

Borough of Honesdale
Audit Report
December 31, 2019

Rainey & Rainey
Certified Public Accountants

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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, 2019, 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, 2019, 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 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 23 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.

Rosemary F. Rowley
December 7, 2020

Scranton, Pennsylvania

**Borough of Honesdale
Statement of Net Position - Modified Cash Basis
As of December 31, 2019**

Governmental		
<u>Activities</u>		
	\$	910,166
		910,166
		<u>770,185</u>
		<u>1,680,351</u>
ASSETS		
<u>Current Assets</u>		
Cash and Cash Equivalents		910,166
Total Current Assets		910,166
Fixed Assets, Net		770,185
		<u>Total Assets</u>
		1,680,351
LIABILITIES		
<u>Current Portion of Long-term Debt</u>		
Current Portion of Long-term Debt		17,681
Long-term Debt		175,111
		<u>Total Liabilities</u>
		192,792
<u>Net Position</u>		
Invested in Capital Assets, Net of Related Debt		577,393
Restricted for:		
Debt Services		1,806
Liquid Fuels		153,844
General Fund		140,462
Unrestricted Net Position		614,054
		<u>Total Net Position</u>
	\$	1,487,559

Borough of Honesdale
Statement of Activities - Modified Cash Basis
For The Year Ended December 31, 2019

	Expenditures	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charge For Services	Operating Grants	Capital Grants	
Governmental Activities					
Depreciation	\$ 15,653	\$ -	\$ -	\$ -	\$ (15,653)
General Government	384,203	218,205	1,872	-	(164,126)
Public Safety	722,881	8,347	-	-	(714,534)
Public Works	629,032	159,181	495	-	(469,356)
Culture & Recreation	91,523	24,445	3,427	-	(63,651)
Community Development	1,105	-	-	-	(1,105)
Pension, Taxes and Insurance	868,746	-	106,663	-	(762,083)
Interest on Long-Term Debt	2,413	-	-	-	(2,413)
Total Governmental Activities	\$ 2,715,556	\$ 410,178	\$ 112,457	\$ -	\$ (2,192,921)
Total Primary Government	\$ 2,715,556	\$ 410,178	\$ 112,457	\$ -	\$ (2,192,921)
General Revenues:					
Taxes Levied for General Purposes					\$ 2,263,065
Grants, Subsidies, Contributions Not Restricted					178,510
License and Permits					60,556
Fines and Forfeits					22,083
Investment Earnings					12,211
Miscellaneous Income					84,840
Total General Revenues					\$ 2,621,265
Change In Net Position					\$ 428,344
Net Position - January 1, 2019					1,059,215
Net Position - December 31, 2019					\$ 1,487,559

See Independent Auditor's Report And Notes To Financial Statements

**Borough of Honesdale
Balance Sheet - Governmental Funds - Modified Cash Basis
As of December 31, 2019**

	Total	Governmental	Fund Types
Assets	General	Special	Debt
Cash and Investments	Fund	Revenue	Service
	\$ 754,516	\$ 153,844	\$ 1,806
Total Assets	<u>\$ 754,516</u>	<u>\$ 153,844</u>	<u>\$ 1,806</u>
Fund Balance			
Restricted			
Reserve for Liquid Fuels	\$ -	\$ 153,844	\$ -
Reserve for General Fund	140,462	-	-
Assigned			
Reserve for Debt Service Fund	-	-	1,806
Unassigned	614,054	-	-
Total Fund Balance	<u>\$ 754,516</u>	<u>\$ 153,844</u>	<u>\$ 1,806</u>
Total Liabilities and Fund Balance	<u>\$ 754,516</u>	<u>\$ 153,844</u>	<u>\$ 1,806</u>

**Borough of Honesdale
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 Modified Cash Basis
 Year Ended December 31, 2019**

	Total fund balance – total governmental funds	\$ 910,166
<hr/>		
	Capital assets (net) used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	770,185
	Short and long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Short and long-term liabilities at year end consist of:	(192,792)
	Net position governmental activities	<u>\$ 1,487,559</u>

**Borough of Honesdale
Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds - Modified Cash Basis
For the Year Ended December 31, 2019**

	General Fund	Special Revenue	Debt Service	Governmental Fund Types
Revenues				
Taxes and assessments	\$ 2,044,791	\$ 125,496	\$ 92,778	\$ 2,263,065
Licenses and permits	60,556	-	-	60,556
Fines and forfeits	22,083	-	-	22,083
Interest	11,598	611	2	12,211
Intergovernmental revenues	120,391	170,576	-	290,967
Charges for services	410,178	-	-	410,178
Debt Proceeds	200,000	-	-	200,000
Sale of Fixed Asset	39,622	33,150	-	72,772
Miscellaneous Income	12,068	-	-	12,068
Operating transfers in	92,334	81,928	-	174,262
Total revenues	\$ 3,013,621	\$ 411,761	\$ 92,780	\$ 3,518,162
Expenditures				
General government	\$ 367,995	\$ -	\$ 9,183	\$ 377,178
Public safety	715,684	-	-	715,684
Public Works	837,618	172,518	-	1,010,136
Culture - recreation	91,523	-	-	91,523
Community Development	1,105	-	-	1,105
Debt Service - Principal	7,208	-	-	7,208
Debt Service - Interest	2,413	-	-	2,413
Pension, Insurance and Miscellaneous	644,410	224,336	-	868,746
Operating transfers out	81,928	-	92,334	174,262
Total Expenditures	\$ 2,749,884	\$ 396,854	\$ 101,517	\$ 3,248,255
Net Change In Fund Balance	\$ 263,737	\$ 14,907	\$ (8,737)	\$ 269,907
Fund balance - January 1, 2019	490,779	138,937	10,543	640,259
Fund balance - December 31, 2019	\$ 754,516	\$ 153,844	\$ 1,806	\$ 910,166

**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, 2019**

Net change in fund balances – total governmental funds \$ 269,907

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 \$ (84,313)

Capital Outlays 435,543

351,230

Proceeds of long-term debt provides current financial resources to governmental funds, while repayment (borrowing) of the debt principal is an expenditure (income) in the governmental funds, but the repayment reduces, (borrowing) increases long-term liabilities

(192,793)

Change in net position of governmental activities

\$ 428,344

**Borough of Honesdale
Statement of Fiduciary Net Position - Fiduciary Funds
Modified Cash Basis
As of December 31, 2019**

<u>Assets</u>		<u>Private-Purpose Trust Fund</u>		<u>Pension Trust Funds</u>	
		Rev. Doherty Fuel Fund	Non Uniform Pension	Uniform Pension	
Current Assets					
Cash and Cash Equivalents	\$ 33,135	\$ -	\$ -	\$ -	
Investments	849,600	428,277	3,906,442	-	
Total Assets	\$ 882,735	\$ 428,277	\$ 3,906,442	\$ -	
Net Position					
Held in accordance with trust agreement	\$ 882,735	\$ -	\$ -	\$ -	
Held in trust for pension benefits	-	428,277	3,906,442	-	
Total Net Position	\$ 882,735	\$ 428,277	\$ 3,906,442	\$ -	

Borough of Honesdale
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
Modified Cash Basis
For the Year Ended December 31, 2019

	Private-Purpose Trust Fund	Trust Fund	Pension Trust Funds
	Rev. Doherty Fuel Fund	Non Uniform Pension	Uniform Pension
Additions			
State Aid	\$ -	\$ 22,500	\$ 59,428
Contributions - Employee	-	-	18,126
Contributions - Employer	-	-	142,378
Interest / Dividend Income	12,609	7,550	67,127
Realized Gain(Loss) on Sale of Investments	-	15,783	82,069
Net Appreciation in Fair Values of Investments	102,660	34,552	491,681
Total Additions	\$ 115,269	\$ 80,385	\$ 860,809
Deductions			
Expenditures in Accordance with Trust Instrument	\$ -	\$ -	\$ -
Pension Benefits	-	-	238,748
Administrative Expenses	-	4,225	25,573
Total Deductions	\$ -	\$ 4,225	\$ 264,321
Change in Net Position	\$ 115,269	\$ 76,160	\$ 596,488
Net Position - January 1, 2019	\$ 767,466	\$ 352,117	\$ 3,309,954
Net Position - December 31, 2019	\$ 882,735	\$ 428,277	\$ 3,906,442

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, licenses, permits, intergovernmental revenues, and fines assessed

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 States 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 units. 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 the principal operating fund of the Borough, which is used to account for all Borough resources and expenditures except for those required to be accounted for in another fund. **Special Revenue Fund** - The Borough's Special Revenue Fund is used to account for highway aid received from the Commonwealth of Pennsylvania. 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

Pension Trust and Private-Purpose Trust Funds – The Borough's fiduciary funds are trust funds. Trust funds are used to account for assets held by the Borough under a trust agreement for individuals, private organizations, and other governments. Therefore, these funds are not available to support the Borough's own programs. 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 is accounted for as a private-purpose trust 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 government-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 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 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 – Pension Funds and Trust

The Pension Trust Funds' deposits and investments are held separately from those of the Borough and are stated at fair value. The Doherty Trust Fund consists of stock held directly in the Boroughs name in Honat Bancorp, Inc. 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.

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. All assets were considered for impairment and it was determined there was no need to record an impairment charge on the carrying value of any of the assets. Depreciation on all assets is provided on the straight-line method over the following useful lives:

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

Compensated Absences

The Borough allows full time police officers to accumulate and carryover unused vacation up to a maximum of 90 days and accumulate unused sick leave days up to a maximum of 120 days. Upon retirement, the officer will be paid for these accumulated days based upon his current rate of pay. If an Officer resigns or is fired, he will not be paid any compensatory time earned. These amounts are recorded as expenses when paid.

Other Postemployment Benefits

The Borough adheres to GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, as applicable to the modified cash basis of accounting. Under this method the Borough does not estimate and record long-term liabilities but records the benefit payments as expenses when they are paid.

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 \$577,393 for the primary government as of December 31, 2019.

Restricted - The component of net position that reports amounts restricted by external parties. Restricted net position amounted to \$296,112 for the primary government as of December 31, 2019.

Unrestricted – The difference between assets and liabilities that is not reported as restricted or net investment in capital assets. This amounted to \$614,054 for the primary government as of December 31, 2019.

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

**Borough of Honesdale
Notes to Financial Statements
December 31, 2019**

balance. The borough does not have a formal fund balance policy regarding the use of restricted resources; therefore, the default policy from the government accounting standards will be used. Any disbursement incurred for a purpose in which restricted and unrestricted fund balance amounts are available are satisfied through restricted fund balance amounts before unrestricted fund balance amounts. When an expenditure is incurred for a purpose in which unrestricted fund balance amounts are available under committed, assigned, or unassigned fund balances, the fund balance is consumed as follows: committed, assigned, and unassigned.

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, 2019 was \$153,844.

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, 2019 was \$1,806.

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, 2019 was \$140,462.

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 \$614,054 for all governmental funds as of December 31, 2019.

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, 2019 was 7.65 mills on an assessed valuation of \$267,635,793. During the year, the Borough collected \$1,929,337 after various adjustments for discounts, penalties and credits on a total tax levied in the amount of \$2,047,414. The Borough's rate of collection approximated 94% of total taxes due during the year.

The 2019 tax duplicates were issued April 1, 2019 (levy date) and were due within 120 days of issue (collection dates). A 2% rebate is granted to those who pay their tax within 60 days of issue. For those who pay after 120 days (penalty period) of issue, a 5% penalty is added. At December 31 (lien date) 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	6.45 Mills
Fire Tax	0.40 Mills
Parks & Rec Fund Tax	0.30 Mills
Pension Fund Tax	0.50 Mills
	7.65 Mills

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	Interfund	Interfund
General Fund	\$ 92,334	\$ 81,928	\$ 81,928
Special Revenue	81,928	0	0
Debt Service	0	174,262	92,334
	<u>\$ 92,334</u>	<u>\$ 174,262</u>	<u>\$ 174,262</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.

NOTE 4 – CASH, CASH EQUIVALENTS, and INVESTMENTS:

The Borough's investment policy, in accordance with Section 1316 of the Pennsylvania Borough Code, is to invest in:

- 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 Reserve Bank of Philadelphia or the Loan Insurance Corporation or the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Association or the Pennsylvania Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation of the Pennsylvania Share Insurance Fund or the Federal Savings and Loan Insurance Corporation of the United States of America or any of its agencies or instrumentalities 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 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 Share Insurance Fund or the Federal Savings and Loan Insurance Corporation of the United States of America, for any amounts above the insured maximum, such certificates of deposit shall be 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.

**Borough of Honesdale
Notes to Financial Statements
December 31, 2019**

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.

The deposit and investment policies of the Borough adhere to state statutes and prudent business practices. There were no deposit or investment transaction during the year that violated either state statutes, Borough policies or rules established under its Trust Agreement.

Custodial-Credit Risk: Cash and Cash Equivalents:

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, 2019, \$523,585 of the Borough's bank balance of \$1,012,757 was exposed to custodial credit risk. Of that amount, \$523,585 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.

Credit Risk: Cash and Cash Equivalents:

The risk that an issuer or other counterparty to and investment will not fulfill its obligations is called credit risk. The Borough utilizes investments allowable under the Pennsylvania Borough Code of which limits its investments choices based on credit ratings by nationally recognized statistical rating organizations.

Interest Rate Risk: Cash and Cash Equivalents:

The Borough utilizes investments allowable under Pennsylvania Borough Code of which limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments

Carrying amounts of investments as of December 31, 2019, appear in the financial statements as summarized below:

Investments – fiduciary fund, statement of net position	\$ 5,184,319
Investment holdings by program:	
Wilmington Trust – Police Pension Funds - Not Rated	3,906,442
Pennsylvania State Association of Boroughs Municipal Retirement Trust -	
Non-Uniformed Pension Plan – Not Rated	428,277
7,080 Shares of Honat Bancorp, Inc. – Rev. Doherty Fuel Fund – Not Rated	849,600
Total of Investments	<u>\$ 5,184,319</u>

Wilmington Trust – The Police Pension Plan assets are administered by Wilmington Trust Company. The fund has no policy regarding credit risk, but is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act.

**Borough of Honesdale
Notes to Financial Statements
December 31, 2019**

Pennsylvania State Association of Boroughs Municipal Retirement Trust (PSABMR Trust) – The Non-Uniformed Pension Plan is administered through the PSABMP Trust. Investments in the Municipal Retirement Trust are reported at fair value. The assets with the Trust are pooled for investment purposes, and therefore, do not represent specific identifiable securities.

Rev. Doherty Fuel Fund is a Trust established using shares of the present day Honat Bancorp, Inc. The Trust was established through the Estate of John J. Doherty with his passing on April 7, 1896. The Borough holds 7,080 shares of Common Stock of Honat Bancorp, Inc. in certificate form. Pursuant to the Trust document only income generated from the shares could be used for the purpose of the Trust which is to subsidize utility payments for the underprivileged in Honesdale.

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.

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, 2019:

Wilmington Trust Holdings:		TOTAL		FAIR VALUE (LEVEL 1)	
US Government back Money Market Fund	\$	386,314	\$	386,314	\$
US Government Agency Bonds		47,560		47,560	
Corporate Bonds		590,844		590,844	
Common Equity Securities		2,553,239		2,553,239	
Global Mutual Funds		161,623		161,623	
International Mutual Funds		166,862		166,862	
PSABMP Trust Pooled Investment Plan		428,277		428,277	
Common Stock Held in Trust		849,600		849,600	
	\$	5,184,319	\$	5,184,319	\$

Interest rate risk – In accordance with its investment policy, the Borough manages its exposure by

**Borough of Honesdale
Notes to Financial Statements
December 31, 2019**

investing in short-term securities. The Borough will reinvest these funds at higher rates as the opportunity presents itself.

The following is a list of the Borough's fixed income investments and their related average maturities:

Maturities	Fair Value		
	Less than 1 Year	2 to 10 Years	10 to 20 Years
US Government Agency Bonds - 7	\$ 47,560	\$ -	\$ 47,363
Corporate - 4 BBB Moody Rating	590,844	155,104	435,740
			-

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. For Pension funds which are held in the Trust department of Wilmington Trust and Pooled with the PSABMR Trust have no rating. Equity securities held are not rated.

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. Investments held through Wilmington Trust as Common Equity Securities and the PSABMR Trust Pooled Investment Plan and the Honat Bancorp, Inc. Stock held in trust are all greater than 5% and subject to risk.

NOTE 5 - FIXED ASSETS AND DEPRECIATION:

Fixed asset activity for the year ended December 31, 2019, was as follows:

Governmental Activities:	Balance 1/1/2019	Additions	Disposals 12/31/2019	Balance 12/31/2019
Equipment	\$ 481,816	\$ 8,273	\$ -	\$ 490,089
Vehicles	669,001	280,000	-	949,001
Buildings & Improvements	324,784	147,270	-	472,054
Totals at Historical Cost	\$ 1,475,601	\$ 435,543	\$ -	\$ 1,911,144
Less Accumulated Depreciation	\$ 445,867	\$ 7,615	\$ -	\$ 453,482
Equipment	502,515	59,682	-	562,197
Vehicles	108,264	17,016	-	125,280
Buildings & Improvements	1,056,646	84,313	-	1,140,959
Total Accumulated Depreciation	\$ 418,955	\$ 351,230	\$ -	\$ 770,185
Net Governmental Fixed Assets				

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 7,025
Public Safety	15,470
Public Works	46,165
Unallocated	15,653
Total Governmental Activities Depreciation	\$ 84,313

NOTE 6 - LONG TERM DEBT:

The following is a summary of changes in Long-Term Debt for the year ended December 31, 2019.

2019 General Obligation Note

On July 1, 2019, the Borough entered into a ten-year loan agreement with Wayne Bank. The amount of the loan was \$200,000 and bears interest at a rate of 2.88%. The proceeds of this loan are being used for emergency road repairs. The loan is being repaid with monthly payments of interest and principal of \$1,924, for 120 months. The balance outstanding at December 31, 2019 was \$192,792.

Long-term debt activity for the year ended December 31, 2019 was as follows:

<u>Type of Debt</u>	<u>Balance</u>	<u>1/01/2019</u>	<u>2019 Activity</u>	<u>Balance</u>	<u>12/31/2019</u>	<u>Due Within</u>
Long Term Debt						
2019 General Obligation Note	\$ -0-	\$ 200,000	\$ 7,208	\$ 192,792	\$ 17,681	
Total Long Term Debt	\$ -0-	\$ 200,000	\$ 7,208	\$ 192,792	\$ 17,681	

Annual Debt Service Requirements

Annual requirements to amortize principal and interest on debt outstanding as of December 31, 2019, are:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 17,681	\$ 5,409	\$ 23,090
2021	18,220	4,870	23,090
2022	18,759	4,331	23,090
2023	19,314	3,776	23,090
2024	19,876	3,214	23,090
2025-2029	98,942	6,888	105,830
Total	\$ 192,792	\$ 28,488	\$ 221,280

NOTE 7 - 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 8 - 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, 2019 the net appreciation on investments of donor-restricted endowments was \$102,660. 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 9 - COLLECTIVE BARGAINING AGREEMENT:

The Borough has evaluated events subsequent to the balance sheet date of December 31, 2019 through December 7, 2020 which is the date these financial statements were available and issued, and has determined that with the exception to the item noted below, no material subsequent events exist that require disclosure. Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (Covid-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Borough, COVID-19 may impact various parts of its 2020 operations and financial results. Management believes the Borough is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

NOTE 12 - SUBSEQUENT EVENTS

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.

The borough has not fully implemented this pronouncement. 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.

NOTE 11 - GOVERNMENTAL ACCOUNTING STANDARDS BOARD PRONOUNCEMENTS

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 10 - COMMITMENTS AND CONTINGENCIES:

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

Contract	Inception	Police
Contract	January 1, 2014	
Expiration	December 31, 2020	

The following collective bargaining agreements were in effect during the year ended December 31, 2019:

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, 2019

	Original Budget	Final Budget	Actual	Variance
Revenues				
Taxes and assessments	\$ 2,089,131	\$ 2,089,131	\$ 2,044,791	\$ (44,340)
Licenses and permits	50,850	50,850	60,556	9,706
Fines and forfeits	24,300	24,300	22,083	(2,217)
Interest	12,000	12,000	11,598	(402)
Intergovernmental revenues	175,622	175,622	120,391	(55,231)
Charges for services	325,970	325,970	410,178	84,208
Debt Proceeds	-	-	200,000	200,000
Sale of Fixed Asset	20,000	20,000	39,622	19,622
Miscellaneous Income	15,982	15,982	12,068	(3,914)
Operating transfers in	-	-	92,334	92,334
Total revenues	\$ 2,713,855	\$ 2,713,855	\$ 3,013,621	\$ 207,432
Expenditures				
General government	\$ 406,320	\$ 406,320	\$ 367,995	\$ 38,325
Public safety	844,861	844,861	715,684	129,177
Public Works	741,639	741,639	837,618	(95,979)
Culture - recreation	89,170	89,170	91,523	(2,353)
Community Development	88,969	88,969	1,105	87,864
Debt Service - Principal	0	0	7,208	(7,208)
Debt Service - Interest	0	0	2,413	(2,413)
Pension, Insurance and Miscellaneous	642,573	642,573	644,410	(1,837)
Operating transfers out	106,723	106,723	81,928	24,795
Total expenditures	\$ 2,920,255	\$ 2,920,255	\$ 2,749,884	\$ 170,371
Change in Fund Balance	\$ (206,400)	\$ (206,400)	\$ 263,737	\$ 377,803
Fund balance - January 1, 2019	\$ 207,073	\$ 207,073	490,779	
Fund balance - December 31, 2019	\$ 673	\$ 673	\$ 754,516	

BOROUGH OF HONESDALE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019

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.