2018

Rainey & Rainey
Certified Public Accountants

TABLE OF CONTENTS

Financial Section:

Independent Auditor's Report.....	1-2
-----------------------------------	-----

Basic Financial Statements:

Government-wide Financial Statements

Statement of Net Position – Modified Cash Basis.....	3
--	---

Statement of Activities – Modified Cash Basis.....	4
--	---

Fund Financial Statements:

Balance Sheet – Modified Cash Basis.....	5
--	---

Reconciliation of the Governmental Funds Balance Sheet-Modified Cash Basis to the Statement of Net Position-Modified Cash Basis.....	6
---	---

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds – Modified Cash Basis.....	7
--	---

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Modified Cash Basis to the Statement of Activities – Modified Cash Basis.....	8
--	---

Statement of Fiduciary Net Position – Fiduciary Funds – Modified Cash Basis.....	9
--	---

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – Modified Cash Basis.....	10
--	----

Notes to Financial Statements.....	11-21
------------------------------------	-------

Required Supplementary Information

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds – Budget vs. Actual – Modified Cash Basis.....	22
---	----

Notes to Required Supplementary Information.....	23
--	----

CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITORS' REPORT

Honorable Mayor
Members of Council
Borough of Honesdale, Pennsylvania

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund, of Borough of Honesdale Pennsylvania, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Honesdale'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 cash basis of accounting described in Note 1; this includes determining that the modified cash 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.

Basis for Qualified Opinion

As discussed in Note 8 to the financial statements, the Borough of Honesdale does not include all disclosures regarding its pension fund. In our opinion, disclosure of that information is required by the modified cash basis of accounting; however, management believes it is impractical to develop the

information. The amount by which this departure would affect the assets, net position, and revenue has not been determined.

Qualified Opinion

In our opinion, except for the effects of matter discussed in the “Basis for Qualified Opinions” paragraph, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and each major fund of Honesdale Borough, Pennsylvania, as of December 31, 2018, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

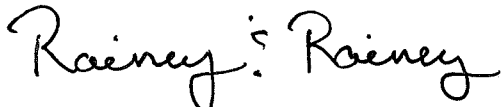
We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions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

Other Matters

Required Supplementary Information

Management has omitted the Management’s 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 basic financial statements is not affected by this missing information.

The modified cash basis of accounting requires that the budgetary comparison information on page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



August 28, 2019
Scranton, Pennsylvania

Borough of Honesdale
Statement of Net Position - Modified Cash Basis
As of December 31, 2018

	Governmental Activities
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 674,736
Total Current Assets	\$ 674,736
Fixed Assets, Net	\$ 418,955
Total Assets	\$ 1,093,691
 <u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Payroll Liabilities	\$ 1,268
Total Liabilities	\$ 1,268
 <u>Net Position</u>	
Invested in Capital Assets, Net of Related Debt	\$ 418,955
Restricted for:	
Debt Services	10,544
Liquid Fuels	138,238
General Fund	138,333
Unrestricted Net Position	386,353
Total Net Position	\$ 1,092,423

Borough of Honesdale
Statement of Activities - Modified Cash Basis
For The Year Ended December 31, 2018

	Expenditures	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charge For Services	Operating Grants	Capital Grants	
Governmental Activities					
Depreciation	\$ 56,618	\$ -	\$ -	\$ -	(56,618)
General Government	302,221	14,511	-	-	(287,710)
Public Safety	805,959	122,629	23,470	-	(659,860)
Public Works	446,939	213,906	152,203	-	(80,830)
Culture & Recreation	82,067	13,992	-	-	(68,075)
Community Development	1,849	-	-	-	(1,849)
Pension, Taxes and Insurance	841,216	-	70,266	-	(770,950)
Interest on Long-Term Debt	4,636	-	-	-	(4,636)
Total Governmental Activities	\$ 2,541,505	\$ 365,038	\$ 245,939	\$ -	(1,930,528)
Total Primary Government	\$ 2,541,505	\$ 365,038	\$ 245,939	\$ -	(1,930,528)
General Revenues:					
Taxes Levied for General Purposes					\$ 2,053,959
Grants, Subsidies, Contributions Not Restricted					16,223
License and Permits					58,445
Fines and Forfeits					25,546
Investment Earnings					11,550
Miscellaneous Income					50,603
Total General Revenues					\$ 2,216,326
Change In Net Position					\$ 285,798
Net Position - January 1, 2018					806,625
Net Position - December 31, 2018					\$ 1,092,423

See Independent Auditor's Report And Notes To Financial Statements

Borough of Honesdale
Balance Sheet - Governmental Funds - Modified Cash Basis
As of December 31, 2018

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Fund Types</u>
Assets				
Cash - Checking	\$ 525,954	\$ 138,238	\$ 10,544	\$ 674,736
Total Assets	<u>\$ 525,954</u>	<u>\$ 138,238</u>	<u>\$ 10,544</u>	<u>\$ 674,736</u>
Liabilities				
Payroll Liabilities	\$ 1,268	\$ -	\$ -	1,268
Total Liabilities	<u>\$ 1,268</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,268</u>
Fund Balance				
Restricted				
Reserve for Liquid Fuels	\$ -	\$ 138,238	\$ -	\$ 138,238
Reserve for General Fund	138,334	-	-	138,334
Assigned				
Reserve for Debt Service Fund	-	-	10,544	10,544
Unassigned	<u>386,352</u>	<u>-</u>	<u>-</u>	<u>386,352</u>
Total Fund Balance	<u>\$ 524,686</u>	<u>\$ 138,238</u>	<u>\$ 10,544</u>	<u>\$ 673,468</u>
Total Liabilities and Fund Balance	<u>\$ 525,954</u>	<u>\$ 138,238</u>	<u>\$ 10,544</u>	<u>\$ 674,736</u>

Borough of Honesdale
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
Modified Cash Basis
Year Ended December 31, 2018

Total fund balance – total governmental funds	\$ 673,468
Capital assets (net) used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	<u>418,955</u>
Net position governmental activities	<u>\$ 1,092,423</u>

Borough of Honesdale
Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds - Modified Cash Basis
For the Year Ended December 31, 2018

	General Fund	Special Revenue	Debt Service	Total Governmental Fund Types
Revenues				
Taxes and assessments	\$ 1,862,885	\$ 125,093	\$ 65,981	\$ 2,053,959
Licenses and permits	58,445	-	-	58,445
Fines and forfeits	25,546	-	-	25,546
Interest	10,415	1,102	33	11,550
Intergovernmental revenues	107,580	154,582	-	262,162
Charges for services	365,038	-	-	365,038
Tax Anticipation Loan	300,000	-	-	300,000
Sale of Fixed Asset	-	48,270	-	48,270
Miscellaneous Income	2,333	-	-	2,333
Operating transfers in	-	107,266	75,153	182,419
Total revenues	\$ 2,732,242	\$ 436,313	\$ 141,167	\$ 3,309,722
Expenditures				
General government	\$ 300,762	\$ 1,459	\$ -	\$ 302,221
Public safety	805,959	-	-	805,959
Public Works	396,697	144,387	-	541,084
Culture - recreation	82,067	-	-	82,067
Community Development	1,849	-	-	1,849
Debt Service - Principal	300,000	-	166,313	466,313
Debt Service - Interest	1,004	-	3,632	4,636
Pension, Insurance and Miscellaneous	610,501	230,715	-	841,216
Operating transfers out	182,419	-	-	182,419
Total Expenditures	\$ 2,681,258	\$ 376,561	\$ 169,945	\$ 3,227,764
Net Change In Fund Balance	\$ 50,984	\$ 59,752	\$ (28,778)	\$ 81,958
Fund balance - January 1, 2018	<u>473,702</u>	<u>78,486</u>	<u>39,322</u>	<u>591,510</u>
Fund balance - December 31, 2018	<u><u>\$ 524,686</u></u>	<u><u>\$ 138,238</u></u>	<u><u>\$ 10,544</u></u>	<u><u>\$ 673,468</u></u>

Borough of Honesdale
Reconciliation of Statement of Revenues, Expenditures and Changes in Funds Balances of
Governmental Activities - Modified Cash Basis to the Statement of Activities - Modified Cash Basis
As of December 31, 2018

Net change in fund balances – total governmental funds	\$	81,958
--	----	--------

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	\$ (56,618)		
Capital Outlays	94,145		37,527

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

166,313

Change in net position of governmental activities

\$ 285,798

Borough of Honesdale
Statement of Fiduciary Net Position - Fiduciary Funds
Modified Cash Basis
As of December 31, 2018

	Private-Purpose Trust Fund	Pension Trust Funds	
	Rev. Doherty Fuel Fund	Non Uniform Pension	Uniform Pension
<u>Assets</u>			
Current Assets			
Cash and Cash Equivalents	\$ 20,526	\$ -	\$ -
Investments	746,940	352,117	3,309,954
Total Assets	\$ 767,466	\$ 352,117	\$ 3,309,954
<u>Net Position</u>			
Net Position			
Held in accordance with trust agreement	\$ 767,466	\$ -	\$ -
Held in trust for pension benefits	-	352,117	3,309,954
Total Net Position	\$ 767,466	\$ 352,117	\$ 3,309,954
Total Net Position	\$ 767,466	\$ 352,117	\$ 3,309,954

Borough of Honesdale
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
Modified Cash Basis
For the Year Ended December 31, 2018

	Private-Purpose		
	Trust Fund	Pension Trust Funds	
	Rev. Doherty Fuel Fund	Non Uniform Pension	Uniform Pension
Additions			
State Aid	\$ -	\$ -	\$ 107,266
Contributions - Employee	-	-	15,986
Contributions - Employer	-	13,500	109,948
Interest / Dividend Income	11,830	6,116	62,394
Realized Gain(Loss) on Sale of Investments	-	13,858	402,261
Net Appreciation/Depreciation in Fair Values of Investments	-	-	-
	<u>10,620</u>	<u>(37,317)</u>	<u>(440,765)</u>
Total Additions	\$ 22,450	\$ (3,843)	\$ 257,090
Deductions			
Expenditures in Accordance with Trust Instrument	\$ 13,174		
Pension Benefits	-	37,094	247,517
Administrative Expenses	-	4,056	37,697
	<u>13,174</u>	<u>41,150</u>	<u>285,214</u>
Total Deductions	\$ 13,174	\$ 41,150	\$ 285,214
Change in Net Position	\$ 9,276	\$ (44,993)	\$ (28,124)
Net Position - January 1, 2018	\$ 758,190	\$ 397,110	\$ 3,338,078
Net Position - December 31, 2018	\$ 767,466	\$ 352,117	\$ 3,309,954

Borough of Honesdale
Notes to Financial Statements
December 31, 2018

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 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 financial statements of the Borough are presented on the modified cash basis of accounting which is another comprehensive basis of accounting other than a basis accepted by accounting principles generally accepted in the United State of America. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America ("GAAP"). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board ("GASB") pronouncements as applied to governmental unites. The Borough's most significant accounting policies to the financial statements are described in the following paragraphs.

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

Borough of Honesdale
Notes to Financial Statements
December 31, 2018

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 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.

Basis of Accounting & Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements, which consist of the statement of net position – modified cash basis and the statement of activities – modified cash basis, report information on all of the non-fiduciary activities of the primary government. Governmental activities, which are supported primarily through governmental subsidies and taxes, are reported separately from business-type activities, which are intended to be funded primarily through fees and charges for goods or services. The fiduciary funds are excluded from the governmental-wide financial statements.

The government-wide statement of activities – modified cash basis, presents a comparison between expenses, both direct and indirect, and program revenues for each program or function of the Borough's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a function. Indirect expenses are allocated among the programs, functions, and segments using a full cost allocation approach and are combined with direct expenses only.

Program revenues include (1) charges to users who purchase, use, or directly benefit from goods, services, or privileges provided by a given function (2) grants and contributions that are restricted to meeting the operational requirements of a particular function and (3) grants and contributions that are restricted to meeting the capital requirements of a particular function.

General revenues include taxes and other revenues not specifically identifiable with a particular program or function of the Borough.

Fund Financial Statements

All governmental funds are accounted for using the current financial resources method and the modified cash basis of accounting. Only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balances as their measure of available spendable financial resources at the end of the period.

Measurement Focus & Basis of Accounting

Measurement focus refers to what is being measured. Basis of accounting refers to when revenues and

Borough of Honesdale
Notes to Financial Statements
December 31, 2018

expenses or expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting also relates to the timing of the measurement made, regardless of the measurement focus applied.

Modified Cash Basis – The government-wide, governmental fund statements, and fiduciary fund financial statements are reported using the economic resources measurement focus and modified cash basis of accounting. This basis recognizes assets, liabilities, and net assets, revenues, and expenditures/expenses, when they result from cash transactions, in the financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received, but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the borough utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

Reconciliations accompany the governmental fund financial statements to reconcile and explain the differences between fund balances and changes in fund balances, as presented in the fund financial statements, and net position and changes in net position, as presented in the government-wide financial statements.

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.

Investments

Investments held by the Borough are reported at their fair market value based on quoted prices in actively traded markets as of year-end. Investment income and changes in the fair value of investments are recorded as investments earnings/income in the statement of change in fiduciary net position – modified cash basis.

Borough of Honesdale
Notes to Financial Statements
December 31, 2018

Fixed Assets and Depreciation

The accounting treatment over property, plant and equipment (fixed assets) depends on whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements- modified cash basis, fixed assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line method over the following useful lives:

	<u>Years</u>
Building and Improvements	50
Furniture and Fixtures	20
Equipment	5-10

Use of Estimates

The preparation of financial statements in conformity with modified cash basis 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."

Net Position and Fund Balances

Government-wide Financial Statements – Sometimes the borough will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Borough's policy to consider restricted net position to have been depleted before unrestricted net position is applied. Net position in the statement of net position includes the following:

Net Investment in Capital Assets – The component of net position that reports the difference between capital assets, less both the accumulated depreciation. This amounted to \$418,955 for the primary government as of December 31, 2018.

Restricted - The component of net position that reports amounts restricted by external parties. Restricted net position amounted to \$287,115 for the primary government as of December 31, 2018.

Unrestricted – The difference between assets and liabilities that is not reported as

Borough of Honesdale
Notes to Financial Statements
December 31, 2018

restricted or net investment in capital assets. This amounted to \$386,353 for the primary government as of December 31, 2018.

Governmental Fund Financial Statements – In the governmental fund financial statements, the Borough reports fund balance classifications. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance – Amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact.

Restricted Fund Balance – Amounts with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments.

Committed Fund Balance – Amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint. For the purposes of the Borough, the highest level of decision-making authority resides with the Borough Council.

Assigned Fund Balance – Amounts a government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the Borough Council delegates the authority. For the purposes of the Borough, the Borough Council has delegated authority to management.

Unassigned Fund Balance – Amounts that are available for any purpose.

For the classification of governmental fund balances, the Borough considers an expenditure to be made from the budgetary appropriations first when more than one classification is available. The borough establishes and modifies fund balance commitments by a passage of resolution in meetings of the Borough Council. The Borough's management is responsible for all the purchasing activities of the Borough and encumbrances at year end, which are considered assigned funds and therefore, management is designated as having the authority to assign amounts intended to be used for specific purposes. The Borough Council approves the adoption and amendment of the budget and has the authority of final review of all assignments of fund balance.

Restricted:

Reserve for Liquid Fuels – is used to account for the specific funds that are restricted for the liquid fuel funds. The balance at December 31, 2018 was \$138,238.

Reserve for General Fund – is used to account for the specific funds that are restricted for funds donated to the Borough for improvements to the Borough's parks. The balance at December 31, 2018 was \$138,334.

**Borough of Honesdale
Notes to Financial Statements
December 31, 2018**

Assigned:

Reserve for Debt Service Funds – is used to account for the specific funds that are restricted for debt payment purposes. The balance at December 31, 2018 was \$10,544.

Unassigned – Unassigned fund balance consisted of excess funds that have not been classified in the previous categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls. This amounted to \$386,352 for all governmental funds as of December 31, 2018.

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, 2018 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 2018 tax duplicates were issued April 1, 2018 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 Transfers – In	Interfund Transfers - Out
General Fund	\$ 0	\$ 182,419
Special Revenue	<u>182,419</u>	<u>0</u>
	<u>\$ 182,419</u>	<u>\$ 182,419</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

Borough of Honesdale
Notes to Financial Statements
December 31, 2018

the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 4 – CASH & CASH EQUIVALENTS:

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, 2018, \$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 – INVESTMENTS

Carrying amounts of investments as of December 31, 2018, appear in the financial statements as summarized below:

Investments – fiduciary fund, statement of net position	\$ <u>3,309,954</u>
---	---------------------

Investments measured at fair value

In accordance with the authoritative guidance on fair value measurements and disclosures under GASB statement No. 72, the Borough discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities the Borough has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

**Borough of Honesdale
Notes to Financial Statements
December 31, 2018**

Fixed income funds, domestic equities and international equities classified in Level 1 of the fair value hierarchy are valued using quoted in active markets for those securities.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Investments measured at fair value consisted of the following at December 31, 2018:

	Total	Fair Value (Level 1)
Mutual Funds	\$ 3,309,054	\$ 3,309,054
Total	\$ 3,309,054	\$ 3,309,054

Interest rate risk – In accordance with its investment policy, the Borough manages its exposure by investing in short-term securities. The Borough will reinvest these funds at higher rates as the opportunity presents itself.

Credit risk – The Borough's investment policy states that the Borough is to only invest in authorized instruments that are backed by the "full faith and credit" of the federal or state government.

Concentration of credit risk – The Borough's investment policy places no limit on the amount the Borough may invest in any one issuer. However, the Borough manages market risk through diversification by including several types of investments.

The Borough's investment policy and the Pennsylvania Borough Code establish criteria for the type of investments that can be held by the Borough. Permissible investments include the following:

- United States treasury bills
- Short-term obligations of the united states government or its agencies or instrumentalities
- Deposits in savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.
- Obligations of the United States of America or any of its agencies or instruments backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- Shares of an investment company registered under the Investment Company Act of 1940; whose shares are registered under the Securities Act of 1933 provided that only investments of that company are in the authorized investments for borough funds listed in the categories above.
- Certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation of the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation of the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured. However, for any amounts above the insured maximum, such certificates of deposit shall be

Borough of Honesdale
Notes to Financial Statements
December 31, 2018

collateralized by a pledge or assignment of assets of the institution, and such collateral may include loans (including interest pools of loans) secured by first mortgage liens on real property. Certificates of deposit purchased from commercial banks shall be limited to an amount equal to twenty percent of a bank's total capital and surplus. Certificates of deposit purchased from savings and loan associations or savings banks shall be limited to an amount equal to twenty percent of an institution's assets minus liabilities.

- Any investment authorized by 20 Pa.C.S. Ch.73 (relating to fiduciaries investments) shall be an authorized investment for any pension or retirement fund.

NOTE 6 – FIXED ASSETS AND DEPRECIATION:

Fixed asset activity for the year ended December 31, 2018, was as follows:

Governmental Activities:	Balance 1/1/2018	Additions	Disposals	Balance 12/31/2018
Equipment	\$ 457,532	\$ 24,284	\$ -	\$ 481,816
Vehicles	599,141	69,890	-	669,001
Buildings & Improvements	<u>324,758</u>	<u>-</u>	<u>-</u>	<u>324,785</u>
Totals at Historical Cost	\$ 1,381,458	\$ 94,145	\$ -	\$ 1,475,602
Less Accumulated Depreciation				
Equipment	\$ 435,567	\$ 10,300	\$ -	\$ 445,867
Vehicles	469,838	32,677	-	502,515
Buildings & Improvements	<u>94,624</u>	<u>10,300</u>	<u>-</u>	<u>108,264</u>
Total Accumulated Depreciation	<u>1,000,029</u>	<u>56,618</u>	<u>-</u>	<u>1,056,646</u>
Net Governmental Fixed Assets	<u>\$ 381,429</u>	<u>\$ 37,526</u>	<u>\$ -</u>	<u>\$ 418,955</u>

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 4,618
Public Safety	19,286
Public Works	<u>32,714</u>
Total Governmental Activities Depreciation	<u>\$ 56,618</u>

NOTE 7 – LONG TERM DEBT:

The following is a summary of changes in Long-Term Debt for the year ended December 31, 2018.

<u>Type of Debt</u>	<u>Rate of Interest</u>	<u>Monthly Payment</u>	<u>Balance 1/01/2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/2018</u>	<u>Due Within One Year</u>
Governmental Activities:							
2017 Tax Anticip Note			-	300,000	300,000	-	-
General Obligation Note	1.13%	\$ 943	18,784	-	18,784	-	-
General Obligation Note	1.79%	\$ 2,554	113,334	-	113,334	-	-
General Obligation Note	1.79%	\$ 1,007	22,626	-	22,626	-	-
General Obligation Note	1.83%	\$ 1,018	<u>11,570</u>	<u>-</u>	<u>11,570</u>	<u>-</u>	<u>-</u>
Total Governmental			<u>\$ 166,314</u>	<u>\$ 300,000</u>	<u>\$ 466,314</u>	<u>\$ -</u>	<u>\$ -</u>

Borough of Honesdale
Notes to Financial Statements
December 31, 2018

NOTE 8 - PENSION PLAN:

The Borough maintains a defined benefit plan covering all full-time police and a defined contribution plan covering non-uniformed employees. An actuarial study is performed every two years by an independent actuary. The Borough has elected not to include the required disclosures under the modified cash basis of accounting.

NOTE 9 –REVEREND DOHERTY FUEL FUND

The Reverend Doherty Fuel Fund is a trust fund established to provide assistance for citizens in need as a means to help pay utility bills. For the year ended December 31, 2018 the net appreciation on investments of donor-restricted endowments was \$746,940. Under the terms of the endowment, and consistent with State statutes, the Borough is authorized to annually distribute for spending purposes the available cash balance plus any earnings in interest and dividends. Any amounts of cash on hand are available for spending in subsequent years.

NOTE 10 – COLLECTIVE BARGAINING AGREEMENT:

The following collective bargaining agreements were in effect during the year ended December 31, 2017:

	<u>Contract Inception</u>	<u>Contract 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 11 - 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 12 – 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 issued. 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.

Borough of Honesdale
Notes to Financial Statements
December 31, 2018

NOTE 13 – SUBSEQUENT EVENTS

The Organization has evaluated events subsequent to the balance sheet date of December 31, 2018 through August 28, 2019 which is the date these financial statements were available and issued, and has determined the following to require disclosure under FASB Accounting Standards Codification Topic – Subsequent Events.

Borough of Honesdale
Statement of Revenues, Expenditures and Changes in Fund
Balance - General Fund - Budget vs Actual - Modified Cash Basis
For the Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes and assessments	\$ 1,764,166	\$ 1,764,166	\$ 1,862,885	\$ 98,719
Licenses and permits	45,750	45,750	58,445	12,695
Fines and forfeits	18,700	18,700	25,546	6,846
Interest	9,902	9,902	10,415	513
Intergovernmental revenues	199,722	199,722	107,580	(92,142)
Charges for services	301,961	301,961	365,038	63,077
Tax Anticipation Loan	300,000	300,000	300,000	-
Miscellaneous Income	14,900	14,900	2,333	(12,567)
Operating transfers in	-	-	-	-
Total revenues	<u>\$ 2,655,101</u>	<u>\$ 2,655,101</u>	<u>\$ 2,732,242</u>	<u>\$ 77,141</u>
Expenditures				
General government	\$ 265,193	\$ 265,193	\$ 300,762	\$ (35,569)
Public safety	807,513	807,513	805,959	1,554
Public Works	424,132	424,132	396,697	27,435
Culture - recreation	91,174	91,174	82,067	9,107
Community Development	100,769	100,769	1,849	98,920
Debt Service - Principal	300,000	300,000	300,000	0
Debt Service - Interest	300	300	1,004	(704)
Pension, Insurance and Miscellaneous	572,020	572,020	610,501	(38,481)
Operating transfers out	94,000	94,000	182,419	(88,419)
Total expenditures	<u>\$ 2,655,101</u>	<u>\$ 2,655,101</u>	<u>\$ 2,681,258</u>	<u>\$ (26,157)</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,984</u>	<u>\$ 50,984</u>
Fund balance - January 1, 2018	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>473,702</u>	
Fund balance - December 31, 2018	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 524,686</u>	

BOROUGH OF HONESDALE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

1. Budgetary Data

Budgetary data is established by the Borough Council and is officially adopted via ordinance. The budgets are prepared using the modified cash basis of accounting which is method utilized for the Governmental Funds.

The Pennsylvania General Assembly dictates specific procedures relative to adoption of the Borough's budget and reporting of its financial statements, specifically:

Beginning at least 30 days prior to the adoption of the budget, a proposed budget or annual estimate of revenues and expenditures for the ensuing year shall be prepared in a manner designated by the council. The proposed budget shall be kept on file with the borough secretary and be made available for public inspection by the borough secretary for a period of ten days.

Notice that the proposed budget is available for inspection shall be published by the borough secretary in a newspaper of general circulation.

Upon completion of the budget containing the estimated receipts and expenditures, the council shall adopt the budget by motion of the council, which may not be later than December 31.

After council has adopted the budget, it is the duty of the council to enact an ordinance levying the taxes referred to in this part for the fiscal year subject to approval of the mayor or enactment over the mayor's veto.

Budgetary data and actual data is presented only for the General Fund.