

Borough of Honesdale

Audit Report

December 31, 2020

Rainey & Rainey
Certified Public Accountants

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CERTIFIED PUBLIC ACCOUNTANTS

Thomas P. Rainey, CPA
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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, each major fund, and the aggregate remaining fund information of Borough of Honesdale Pennsylvania, as of and for the year ended December 31, 2020, 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, 2020, 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 24 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.



October 11, 2021
Scranton, Pennsylvania

Borough of Honesdale
Statement of Net Position - Modified Cash Basis
As of December 31, 2020

	Governmental Activities
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 1,162,276
Cash and Cash Equivalents - Restricted	300,062
Total Current Assets	1,462,338
Fixed Assets, Net	930,205
Total Assets	2,392,543
<u>LIABILITIES</u>	
Current Portion of Long-term Debt	18,220
Long-term Debt	156,892
Total Liabilities	175,112
<u>Net Position</u>	
Invested in Capital Assets, Net of Related Debt	755,093
Restricted for:	
Debt Services	1,814
Liquid Fuels	157,787
General Fund	140,462
Unrestricted Net Position	1,162,275
Total Net Position	\$ 2,217,431

Borough of Honesdale
Statement of Activities - Modified Cash Basis
For The Year Ended December 31, 2020

	Expenditures	Charge For Services	Program Revenues		Capital Grants	Revenue and Changes in Net Assets Governmental Activities
			Operating Grants			
Governmental Activities						
Depreciation	\$ 17,923	\$ -	\$ -	\$ -	\$ -	(17,923)
General Government	387,753	116,213	-	-	-	(271,540)
Public Safety	623,049	9,273	24,853	149,500		(439,423)
Public Works	443,161	127,419	151,673	-		(164,069)
Culture & Recreation	48,682	10,199	-	-		(38,483)
Community Development	145,269	-	-	-		(145,269)
Pension, Taxes and Insurance	895,175	-	73,857	-		(821,318)
Interest on Long-Term Debt	6,109	-	-	-		(6,109)
Total Governmental Activities	\$ 2,567,121	\$ 263,104	\$ 250,383	\$ 149,500	\$	(1,904,134)
Total Primary Government	\$ 2,567,121	\$ 263,104	\$ 250,383	\$ 149,500	\$	(1,904,134)
General Revenues:						
Taxes Levied for General Purposes					\$	2,507,032
Grants, Subsidies, Contributions Not Restricted					\$	13,657
License and Permits						57,226
Fines and Forfeits						21,358
Investment Earnings						14,590
Miscellaneous Income						20,143
Total General Revenues					\$	2,634,006
Change In Net Position					\$	729,872
Net Position - January 1, 2020						1,487,559
Net Position - December 31, 2020					\$	2,217,431

See Independent Auditor's Report And Notes To Financial Statements

Borough of Honesdale
Balance Sheet - Governmental Funds - Modified Cash Basis
As of December 31, 2020

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Fund Types</u>
Assets				
Cash and Cash Equivalents	\$ 1,162,276	\$ -	\$ -	\$ 1,162,276
Cash and Cash Equivalents - Restricted	<u>140,462</u>	<u>157,786</u>	<u>1,814</u>	<u>300,062</u>
Total Assets	<u>1,302,738</u>	<u>157,786</u>	<u>1,814</u>	<u>1,462,338</u>
Fund Balance				
Restricted				
Reserve for Liquid Fuels	-	157,787	-	157,787
Reserve for General Fund	140,462	-	-	140,462
Assigned				
Reserve for Debt Service Fund	-	-	1,814	1,814
Unassigned	<u>1,162,276</u>	<u>-</u>	<u>-</u>	<u>1,162,276</u>
Total Fund Balance	<u>1,302,738</u>	<u>157,787</u>	<u>1,814</u>	<u>1,462,338</u>
Total Liabilities and Fund Balance	<u>\$ 1,302,738</u>	<u>\$ 157,787</u>	<u>\$ 1,814</u>	<u>\$ 1,462,338</u>

Borough of Honesdale
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
Modified Cash Basis
Year Ended December 31, 2020

Total fund balance – total governmental funds	\$ 1,462,338
Capital assets (net) used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	930,205
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:	(175,112)
Net position governmental activities	<u>\$ 2,217,431</u>

Borough of Honesdale
Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds - Modified Cash Basis
For the Year Ended December 31, 2020

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Fund Types</u>
Revenues				
Taxes and assessments	\$ 2,382,248	\$ 124,784	\$ -	\$ 2,507,032
Licenses and permits	57,226	-	-	57,226
Fines and forfeits	21,358	-	-	21,358
Interest & rents	13,383	1,199	8	14,590
Intergovernmental revenues	261,868	151,673	-	413,541
Charges for services	263,104	-	-	263,104
Miscellaneous income	<u>20,722</u>	<u>-</u>	<u>-</u>	<u>20,722</u>
Total revenues	3,019,909	277,656	8	3,297,572
Expenditures				
General government	381,034	-	-	381,034
Public safety	617,839	-	-	617,839
Public Works	483,990	149,043	-	633,033
Culture - recreation	48,682	-	-	48,682
Community development	145,269	-	-	145,269
Debt service - principal	92,680	-	-	92,680
Debt service - interest	6,109	-	-	6,109
Pension, benefits, and insurance	607,577	287,598	-	895,175
Miscellaneous	<u>579</u>	<u>-</u>	<u>-</u>	<u>579</u>
Total Expenditures	2,383,759	436,641	-	2,820,400
Excess (deficiency) of revenues over expenditures	<u>636,150</u>	<u>(158,985)</u>	<u>8</u>	<u>477,172</u>
Other financing sources (uses):				
Operating transfers in	-	162,928	-	162,928
Operating transfers out	(162,928)	-	-	(162,928)
Debt proceeds	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
Total other financing sources (uses)	(87,928)	162,928	-	75,000
Net Change In Fund Balance	548,222	3,943	8	552,172
Fund balance - January 1, 2020	<u>754,516</u>	<u>153,844</u>	<u>1,806</u>	<u>910,166</u>
Fund balance - December 31, 2020	<u>\$ 1,302,738</u>	<u>\$ 157,787</u>	<u>\$ 1,814</u>	<u>\$ 1,462,338</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, 2020

Net change in fund balances – total governmental funds	\$	552,172
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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	\$ (92,994)		
Capital Outlays	253,014		160,020

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

17,680

Change in net position of governmental activities

\$ 729,872

Borough of Honesdale
Statement of Fiduciary Net Position - Fiduciary Funds
Modified Cash Basis
As of December 31, 2020

	<u>Private-Purpose</u> <u>Trust Fund</u>	<u>Pension Trust Funds</u>	
	<u>Rev. Doherty</u> <u>Fuel Fund</u>	<u>Non Uniform</u> <u>Pension</u>	<u>Uniform</u> <u>Pension</u>
<u>Assets</u>			
Current Assets			
Cash and Cash Equivalents	\$ 46,313	\$ -	\$ -
Investments	<u>848,184</u>	<u>362,254</u>	<u>4,360,205</u>
Total Assets	<u>\$ 894,497</u>	<u>\$ 362,254</u>	<u>\$ 4,360,205</u>
<u>Net Position</u>			
Net Position			
Held in accordance with trust agreement	\$ 894,497	\$ -	\$ -
Held in trust for pension benefits	<u>-</u>	<u>362,254</u>	<u>4,360,205</u>
Total Net Position	<u>\$ 894,497</u>	<u>\$ 362,254</u>	<u>\$ 4,360,205</u>
Total Net Position	<u>\$ 894,497</u>	<u>\$ 362,254</u>	<u>\$ 4,360,205</u>

Borough of Honesdale
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
Modified Cash Basis
For the Year Ended December 31, 2020

	Private-Purpose		
	Trust Fund	Pension Trust Funds	
	Rev. Doherty Fuel Fund	Non Uniform Pension	Uniform Pension
Additions			
Contributions:			
Contributions - employee	\$ -	\$ -	\$ 16,113
Contributions - employer	-	40,500	723
Total contributions	-	40,500	16,836
Investment earnings:			
Interest / dividend income	13,178	4,765	59,156
Realized gain(loss) on sale of investments	-	(3,187)	236,892
Net appreciation in fair values of investments	(1,416)	22,848	427,492
Less: investment expense	-	(6,058)	(44,250)
Net investment earnings	11,762	18,368	679,290
Total Additions	11,762	58,868	696,126
Deductions			
Pension Benefits	-	124,891	242,363
Total Deductions	-	124,891	242,363
Change in Net Position	11,762	(66,023)	453,763
Net Position - January 1, 2020	882,735	428,277	3,906,442
Net Position - December 31, 2020	\$ 894,497	\$ 362,254	\$ 4,360,205

Borough of Honesdale
Notes to Financial Statements
December 31, 2020

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 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 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 Boroughs 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.

Borough of Honesdale
Notes to Financial Statements
December 31, 2020

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 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 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.

Borough of Honesdale
Notes to Financial Statements
December 31, 2020

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, in one newspaper of general circulation in the municipality in which it is located, and within ten 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 Borough's 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.

Borough of Honesdale
Notes to Financial Statements
December 31, 2020

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>
Building and Improvements	50
Furniture and Fixtures	20
Equipment	5-10
Vehicles	5-10

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

Interfund transactions are reflected as either loans, services provided, reimbursements, or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans).

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

Borough of Honesdale
Notes to Financial Statements
December 31, 2020

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 \$755,093 for the primary government as of December 31, 2020.

Restricted - The component of net position that reports amounts restricted by external parties. Restricted net position amounted to \$300,063 for the primary government as of December 31, 2020.

Unrestricted – The difference between assets and liabilities that is not reported as restricted or net investment in capital assets. This amounted to \$1,162,275 for the primary government as of December 31, 2020.

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

Borough of Honesdale
Notes to Financial Statements
December 31, 2020

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. 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, 2020 was \$157,787.

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, 2020 was \$1,814.

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, 2020 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 \$1,162,276 for all governmental funds as of December 31, 2020.

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, 2020 was 8.65 mills on an assessed valuation of \$268,194,288. During the year, the Borough collected \$2,183,416 after various adjustments for discounts, penalties and credits on a total tax levied in the amount of \$2,319,881. The Borough's rate of collection approximated 94.1% of total taxes due during the year.

The 2020 tax duplicates were issued April 1, 2020 (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	7.45 Mills
Fire Tax	0.40 Mills
Parks & Rec Fund Tax	0.30 Mills

Borough of Honesdale
Notes to Financial Statements
December 31, 2020

Pension Fund Tax	0.50 Mills
	8.65 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 Transfers – In	Interfund Transfers - Out
General Fund	\$ 0	\$ 162,928
Special Revenue	162,928	0
Debt Service	0	0
	\$ 162,928	\$ 162,928

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 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, 2020

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.

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. The borough does not have a deposit policy for custodial credit risk. As of December 31, 2020, the reported amount of the Borough's deposits was \$1,508,651 and the bank balance was 1,894,269. \$1,386,171 of the Borough's bank balance of \$1,894,269 was exposed to custodial credit risk. Of that amount, \$1,386,171 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 an 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, 2020, appear in the financial statements as summarized below:

Investments – fiduciary fund, statement of net position	\$	5,570,643
<u>Investment holdings by program:</u>		
Wilmington Trust – Police Pension Funds - Not Rated		4,360,205
Pennsylvania State Association of Boroughs Municipal Retirement Trust - Non-Uniformed Pension Plan – Not Rated		362,254
7,080 Shares of Honat Bancorp, Inc. – Rev. Doherty Fuel Fund – Not Rated		848,184
Total of Investments	<u>\$</u>	<u>5,570,643</u>

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December 31, 2020

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.

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 of 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, 2020:

Wilmington Trust Holdings:	TOTAL	FAIR VALUE (LEVEL 1)
US Government back Money Market Fund	\$ 300,252	\$ 300,252
US Government Agency Bonds	39,245	39,245
Corporate Bonds	634,844	634,844
Common Equity Securities	3,176,363	3,176,363
Global Mutual Funds	209,500	209,500
PSABMP Trust Pooled Investment Plan	362,254	362,254

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December 31, 2020

Common Stock Held in Trust	<u>848,184</u>	<u>848,184</u>
Total	<u>\$ 5,570,642</u>	<u>\$ 5,570,642</u>

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.

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

	<u>Fair Value</u>	<u>Maturities</u>		
		<u>Less than 1 Year</u>	<u>2 to 10 Years</u>	<u>10 to 20 Years</u>
US Government				
Agency Bonds – 7	\$ 39,245	\$ -	\$ 143	\$ 39,102
Corporate – 4 BBB				
Moody Rating	590,844	354,520	280,324	-

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 PSABMP 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, 2020, was as follows:

	<u>Balance</u>			<u>Balance</u>	
	<u>1/1/2020</u>	<u>Additions</u>		<u>Disposals</u>	<u>12/31/2020</u>
Governmental Activities:					
Equipment	\$ 490,089	\$ 5,220	\$ -	\$ 495,309	
Vehicles	949,001	-	-	949,001	
Buildings & Improvements	472,054	36,341	-	508,395	
Infrastructure	-	211,453	-	211,453	
Totals at Historical Cost	<u>\$ 1,911,144</u>	<u>\$ 253,014</u>	<u>\$ -</u>	<u>\$ 2,164,158</u>	
Less Accumulated Depreciation					
Equipment	\$ 453,482	\$ 8,560	\$ -	\$ 462,042	
Vehicles	562,197	62,686	-	624,883	
Buildings & Improvements	125,280	21,004	-	146,284	
Infrastructure	-	744	-	744	
Total Accumulated Depreciation	<u>1,140,959</u>	<u>92,994</u>	<u>-</u>	<u>1,233,953</u>	
Net Governmental Fixed Assets	<u>\$ 770,185</u>	<u>\$ 160,020</u>	<u>\$ -</u>	<u>\$ 930,205</u>	

**Borough of Honesdale
Notes to Financial Statements
December 31, 2020**

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 6,719
Public Safety	10,430
Public Works	57,922
Unallocated	<u>17,923</u>
Total Governmental Activities Depreciation	<u>\$ 92,994</u>

NOTE 6 – LONG TERM DEBT:

The following is a summary of changes in Long-Term Debt for the year ended December 31, 2020.

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, 2020 was \$175,112.

Long-Term Debt Activity

Long-term debt activity for the year ended December 31, 2020 was as follows:

<u>Type of Debt</u>	<u>Balance</u> <u>1/01/2020</u>	<u>2020 Activity</u> <u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/2020</u>	<u>Due Within</u> <u>One Year</u>
Long Term Debt					
2019 General Obligation Note	\$ 192,792	\$ -	\$ 17,680	\$ 175,112	\$ 18,220
Total Long Term Debt	<u>\$ 192,792</u>	<u>\$ -</u>	<u>\$ 17,680</u>	<u>\$ 175,112</u>	<u>\$ 18,220</u>

Annual Debt Service Requirements

Annual requirements to amortize principal and interest on debt outstanding as of December 31, 2020, are:

<u>Year Ending</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
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	20,474	2,616	23,090
2026-2029	<u>78,469</u>	<u>4,271</u>	<u>82,740</u>
Total	<u>\$ 175,112</u>	<u>\$ 23,078</u>	<u>\$ 198,190</u>

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.

**Borough of Honesdale
Notes to Financial Statements
December 31, 2020**

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, 2020 the net depreciation on investments of donor-restricted endowments was \$1,416. 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 – TAX ABATEMENTS

Borough residents are eligible for tax abatement for various reasons such as development costs, property location, or renovations that would otherwise result in increased assessment. All abatements are based on the increase of value of the improvement. There were no amounts recorded or receivable from other governments in association with forgone taxes. The Borough did not make other commitments other than to reduce taxes as part of the abatement agreements. The adoption of this pronouncement did not have a significant impact to the Borough's financial statements.

NOTE 10 – COLLECTIVE BARGAINING AGREEMENT:

The following collective bargaining agreements were in effect during the year ended December 31, 2020:

	<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 – RISK MANAGEMENT

The Borough is exposed to various risks of losses related to torts; theft or damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance covers significant losses. There were no significant reductions in insurance coverages for the year ending December 31, 2020

NOTE 13 – 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.

Borough of Honesdale
Notes to Financial Statements
December 31, 2020

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.

NOTE 14 – SUBSEQUENT EVENTS

The Borough has evaluated events subsequent to the balance sheet date of December 31, 2020 through October 11, 2021 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.

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, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes and assessments	\$ 2,350,256	\$ 2,350,256	\$ 2,382,248	\$ 31,992
Licenses and permits	50,750	50,750	57,226	6,476
Fines and forfeits	24,300	24,300	21,358	(2,942)
Interest & rents	12,000	12,000	13,383	1,383
Intergovernmental revenues	112,263	112,263	261,868	149,605
Charges for services	347,901	347,901	263,104	(84,797)
Miscellaneous Income	24,340	24,340	20,722	(3,618)
Total revenues	<u>2,921,810</u>	<u>2,921,810</u>	<u>3,019,909</u>	<u>98,099</u>
Expenditures				
General government	490,670	490,670	381,034	(109,636)
Public safety	852,992	852,992	617,839	(235,153)
Public Works	519,641	519,641	483,990	(35,651)
Culture - recreation	116,587	116,587	48,682	(67,905)
Community Development	191,381	191,381	145,269	(46,112)
Debt Service - Principal	223,091	223,091	92,680	(130,411)
Debt Service - Interest	6,000	6,000	6,109	109
Pension, benefits, & insurance	519,418	519,418	607,577	88,159
Miscellaneous expenditures	34,680	34,680	579	(34,101)
Total expenditures	<u>2,954,460</u>	<u>2,954,460</u>	<u>2,383,759</u>	<u>(570,701)</u>
Excess (deficiency) of revenues over expenditures	<u>(32,650)</u>	<u>(32,650)</u>	<u>636,150</u>	<u>668,800</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(167,350)	(167,350)	(162,928)	(4,422)
Debt proceeds	200,000	200,000	75,000	125,000
Total other financing sources (uses)	<u>32,650</u>	<u>32,650</u>	<u>(87,928)</u>	<u>120,578</u>
Change in Fund Balance	-	-	548,222	789,378
Fund balance - January 1, 2020	-	-	754,516	
Fund balance - December 31, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,302,738</u>	

BOROUGH OF HONESDALE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2020

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.