

Borough of Honesdale

Audit Report

December 31, 2006

Bonita & Rainey
Certified Public Accountants

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BOROUGH OF HONESDALE

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MANAGEMENT DISCUSSION AND ANALYSIS

March 30, 2007

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, 2006. 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 \$820,794 in 2006 to \$3,840,876. The Borough had \$2,983,076 of expenses related to the total primary government in 2006; only \$1,880,023 of these expenses was offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$1,410,982 were adequate to provide for these programs.

At December 31, 2006, the Borough had \$2,967,409 of net assets invested in capital assets (net of related debt), Reserved Net Assets of \$36,080 and unrestricted net assets of \$837,387; resulting in total net assets of \$3,840,876.

Overview of Financial Statements

This annual report consists of a series of 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>2006</u>	<u>2005</u>
Revenues		
Charges for Services	\$ 1,568,880	\$ 1,271,750
Operating Grants	185,496	168,710
Capital Grants	638,511	427,400
General Revenues	<u>1,410,982</u>	<u>1,487,833</u>
Total Revenues	\$ 3,803,869	\$ 3,355,693
Expenses		
Depreciation	\$ 41,507	\$ 59,768
General Government	181,478	159,913
Public Safety	830,696	853,472
Public Works	1,716,232	1,133,661
Recreation	72,403	64,009
Pension, Taxes & Insurance	128,867	125,614
Debt Service	<u>11,892</u>	<u>10,840</u>
Total Expenses	\$ 2,983,075	\$ 2,407,277
Increase in Net Assets	\$ 820,792	\$ 948,416
Net Assets – Beginning	<u>\$ 3,020,082</u>	<u>\$ 2,071,666</u>
Net Assets – Ending	<u>\$ 3,840,876</u>	<u>\$ 3,020,082</u>

The Borough of Honesdale

By: 
Secretary

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, 2006 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, 2006, 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.

Benura - King

Scranton, PA

March 30, 2007

**Borough of Honesdale
Statement of Net Assets
As of December 31, 2006**

	<u>Governmental Activities</u>	<u>Business Type</u>	<u>Total Primary Government</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 146,736	\$ 496,435	\$ 643,171
Investments	158,060	100,000	258,060
Taxes Receivable - Net	80,743	-	80,743
Grants Receivable	-	55,860	55,860
Receivables - Other	3,487	641,633	645,120
Internal Balances	(96,335)	96,335	-
Fixed Assets	755,996	4,843,140	5,599,136
Less: Accumulated Depreciation	(623,429)	(1,343,058)	(1,966,487)
TOTAL ASSETS	<u>\$ 425,258</u>	<u>\$ 4,890,345</u>	<u>\$ 5,315,603</u>
<u>LIABILITIES AND NET ASSETS</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 20,185	\$ 532,068	\$ 552,253
Salaries & Benefits Payable	30,532	5,773	36,305
Capital Leases - Due Within One Year	9,443	-	9,443
Capital Leases - Due After One Year	1,622	-	1,622
Debt Service-Due Within One Year	23,404	59,337	82,741
Debt Service-Due After One Year	194,488	597,875	792,363
TOTAL LIABILITIES	<u>\$ 279,674</u>	<u>\$ 1,195,053</u>	<u>\$ 1,474,727</u>
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ 124,538	\$ 2,842,871	\$ 2,967,409
Restricted Net Assets	36,080	-	36,080
Unrestricted Net Assets	(15,034)	852,421	837,387
TOTAL NET ASSETS	<u>\$ 145,584</u>	<u>\$ 3,695,292</u>	<u>\$ 3,840,876</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 425,258</u>	<u>\$ 4,890,345</u>	<u>\$ 5,315,603</u>

Borough of Honesdale
Statement of Activities
For The Year Ended December 31, 2006

	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	\$ 41,507	\$ -	\$ -	\$ -	\$ (41,507)	\$ -	\$ (41,507)
General Government	181,478	-	-	-	(181,478)	-	(181,478)
Public Safety	830,696	-	-	-	(830,696)	-	(830,696)
Public Works	625,073	180,746	92,841	-	(351,486)	-	(351,486)
Culture & Recreation	72,403	-	-	-	(72,403)	-	(72,403)
Pension, Taxes and Insurance	128,867	-	92,656	-	(36,211)	-	(36,211)
Debt Service	11,892	-	-	-	(11,892)	-	(11,892)
Total Government	\$ 1,891,915	\$ 180,746	\$ 185,496	\$ -	\$ (1,525,672)	\$ -	\$ (1,525,672)
<u>Business Type Activities</u>							
Enterprise Funds	\$ 1,091,161	1,388,134	-	\$ 638,511	-	\$ 935,484	\$ 935,484
Total Primary Government	\$ 2,983,076	\$ 1,568,880	\$ 185,496	\$ 638,511	\$ (1,525,672)	\$ 935,484	\$ (590,188)
<u>General Revenues</u>							
Taxes Levied for General Purposes					\$ 1,188,154	\$ -	\$ 1,188,154
Grants, Subsidies, Contributions Not Restricted					29,667	-	29,667
License and Permits					88,202	-	88,202
Fines and Forfeits					77,430	-	77,430
Investment Earnings					12,662	8,714	21,376
Transfers Between Governmental & Business Type Activities					45,000	(45,000)	-
Gain on Sale of General Fixed Assets					1,458	-	1,458
Miscellaneous Income					4,695	-	4,695
Total General Revenues					\$ 1,447,268	\$ (36,286)	\$ 1,410,982
Change In Net Assets					\$ (78,405)	\$ 899,198	\$ 820,794
Net Assets - January 1, 2006					223,988	2,796,094	3,020,082
Net Assets - December 31, 2006					\$ 145,584	\$ 3,695,292	\$ 3,840,876

See Independent Auditor's Report And Notes To Financial Statements

Borough of Honesdale
Balance Sheet - Governmental Funds
As of December 31, 2006

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Fund Types</u>
Assets				
Cash - Checking	\$ 83,372	\$ 27,284	\$ 36,080	\$ 146,736
Certificates of Deposit	<u>52,002</u>	<u>106,058</u>	<u>-</u>	<u>158,060</u>
Total Assets	<u>\$ 135,374</u>	<u>\$ 133,342</u>	<u>\$ 36,080</u>	<u>\$ 304,796</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	\$ 39,039	\$ -	\$ -	\$ 39,039
Reserved For Debt Retirement	-	-	36,080	36,080
Designated For Specific Fund Purpose	<u>-</u>	<u>133,342</u>	<u>-</u>	<u>133,342</u>
Total Fund Balance	<u>\$ 39,039</u>	<u>\$ 133,342</u>	<u>\$ 36,080</u>	<u>\$ 208,461</u>
Total Liabilities and Fund Balance	<u>\$ 135,374</u>	<u>\$ 133,342</u>	<u>\$ 36,080</u>	<u>\$ 304,796</u>

Borough of Honesdale
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Assets
As of December 31, 2006

Total fund balance – total governmental funds	\$ 208,461
Capital assets(net) used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	132,567
Accounts Payable and Accrued Salaries are not reported as a liability in the governmental funds balance sheet.	(50,717)
Debt not reported in the governmental funds balance sheet.	(228,957)
Property taxes and other receivables are not reported in the governmental funds balance sheet.	<u>84,230</u>
Net assets governmental activities	<u>\$ 145,584</u>

Borough of Honesdale
Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds
For the Year Ended December 31, 2006

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Fund Types</u>
Revenues				
Taxes and assessments	\$ 1,058,434	\$ 12,112	\$ 121,124	\$ 1,191,670
Licenses and permits	88,202	-	-	88,202
Fines and forfeits	76,425	-	-	76,425
Interest	8,028	4,142	492	12,662
Intergovernmental revenues	22,887	192,276	-	215,164
Charges for services	180,746	-	-	180,746
Proceeds of Long Term Debt	-	-	-	0
Tax Anticipation Loan	190,000	-	-	190,000
Sales of General Fixed Assets	1,458	-	-	1,458
Miscellaneous Income	4,695	-	-	4,695
Operating transfers in	458,115	1,025	-	459,140
Total revenues	<u>\$ 2,088,990</u>	<u>\$ 209,556</u>	<u>\$ 121,615</u>	<u>\$ 2,420,162</u>
Expenditures				
General government	\$ 176,452	\$ 4,839	\$ -	\$ 181,291
Public safety	826,661	17,755	-	844,418
Public Works	562,753	71,188	-	633,940
Culture - recreation	69,461	-	-	69,461
Debt Service - Principal	115,000	-	97,365	212,365
Debt Service - Interest	2,630	-	9,262	11,892
Pension, Insurance and Miscellaneous	31,867	97,000	-	128,867
Operating transfers out	408,751	5,390	-	414,140
Total Expenditures	<u>\$ 2,193,575</u>	<u>\$ 196,171</u>	<u>\$ 106,626</u>	<u>\$ 2,496,374</u>
Net Change In Fund Balance	<u>\$ (104,585)</u>	<u>\$ 13,385</u>	<u>\$ 14,989</u>	<u>\$ (76,212)</u>
Fund balance - January 1, 2006	<u>143,624</u>	<u>119,958</u>	<u>21,091</u>	<u>284,673</u>
Fund balance - December 31, 2006	<u>\$ 39,039</u>	<u>\$ 133,342</u>	<u>\$ 36,080</u>	<u>\$ 208,461</u>

Borough of Honesdale
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governemntal Funds to the Statement of Activities
For the Year Ended December 31, 2006

Net changes in fund balances - total governmental funds	\$ (76,212)
 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.	8,240
 The Statement of Activities reports depreciation expense on fixed assets over their estimated useful life. The governmental funds do not report depreciation.	(41,507)
 Repayment of the debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilites in the Statement of Net Assets.	212,365
 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.	11,220
 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	\$ (190,000) (190,000)
 The Statement of Activities include certain revenues while the governmental funds include those revenues that generate financial recources.	<u>(2,511)</u>
 Total change in net assets of governmental activites	<u>\$ (78,405)</u>

Borough of Honesdale
Statement of Revenues, Expenditures and Changes in Fund
Balance - General Fund - Budget vs Actual
For the Year Ended December 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes and assessments	\$ 967,254	\$ 967,254	\$ 1,058,434	\$ 91,180
Licenses and permits	2,950	2,950	2,233	(717)
Fines and forfeits	117,850	117,850	162,394	44,544
Interest	360	360	8,028	7,668
Intergovernmental revenues	107,720	107,720	22,887	(84,833)
Charges for services	208,595	208,595	180,746	(27,849)
Tax Anticipation Loan	250,000	250,000	190,000	(60,000)
Sales of General Fixed Assets	-	-	1,458	1,458
Miscellaneous Income	3,100	3,100	4,695	1,595
Operating transfers in	-	-	458,115	458,115
Total revenues	<u>\$ 1,657,829</u>	<u>\$ 1,657,829</u>	<u>\$ 2,088,990</u>	<u>\$ 431,161</u>
Expenditures				
General government	\$ 282,779	\$ 282,779	\$ 176,452	\$ 106,327
Public safety	795,699	795,699	826,661	(30,962)
Public Works	385,026	385,026	562,753	(177,727)
Culture - recreation	118,379	118,379	69,461	48,918
Debt Service	176,500	176,500	117,630	58,870
Miscellaneous	-	-	31,867	(31,867)
Operating transfers out	-	-	408,751	(408,751)
Total expenditures	<u>\$ 1,758,383</u>	<u>\$ 1,758,383</u>	<u>\$ 2,193,575</u>	<u>\$ (435,192)</u>
Change in Fund Balance	<u>\$ (100,554)</u>	<u>\$ (100,554)</u>	<u>\$ (104,585)</u>	<u>\$ (4,031)</u>
Fund balance - January 1, 2006			<u>\$ 143,624</u>	
Fund balance - December 31, 2006			<u>\$ 39,039</u>	

Borough of Honesdale
Statement of Net Assets - Proprietary Fund
As of December 31, 2006

	Sewer Fund
Current Assets	
Cash & Cash Equivalents	\$ 496,435
Certificates of Deposit	100,000
Grants Receivable	55,860
Accounts Receivable	641,634
Due From General Fund	96,335
Total Current Assets	\$ 1,390,263
 Property and Equipment	
Property and Equipment	\$ 4,843,140
Accumulated Depreciation	(1,343,058)
Net Property and Equipment	\$ 3,500,082
 TOTAL ASSETS	
	\$ 4,890,345
 Current Liabilities	
Accounts Payable	\$ 410,073
Retainages Payable	121,995
Salaries Payable	5,773
Current Portion of Debt	59,337
Total Current Liabilities	\$ 597,178
 Long Term Liabilities	
Long Term Portion of Debt	\$ 597,875
Total Long Term Liabilities	\$ 597,875
 Total Liabilities	
	\$ 1,195,053
 Net Assets	
Invested in Capital Assets, Net of Related Debt	\$ 2,842,871
Unrestricted Net Assets	852,421
Total Net Assets	\$ 3,695,292
 TOTAL LIABILITES & NET ASSETS	
	\$ 4,890,345

Borough of Honesdale
Statement of Revenues, Expenses and Changes
in Net Assets - Proprietary Fund
For the Year Ended December 31, 2006

	Sewer Fund
Operating Revenues	
Charges For Services	\$ 1,388,134
Operating Expenses	
Salaries	\$ 105,268
Payroll Taxes	13,717
Employee Fringe Benefits	40,172
Depreciation	97,116
Contracted Services	579,353
Employee Training	1,948
Utilities	15,347
Repairs and Maintenance	93,296
Vehicle Expense	3,035
Insurance	11,551
General Expense	60,576
Administrative Expenses	4,992
Interest Expense	25,608
Legal Fees	39,184
Total Operating Expenses	\$ 1,091,162
Operating Income	\$ 296,972
Non-Operating Income & (Expenses)	
Earnings on Investments	\$ 8,714
Transfers, Net	(45,000)
EPA & PENNDOT Grant	638,511
Total Non-Operating Income & (Expenses)	\$ 602,226
Change in Net Asstes	\$ 899,198
Net Assets - January 1, 2006	2,796,094
Net Assets - December 31, 2006	\$ 3,695,292

**Borough of Honesdale
Statement of Cash Flows - Proprietary Fund
For the Year Ended December 31, 2006**

Cash Flows Provided by Operating Activities

Cash Received From Users	\$ 1,387,234	
Cash Payments To Employees For Services	(105,268)	
Cash Payments To Suppliers for Goods and Services	<u>(959,615)</u>	
Net Cash Provided by Operating Activities		\$ 322,351

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

Cash Received From Federal & State Subsidies	\$ 638,511	
Operating Transfers	<u>(45,000)</u>	
Net Cash Provided by (Used in) Non-Capital Financing Activities		\$ 593,511

Cash Flows Provided by (Used in) Capital Financing Activities

Capital Outlay	\$ (1,404,674)	
Debt Reduction	<u>485,210</u>	
Net Cash Provided by (Used in) Capital Financing Activities		\$ (919,464)

Cash Flows From Investing Activities

Earnings on Investments		<u>\$ 8,714</u>
Net Increase in Cash and Cash Equivalents		\$ 5,112
Cash and Cash Equivalents - January 1, 2006		<u>\$ 591,323</u>
Cash and Cash Equivalents - December 31, 2006		<u><u>\$ 596,435</u></u>

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

Cash Flows From Operating Activities

Operating Income		\$ 296,972
Adjustments to Reconcile Operating Income to Net Cash Used For:		
Depreciation and Net Amortization	\$ 97,116	
Increase in Accounts Receivable	(354,990)	
Decrease in Interfund Receivable	-	
Increase in Accounts Payable	282,098	
Increase in Salaries Payable	<u>1,155</u>	
Total Adjustments		<u>\$ 25,379</u>
Net Cash Provided by Operating Activities		<u><u>\$ 322,351</u></u>

Borough of Honesdale
Statement of Fiduciary Net Assets - Fiduciary Funds
As of December 31, 2006

	Private-Purpose			Agency Fund
	Trust Fund	Pension Trust Funds		
	Rev. Doherty Fuel Fund	Non Uniform Pension	Uniform Pension	Fire Loss Escrow Fund
<u>Assets</u>				
Current Assets				
Cash and Cash Equivalents	\$ 10,824	\$ -	\$ -	\$ 13,325
Investments	435,420	364,045	2,269,925	-
Total Assets	\$ 446,244	\$ 364,045	\$ 2,269,925	\$ 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	\$ 446,244	\$ -	\$ -	\$ -
Held in trust for pension benefits	-	364,045	2,269,925	-
Total Net Assets	\$ 446,244	\$ 364,045	\$ 2,269,925	\$ -
Total Liabilities and Net Assets	\$ 446,244	\$ 364,045	\$ 2,269,925	\$ 13,325

Borough of Honesdale
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
For the Year Ended December 31, 2006

	Private-Purpose		
	Trust Fund	Pension Trust Funds	
	Rev. Doherty Fuel Fund	Non Uniform Pension	Uniform Pension
Additions			
State Aid	\$ -	\$ 32,656	\$ 60,000
Contributions - Employee	-	3,300	12,890
Contributions - Employer	-	4,344	2,551
Interest / Dividend Income	4,723	7,148	66,004
Realized Gain on Sale of Investments	-	16,458	12,779
Net Appreciation/Depreciation in Fair Values of Investments	40,120	6,437	179,150
Total Additions	\$ 44,843	\$ 70,343	\$ 333,374
Deductions			
Expenditures in Accordance with Trust Instrument	\$ -	\$ -	\$ -
Pension Benefits	-	-	139,830
Administrative Expenses	-	5,292	6,454
Total Deductions	\$ -	\$ 5,292	\$ 146,284
Change in Net Assets	\$ 44,843	\$ 65,051	\$ 187,091
Net Assets - January 1, 2006	\$ 401,401	\$ 298,995	\$ 2,082,834
Net Assets - December 31, 2006	\$ 446,244	\$ 364,045	\$ 2,269,925

Borough of Honesdale
Notes to Financial Statements
December 31, 2006

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 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, 2006 was 3.3 mills on an assessed valuation of \$260,729,950. During the year, the Borough collected \$808,294 after various adjustments for discounts, penalties and credits on a total tax levied in the amount of \$860,409. The Borough's rate of collection approximated 94% of total taxes due during the year.

The 2006 tax duplicates were issued April 1, 2006 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 – DEPOSITS & INVESTMENTS:

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

Custodial credit risk is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. As of December 31, 2006, \$680,425 of the Borough's bank balance of \$944,613 was exposed to custodial credit risk. Of that amount, \$209,176 was uninsured but was collateralized by securities pledged by the financial institutions for such funds but not in the Borough's name in accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended.

NOTE 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, 2006. 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 2006. As of December 31, 2006, delinquent real estate taxes outstanding amounted to \$56,687.

NOTE 5 - FIXED ASSETS AND DEPRECIATION:

Fixed asset activity for the year ended December 31, 2006, was as follows:

	Balance <u>1/01/2006</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/2006</u>
Governmental Activities:				
Equipment	\$ 170,684	\$ 8,240	\$ 0	\$ 178,924
Vehicles	581,327	0	(29,800)	551,527
Buildings & Improvements	<u>25,545</u>	<u>0</u>	<u>0</u>	<u>25,545</u>
Totals Estimated at Historical Cost	\$ 777,556	\$ 8,240	\$ (29,800)	\$ 755,996
Less Accumulated Depreciation				
Equipment	\$ (87,793)	\$ (14,384)	\$ 0	\$ (102,177)
Vehicles	(522,652)	(24,568)	29,800	(517,420)
Buildings & Improvements	<u>(1,277)</u>	<u>(2,555)</u>	<u>0</u>	<u>(3,832)</u>
Total Accumulated Depreciation	\$ (611,722)	\$ (41,507)	\$ 29,800	\$ (623,429)
Net Governmental Fixed Assets	<u>\$ 165,834</u>	<u>\$ (33,267)</u>	<u>\$ 0</u>	<u>\$ 132,567</u>

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	Balance 1/01/2006	Additions	Disposals	Balance 12/31/2006
Business-type Activities:				
Sewer System	\$ 2,438,550	\$ 0	\$ 0	\$ 2,438,550
Equipment	26,147	0	0	26,147
Vehicles	59,800	0	0	59,800
Construction in Progress	913,968	1,404,675	0	2,318,643
Totals Estimated at Historical Cost	\$ 3,438,465	\$ 1,404,675	\$ 0	\$ 4,843,140
Less Accumulated Depreciation	(1,245,942)	(97,116)	0	(1,343,058)
Net Business-type Fixed Assets	<u>\$ 2,192,523</u>	<u>\$ 1,307,559</u>	<u>\$ 0</u>	<u>\$ 3,500,082</u>

NOTE 6 – LONG TERM DEBT:

The following is a summary of changes in Long-Term Debt for the year ended December 31, 2006.

<u>Type of Debt</u>	Rate of Interest	Monthly Payment	Balance 1/01/2006	Additions	Payments	Balance 12/31/2006	Due Within One Year
Governmental Activities:							
2006 Tax Anticipation Note			0	190,000	190,000	0	0
General Obligation Note	3.97%	\$ 2,635	240,257	0	22,365	217,892	23,404
Capital Lease Payable	5.20%	\$ 816	20,031	0	8,966	11,065	9,443
Total Governmental			<u>\$ 260,288</u>	<u>\$ 190,000</u>	<u>\$ 221,331</u>	<u>\$ 228,957</u>	<u>\$ 32,847</u>
Business-Type Activities:							
General Obligation Note	4.17%	\$ 7,165	0	700,000	42,788	657,212	59,337
Total Business-Type			<u>\$ 0</u>	<u>\$ 700,000</u>	<u>\$ 42,788</u>	<u>\$ 657,212</u>	<u>\$ 59,337</u>

Annual Debt Service Requirements

Annual requirements to amortize principal and interest on debt outstanding as of December 31, 2006, 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>
2007	\$ 32,847	\$ 8,575	\$ 59,337	\$ 26,643
2008	25,983	7,276	61,825	24,156
2009	25,335	6,292	64,560	21,420
2010	26,359	5,267	67,343	18,637
2011	27,425	4,202	70,246	15,734
2012-2015	91,008	5,777	333,901	31,516
	<u>\$ 228,957</u>	<u>\$ 37,389</u>	<u>\$ 657,212</u>	<u>\$ 138,106</u>

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Benefits duties of a police officer for the Borough of Honesdale. 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. Vesting

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. Cost-of-Living Adjustment

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

8. Employee Contributions

Mandatory..... Participants will contribute 5.0 percent of salary. 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, 2006:

	<u>Contract</u>	<u>Contract</u>
	<u>Inception</u>	<u>Expiration</u>
Police	January 1, 2006	December 31, 2009

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.

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.