

Borough of Honesdale

Audit Report

December 31, 2005

Bonita & Rainey
Certified Public Accountants

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BOROUGH OF HONESDALE

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MANAGEMENT DISCUSSION AND ANALYSIS

February 24, 2006

To Whom It May Concern:

This Management's Discussion and Analysis is intended to provide a narrative overview and analysis of the financial activities of the Borough of Honesdale for the year ended December 31, 2005. The Borough's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the Borough's financial performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Borough's financial performance.

Financial Highlights

Total Net Assets of the Borough increased \$948,416 in 2005 to \$3,020,082. The Borough had \$2,407,277 of expenses related to the total primary government in 2005; only \$1,716,021 of these expenses was offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$1,487,833 were adequate to provide for these programs.

At December 31, 2005, the Borough had \$2,166,324 of net assets invested in capital assets (net of related debt), Reserved Net Assets of \$21,091 and unrestricted net assets of \$832,667; resulting in total net assets of \$3,020,082.

Overview of Financial Statements

This annual report consists of a series of financial statements. The government-wide Statement of Net Assets and the Statement of Activities provide information about the activities of the Borough as a whole and present a longer-term view of the Borough's finances. The Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. The Fund financial statements also report the Borough's operations in more detail than the government-wide statements by providing information about the Borough's most significant funds. The remaining statements provide financial information about

activities for which the Borough acts solely as a trustee or agent for the benefit of those outside the government.

Condensed Financial Information

The following is combined governmental and proprietary fund condensed financial information for the current year:

	<u>2005</u>	<u>2004</u>
Revenues		
Charges for Services	\$ 1,271,750	\$ 1,185,948
Operating Grants	168,710	25,000
Capital Grants	427,400	0
General Revenues	<u>1,487,833</u>	<u>1,353,651</u>
Total Revenues	\$ 3,355,693	\$ 2,564,599
Expenses		
Depreciation	\$ 59,768	\$ 73,194
General Government	159,913	151,337
Public Safety	853,472	771,477
Public Works	1,133,661	1,067,320
Recreation	64,009	79,080
Pension, Taxes & Insurance	125,614	133,426
Debt Service	<u>10,840</u>	<u>3,156</u>
Total Expenses	\$ 2,407,277	\$ 2,278,990
Increase in Net Assets	\$ 948,416	\$ 285,609
Net Assets – Beginning	<u>\$ 2,071,666</u>	<u>\$ 1,786,057</u>
Net Assets – Ending	<u>\$ 3,020,082</u>	<u>\$ 2,071,666</u>

The Borough of Honesdale

By: Patricia A. Seipp
 Patricia A. Seipp, Secretary/Treasurer

Bonita & Rainey
Certified Public Accountants

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Borough Council
Honesdale Borough
Wayne County, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Honesdale, as of and for the year ended December 31, 2005 which collectively comprise the Borough's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Borough of Honesdale management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Borough of Honesdale prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Honesdale, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough's basic financial statements. The introductory section, combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Scranton, PA
February 24, 2006

Bonita + Rainey

**Borough of Honesdale
Statement of Net Assets
As of December 31, 2005**

	Governmental Activities	Business Type	Total Primary Government
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 118,570	\$ 441,323	\$ 559,893
Investments	262,437	150,000	412,437
Taxes Receivable - Net	88,074	-	88,074
Grants Receivable	-	171,600	171,600
Receivables - Other	2,482	170,903	173,385
Internal Balances	(96,335)	96,335	-
Fixed Assets	777,556	3,438,465	4,216,021
Less: Accumulated Depreciation	(611,722)	(1,245,942)	(1,857,664)
TOTAL ASSETS	\$ 541,062	\$ 3,222,684	\$ 3,763,746
<u>LIABILITIES AND NET ASSETS</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 24,453	\$ 249,970	\$ 274,423
Salaries & Benefits Payable	32,333	4,618	36,951
Capital Leases - Due Within One Year	8,966	-	8,966
Capital Leases - Due After One Year	11,065	-	11,065
Debt Service-Due Within One Year	22,367	172,002	194,369
Debt Service-Due After One Year	217,890	-	217,890
TOTAL LIABILITIES	\$ 317,074	\$ 426,590	\$ 743,664
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ 145,803	\$ 2,020,521	\$ 2,166,324
Restricted Net Assets	21,091	-	21,091
Unrestricted Net Assets	57,094	775,573	832,667
TOTAL NET ASSETS	\$ 223,988	\$ 2,796,094	\$ 3,020,082
TOTAL LIABILITIES AND NET ASSETS	\$ 541,062	\$ 3,222,684	\$ 3,763,746

Borough of Honesdale
Statement of Activities
For The Year Ended December 31, 2005

	Program Revenues			Net (Expense) Revenue and Change in Net Assets			
	Expenditures	Charge For Services	Operating Grants	Capital Grants	Governmental Activities	Business-Type Activities	Total
<u>Governmental Activities</u>							
Depreciation	\$ 59,768	\$ -	\$ -	\$ -	\$ (59,768)	\$ -	\$ (59,768)
General Government	159,913	-	-	-	(159,913)	-	(159,913)
Public Safety	853,472	-	-	-	(853,472)	-	(853,472)
Public Works	452,601	130,043	86,760	-	(235,798)	-	(235,798)
Culture & Recreation	64,009	-	-	-	(64,009)	-	(64,009)
Pension, Taxes and Insurance	125,614	-	81,950	-	(43,664)	-	(43,664)
Debt Service	10,840	-	-	-	(10,840)	-	(10,840)
Total Government	\$ 1,726,217	\$ 130,043	\$ 168,710	\$ -	\$ (1,427,464)	\$ -	\$ (1,427,464)
<u>Business Type Activities</u>							
Enterprise Funds	\$ 681,060	1,141,707	-	\$ 427,400	\$ -	\$ 888,047	\$ 888,047
Total Primary Government	\$ 2,407,277	\$ 1,271,750	\$ 168,710	\$ 427,400	\$ (1,427,464)	\$ 888,047	\$ (539,417)
<u>General Revenues</u>							
Taxes Levied for General Purposes					\$ 1,169,294	\$ -	\$ 1,169,294
Grants, Subsidies, Contributions Not Restricted					44,871	-	44,871
License and Permits					151,826	-	151,826
Fines and Forfeits					78,243	-	78,243
Investment Earnings					3,136	6,043	9,179
Transfers Between Governmental & Business Type Activities					(63,614)	63,614	-
Gain on Sale of General Fixed Assets					18,320	-	18,320
Miscellaneous Income					16,100	-	16,100
Total General Revenues					\$ 1,418,176	\$ 69,657	\$ 1,487,833
Change In Net Assets					\$ (9,288)	\$ 957,704	\$ 948,416
Net Assets - January 1, 2005					233,276	1,838,390	2,071,666
Net Assets - December 31, 2005					223,988	2,796,094	3,020,082

See Independent Auditor's Report And Notes To Financial Statements

Borough of Honesdale
Balance Sheet - Governmental Funds
As of December 31, 2005

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Fund Types</u>
Assets				
Cash - Checking	\$ 77,958	\$ 19,521	\$ 21,091	\$ 118,570
Certificates of Deposit	<u>162,000</u>	<u>100,437</u>	<u>-</u>	<u>262,437</u>
Total Assets	<u>\$ 239,958</u>	<u>\$ 119,958</u>	<u>\$ 21,091</u>	<u>\$ 381,007</u>
Liabilities				
Due To Enterprise Fund	<u>\$ 96,335</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,335</u>
Total Liabilities	<u>\$ 96,335</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,335</u>
Fund Balance				
Unreserved	\$ 143,623	\$ -	\$ -	\$ 143,623
Reserved For Debt Retirement	-	-	21,091	21,091
Designated For Specific Fund Purpose	<u>-</u>	<u>119,958</u>	<u>-</u>	<u>119,958</u>
Total Fund Balance	<u>\$ 143,623</u>	<u>\$ 119,958</u>	<u>\$ 21,091</u>	<u>\$ 284,672</u>
Total Liabilites and Fund Balance	<u>\$ 239,958</u>	<u>\$ 119,958</u>	<u>\$ 21,091</u>	<u>\$ 381,007</u>

Borough of Honesdale
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Assets
As of December 31, 2005

Total fund balance – total governmental funds	\$ 284,672
Capital assets(net) used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	165,834
Accounts Payable and Accrued Salaries are not reported as a liability in the governmental funds balance sheet.	(56,786)
Debt not reported in the governmental funds balance sheet.	(260,288)
Property taxes and other receivables are not reported in the governmental funds balance sheet.	<u>90,556</u>
Net assets governmental activities	<u>\$ 223,988</u>

Borough of Honesdale
Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds
For the Year Ended December 31, 2005

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Fund Types</u>
Revenues				
Taxes and assessments	\$ 1,035,527	\$ 11,558	\$ 121,063	\$ 1,168,148
Licenses and permits	151,826	-	-	151,826
Fines and forfeits	79,281	-	-	79,281
Interest	895	1,462	779	3,136
Intergovernmental revenues	48,099	181,728	-	229,827
Charges for services	130,043	-	-	130,043
Proceeds of Long Term Debt	-	-	260,000	260,000
Tax Anticipation Loan	125,000	-	-	125,000
Sales of General Fixed Assets	18,320	-	-	18,320
Miscellaneous Income	16,100	-	-	16,100
Operating transfers in	217,730	3,000	-	220,730
Total revenues	\$ 1,822,821	\$ 197,748	\$ 381,842	\$ 2,402,411
Expenditures				
General government	\$ 164,245	\$ 5,010	\$ -	\$ 169,255
Public safety	860,825	16,974	-	877,799
Public Works	392,083	70,787	-	462,870
Culture - recreation	75,870	-	-	75,870
Debt Service - Principal	90,000	-	98,180	188,180
Debt Service - Interest	1,591	-	9,248	10,839
Miscellaneous	35,359	90,255	-	125,614
Operating transfers out	15,089	9,255	260,000	284,344
Total Expenditures	\$ 1,635,062	\$ 192,281	\$ 367,428	\$ 2,194,771
Net Change In Fund Balance	\$ 187,759	\$ 5,467	\$ 14,414	\$ 207,640
Fund balance - January 1, 2005	<u>(44,136)</u>	<u>114,491</u>	<u>6,677</u>	<u>77,032</u>
Fund balance - December 31, 2005	<u>\$ 143,623</u>	<u>\$ 119,958</u>	<u>\$ 21,091</u>	<u>\$ 284,672</u>

Borough of Honesdale
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005

Net changes in fund balances - total governmental funds	\$	207,640
The Statement of Activities records the cost of capital outlays as fixed assets and depreciate the assets over its estimated useful lives. In the governmental funds, the capital outlays are current expenditures.		59,358
The Statement of Activities reports depreciation expense on fixed assets over their estimated useful life. The governmental funds do not report depreciation.		(59,768)
Repayment of the debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		195,420
Expenses reported in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds.		12,166
The proceeds from the issuance of long term debt is shown as a current financial resource in the governmental funds and as a long-term liability in the Statement of Net Assets.		
Tax Anticipation Note	\$ (125,000)	
General Obligation Note	(260,000)	
Capital Lease Payable	<u>(27,273)</u>	(412,273)
The Statement of Activities include certain revenues while the governmental funds include those revenues that generate financial resources.		<u>(11,831)</u>
Total change in net assets of governmental activities	\$	<u>(9,288)</u>

Borough of Honesdale
Statement of Revenues, Expenditures and Changes in Fund
Balance - General Fund - Budget vs Actual
For the Year Ended December 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes and assessments	\$ 979,950	\$ 979,950	\$ 1,035,527	\$ 55,577
Licenses and permits	2,450	2,450	151,826	149,376
Fines and forfeits	100,850	100,850	79,281	(21,569)
Interest	500	500	895	395
Intergovernmental revenues	44,100	44,100	48,099	3,999
Charges for services	188,118	188,118	130,043	(58,075)
Tax Anticipation Loan	250,000	250,000	125,000	(125,000)
Sales of General Fixed Assets	-	-	18,320	18,320
Miscellaneous Income	3,025	3,025	16,100	13,075
Operating transfers in	-	-	217,730	217,730
Total revenues	<u>\$ 1,568,993</u>	<u>\$ 1,568,993</u>	<u>\$ 1,822,821</u>	<u>\$ 253,828</u>
Expenditures				
General government	\$ 267,078	\$ 267,078	\$ 164,245	\$ 102,833
Public safety	694,878	694,878	860,825	(165,947)
Public Works	383,279	383,279	392,083	(8,804)
Culture - recreation	73,204	73,204	75,870	(2,666)
Debt Service	186,978	186,978	91,591	95,387
Miscellaneous	-	-	35,359	(35,359)
Operating transfers out	-	-	15,089	(15,089)
Total expenditures	<u>\$ 1,605,417</u>	<u>\$ 1,605,417</u>	<u>\$ 1,635,062</u>	<u>\$ (29,645)</u>
Change in Fund Balance	<u>\$ (36,424)</u>	<u>\$ (36,424)</u>	<u>\$ 187,759</u>	<u>\$ 224,183</u>
Fund balance - January 1, 2005			<u>\$ (44,136)</u>	
Fund balance - December 31, 2005			<u>\$ 143,623</u>	

Borough of Honesdale
Statement of Net Assets - Proprietary Fund
As of December 31, 2005

	Sewer Fund
Current Assets	
Cash & Cash Equivalents	\$ 441,323
Certificates of Deposit	150,000
Grants Receivable	171,600
Accounts Receivable	170,903
Due From General Fund	96,335
Total Current Assets	\$ 1,030,161
Property and Equipment	
Property and Equipment	\$ 3,438,465
Accumulated Depreciation	(1,245,942)
Net Property and Equipment	\$ 2,192,523
TOTAL ASSETS	\$ 3,222,684
Current Liabilities	
Accounts Payable	\$ 8,130
Contracts Payable	150,469
Retainages Payable	91,371
Salaries Payable	4,618
Current Portion of Debt	172,002
Total Current Liabilities	\$ 426,590
Total Liabilities	\$ 426,590
Net Assets	
Invested in Capital Assets, Net of Related Debt	\$ 2,020,521
Unrestricted Net Assets	775,573
Total Net Assets	\$ 2,796,094
TOTAL LIABILITES & NET ASSETS	\$ 3,222,684

Borough of Honesdale
Statement of Revenues, Expenses and Changes
in Net Assets - Proprietary Fund
For the Year Ended December 31, 2005

	Sewer Fund
Operating Revenues	
Charges For Services	\$ 1,141,707
Operating Expenses	
Salaries	\$ 115,108
Payroll Taxes	17,365
Employee Fringe Benefits	48,903
Depreciation	100,663
Contracted Services	225,441
Employee Training	1,555
Utilities	13,042
Repairs and Maintenance	96,328
Vehicle Expense	3,332
Insurance	14,625
General Expense	17,290
Administrative Expenses	8,206
Interest Expense	17,532
Legal Fees	1,670
Total Operating Expenses	\$ 681,060
Operating Income	\$ 460,647
Non-Operating Income & (Expenses)	
Earnings on Investments	\$ 6,043
Transfers, Net	63,614
EPA Grant	427,400
Total Non-Operating Income & (Expenses)	\$ 497,057
Change in Net Asstes	\$ 957,704
Net Assets - January 1, 2005	1,838,390
Net Assets - December 31, 2005	\$ 2,796,094

**Borough of Honesdale
Statement of Cash Flows - Proprietary Fund
For the Year Ended December 31, 2005**

Cash Flows Provided by Operating Activities

Cash Received From Users	\$ 1,111,135	
Cash Payments To Employees For Services	(109,999)	
Cash Payments To Suppliers for Goods and Services	(475,820)	
Net Cash Provided by Operating Activities		\$ 525,316

Cash Flows Provided by (Used in) Non-Capital Financing Activities

Cash Received From Federal & State Subsidies	\$ 255,800	
Operating Transfers	63,614	
Net Cash Provided by (Used in) Non-Capital Financing Activities		\$ 319,414

Cash Flows Provided by (Used in) Capital Financing Activities

Capital Outlay	\$ (497,043)	
Debt Reduction	(329,108)	
Net Cash Provided by (Used in) Capital Financing Activities		\$ (826,151)

Cash Flows From Investing Activities

Earnings on Investments		\$ 6,043
Net Increase in Cash and Cash Equivalents		\$ 24,622
Cash and Cash Equivalents - January 1, 2005		\$ 566,701
Cash and Cash Equivalents - December 31, 2005		\$ 591,323

**ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Cash Flows From Operating Activities

Operating Income		\$ 460,647
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Adjustments to Reconcile Operating Income to Net Cash Used For:

Depreciation and Net Amortization	\$ 100,663	
Increase in Accounts Receivable	(30,572)	
Decrease in Interfund Receivable	491	
Decrease in Accounts Payable	(10,531)	
Increase in Salaries Payable	4,618	
Total Adjustments		\$ 64,669
Net Cash Provided by Operating Activities		\$ 525,316

Borough of Honesdale
Statement of Fiduciary Net Assets - Fiduciary Funds
As of December 31, 2005

	<u>Private-Purpose</u>			<u>Agency Fund</u>	
	<u>Trust Fund</u>	<u>Pension Trust Funds</u>			
	<u>Rev. Doherty Fuel Fund</u>	<u>Non Uniform Pension</u>			<u>Uniform Pension</u>
<u>Assets</u>					
Current Assets					
Cash and Cash Equivalents	\$ 6,101	\$ -	\$ -	\$ 13,325	
Investments	395,300	298,995	2,082,834	-	
Total Assets	\$ 401,401	\$ 298,995	\$ 2,082,834	\$ 13,325	
<u>Liabilities and Net Assets</u>					
Liabilities					
Other Liabilities	\$ -	\$ -	\$ -	\$ 13,325	
Total Liabilities	\$ -	\$ -	\$ -	\$ 13,325	
Net Assets					
Held in accordance with trust agreement	\$ 401,401	\$ -	\$ -	\$ -	
Held in trust for pension benefits	-	298,995	2,082,834	-	
Total Net Assets	\$ 401,401	\$ 298,995	\$ 2,082,834	\$ -	
Total Liabilities and Net Assets	\$ 401,401	\$ 298,995	\$ 2,082,834	\$ 13,325	

Borough of Honesdale
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
For the Year Ended December 31, 2005

	Private-Purpose		
	Trust Fund	Pension Trust Funds	
	Rev. Doherty Fuel Fund	Non Uniform Pension	Uniform Pension
Additions			
State Aid	\$ -	\$ 27,695	\$ 54,255
Contributions - Employee	-	27,150	26,462
Contributions - Employer	-	10,836	-
Interest / Dividend Income	4,390	4,736	55,810
Realized Gain on Sale of Investments	-	13,554	20,009
Net Appreciation/Depreciation in Fair Values of Investments	(37,760)	(1,326)	(49,166)
Total Additions	\$ (33,370)	\$ 82,645	\$ 107,370
Deductions			
Expenditures in Accordance with Trust Instrument	\$ 4,050	\$ -	\$ -
Pension Benefits	-	-	139,334
Administrative Expenses	-	3,279	6,564
Total Deductions	\$ 4,050	\$ 3,279	\$ 145,898
Change in Net Assets	\$ (37,420)	\$ 79,366	\$ (38,528)
Net Assets - January 1, 2005	\$ 438,821	\$ 219,629	\$ 2,121,362
Net Assets - December 31, 2005	\$ 401,401	\$ 298,995	\$ 2,082,834

Borough of Honesdale
Notes to Financial Statements
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations

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

Financial Reporting Entity

The reporting entity has been defined in accordance with the criteria established in Statement 14 issued by the Governmental Accounting Standards Board ("GASB"). The specific criteria used in determining whether other organizations should be included in the Borough's financial reporting entity are financial accountability, fiscal dependency, and legal separation.

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

Basis of Presentation - Fund Accounting

The accounts of the Borough are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent. There are three fund types presented in this report. A brief description of each is presented below.

A. **Governmental Fund Types**

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

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

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

B. **Proprietary Fund Types**

Enterprise Fund - The Enterprise Fund is used to account for the operations that provide services to the general public on a continuing basis. Such operations are financed and operated in a manner similar to those often found in the private business sector. The Borough's Sewer Fund is accounted for as an Enterprise Fund.

C. **Fiduciary Fund Types**

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

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

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accounted for as a private-purpose trust fund.

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

Basis of Accounting and Measurement Focus
Government-Wide Financial Statements

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

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

Fund Financial Statements

All governmental funds are accounted for using the current financial resources method and the cash basis of accounting. Under this method of accounting, revenues are recognized when received and expenditures are recognized in the accounting period in which the fund liability is expended.

The proprietary fund utilizes the accrual basis of accounting in which revenues are recognized in the accounting period in which they are earned; expenses are recognized at the time they are incurred.

Budgets and Budgetary Accounting

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

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

Cash and Cash Equivalents

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

Fixed Assets and Depreciation

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

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Government-wide Statements

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

	<u>Years</u>
Buildings & Improvements	50
Furniture & Fixtures	20
Equipment	5-10

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Use of Estimates

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

Interfund Transactions

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

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, 2005 was 3.3 mills on an assessed valuation of \$258,388,710. During the year, the Borough collected \$794,891 after various adjustments for discounts, penalties and credits on a total tax levied in the amount of \$852,683. The Borough's rate of collection approximated 93% of total taxes due during the year.

The 2005 tax duplicates were issued April 1, 2005 and were due within 120 days of issue. A 2% rebate is granted to those who pay their tax within 60 days of issue. For those who pay after 120 days of issue, a 10% penalty is added. At December 31 of each year any current year unpaid real estate taxes are returned to the County for collection.

A breakdown of the millage is as follows:

Borough Tax	2.0 Mills
Recreation Tax	0.3 Mills
Borough Special Tax	0.5 Mills
Borough Debt	<u>0.5 Mills</u>
	<u>3.3 Mills</u>

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NOTE 3 - CASH AND TEMPORARY INVESTMENTS:

Governmental units investments are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits that are insured or registered or securities that are held by the Borough or its agent in the Borough's name. Category 2 includes securities held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered deposits that are collateralized by securities in accordance with the provisions of Act 72 held by the financial institution or its agent in the institution's name.

Category 1 includes cash, certificates of deposit and liquid asset funds. All deposits are entirely insured by Federal Deposit Insurance or collateralized by collateral held in the Multiple Financial Institution Collateral Pool. Although the collateral is not in the name of the local agency, the deposits were deemed collateralized as provided by the provisions of Act 72 of 1971, of the Commonwealth of Pennsylvania. The bank balance of deposits of all funds as of December 31, 2005 was \$1,126,591 while the book balances as of that date was \$972,330.

The level of risk at December 31, 2005 assigned to the Borough's bank balances are categorized:

	<u>Category</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Deposits	\$ 146,810	\$ 0	\$ 567,344	\$ 714,154
Investments	<u>112,000</u>	<u>0</u>	<u>300,437</u>	<u>412,437</u>
	<u>\$ 258,810</u>	<u>\$ 0</u>	<u>\$ 867,781</u>	<u>\$ 1,126,591</u>

NOTE 4 - DELINQUENT REAL ESTATE TAXES:

Delinquent taxes receivable consists of real estate taxes levied by the Borough for the current and prior years that have not been received as of December 31, 2005. The Delinquent Tax Office of Wayne County is responsible for collecting and remitting delinquent taxes. The Delinquent Tax Office records are available for years 1992 through 2005. As of December 31, 2005, delinquent real estate taxes outstanding amounted to \$73,644.

NOTE 5 - FIXED ASSETS AND DEPRECIATION:

Fixed asset activity for the year ended December 31, 2005, was as follows:

	<u>Balance</u> <u>1/01/2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/2005</u>
Governmental Activities:				
Equipment	\$ 178,184	\$ 0	\$ (7,500)	\$ 170,684
Vehicles	617,249	33,813	(69,735)	581,327
Buildings & Improvements	<u>0</u>	<u>25,545</u>	<u>0</u>	<u>25,545</u>
Totals Estimated at Historical Cost	\$ 795,433	\$ 59,358	\$ (77,235)	\$ 777,556
Less Accumulated Depreciation				
Equipment	\$ (80,581)	\$ (14,712)	\$ 7,500	\$ (87,793)
Vehicles	(548,608)	(43,779)	69,735	(522,652)
Buildings & Improvements	<u>0</u>	<u>(1,277)</u>	<u>0</u>	<u>(1,277)</u>
Total Accumulated Depreciation	<u>\$ (629,189)</u>	<u>\$ (59,768)</u>	<u>\$ 77,235</u>	<u>\$ (611,722)</u>
Net Governmental Fixed Assets	<u>\$ 166,244</u>	<u>\$ (410)</u>	<u>\$ 0</u>	<u>\$ 165,834</u>

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	<u>Balance</u> <u>1/01/2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/2005</u>
Business-type Activities:				
Sewer System	\$ 2,427,005	\$ 11,545	\$ 0	\$ 2,438,550
Equipment	26,147	0	0	26,147
Vehicles	59,800	0	0	59,800
Construction in Progress	<u>186,630</u>	<u>727,338</u>	<u>0</u>	<u>913,968</u>
Totals Estimated at Historical Cost	\$ 2,699,582	\$ 738,883	\$ 0	\$ 3,438,465
Less Accumulated Depreciation	<u>(1,145,279)</u>	<u>(100,663)</u>	<u>0</u>	<u>(1,245,942)</u>
Net Business-type Fixed Assets	<u>\$ 1,554,303</u>	<u>\$ 638,220</u>	<u>\$ 0</u>	<u>\$ 2,192,523</u>

NOTE 6 – LONG TERM DEBT:

The following is a summary of changes in Long-Term Debt for the year ended December 31, 2005.

<u>Type of Debt</u>	<u>Rate of</u> <u>Interest</u>	<u>Monthly</u> <u>Payment</u>	<u>Balance</u> <u>1/01/2005</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/2005</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Governmental Activities:							
2004 Tax Anticipation Note			\$ 40,000	\$ 0	\$ 40,000	\$ 0	\$ 0
General Obligation Note	4.94%	\$ 3,437	3,435	0	3,435	0	0
2005 Tax Anticipation Note			0	125,000	125,000	0	0
General Obligation Note	3.97%	\$ 2,635	0	260,000	19,743	240,257	22,495
Capital Lease Payable	5.20%	\$ 816	0	27,273	7,242	20,031	8,966
Total Governmental			<u>\$ 43,435</u>	<u>\$ 412,273</u>	<u>\$ 195,420</u>	<u>\$ 260,288</u>	<u>\$ 31,461</u>
Business-Type Activities:							
PennVest Loan	4.17%	\$14,659	\$ 336,988	\$ 0	\$ 164,986	\$ 172,002	\$ 172,002
General Obligation Note	4.87%	\$ 5,644	164,123	0	164,123	0	0
Total Business-Type			<u>\$ 501,111</u>	<u>\$ 0</u>	<u>\$ 329,109</u>	<u>\$ 172,002</u>	<u>\$ 172,002</u>

Annual Debt Service Requirements

Annual requirements to amortize principal and interest on debt outstanding as of December 31, 2005, are:

<u>Year Ending</u>	<u>Governmental Activities</u>		<u>Business-Type</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 31,461	\$ 9,962	\$ 172,002	\$ 3,910
2007	32,847	8,575	0	0
2008	25,972	7,276	0	0
2009	25,335	6,292	0	0
2010	26,359	5,267	0	0
2011-2015	<u>118,314</u>	<u>9,978</u>	<u>0</u>	<u>0</u>
	<u>\$ 260,288</u>	<u>\$ 47,350</u>	<u>\$ 172,002</u>	<u>\$ 3,910</u>

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Benefits	Same benefit as Normal Retirement but based on the average base and longevity pay during the last 36-months prior to disablement.
Benefit Commencement.....	First day of calendar month following disablement and continuing for duration of Disability prior to Normal Retirement date and life thereafter.
6. <u>Vesting</u>	
Schedule.....	100 percent after the completion of 12 years of Service.
Amount of Benefit.....	Accrued Benefit at date of termination payable at Normal Retirement.
After Retirement Eligibility..	A monthly benefit equal to 50 percent of the pension the participant was receiving or entitled to receive on the day of the participant's death is payable to the participant's spouse.
7. <u>Cost-of-Living Adjustment</u>	
	Effective each January 1, a retiree will receive an increase in the monthly benefit equal to the percentage change in the CPI during the last year times the pension benefit. The total of all increases may not exceed 30 percent of the retiree's original benefit.
8. <u>Employee Contributions</u>	
Mandatory.....	Participants will contribute 5.0 percent of salary. Contributions are currently waived.
Refund.....	Accumulated contributions and 2.5 percent compound interest credited from the mid-point of the year or part of a year when made through the first day of the month in which distribution occurs.

Non-Uniformed Plan

The Borough has a pension plan, which covers all full-time non-uniformed employees who are at least 20 years of age and have completed 12 months of service. The Plan is administered by the Pennsylvania State Association of Borough Municipal Retirement Trust. The Plan provides for normal retirement at age 65 with 100% vesting after seven years of service. The Borough Council may establish and amend plan provisions. The Minimum Municipal Obligation for 2006 is calculated to be \$39,793.

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

NOTE 8 – COLLECTIVE BARGAINING AGREEMENT:

The following collective bargaining agreements were in effect during the year ended December 31, 2005:

	<u>Contract</u>	<u>Contract</u>
	<u>Inception</u>	<u>Expiration</u>
Police	January 1, 2003	December 31, 2005

As of the date of this report, the Borough is in continued negotiations to replace the previous contract.

All non-uniform employees are covered by policies and procedures as set forth in the employee handbook dated January 1, 2000.

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NOTE 9 - COMMITMENTS AND CONTINGENCIES:

The Borough participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. In the opinion of the Borough, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

The Borough has two Irrevocable Letters of Credit in the amount of \$50,025 and \$110,777 with the Commonwealth of Pennsylvania Department of Transportation (the "Department") listed as the beneficiary. The letter of credit expires two years after the Department's acknowledgement of completion of all work authorized by the Borough's Highway Occupancy Permit.

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 council, that the impact of these lawsuits will not have a material adverse effect on the financial position of the Borough.