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BOROUGH OF HONESDALE

958 Main Street

Honesdale, Pennsylvania 18431

Telephone (570) 253-0731 • Fax (570) 253-4624

MANAGEMENT DISCUSSION AND ANALYSIS

April 24, 2008

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, 2007. 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 \$1,136,483 in 2007 to \$4,977,359. The Borough had \$3,597,134 of expenses related to the total primary government in 2007; only \$1,929,836 of these expenses was offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$1,513,199 were adequate to provide for these programs.

At December 31, 2007, the Borough had \$3,257,834 of net assets invested in capital assets (net of related debt), Reserved Net Assets of \$54,110 and unrestricted net assets of \$1,647,415; 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>2007</u>	<u>2006</u>
Revenues		
Charges for Services	\$ 1,731,434	\$ 1,568,880
Operating Grants	198,402	185,496
Capital Grants	1,383,803	638,511
General Revenues	<u>1,416,978</u>	<u>1,410,982</u>
Total Revenues	\$ 4,733,617	\$ 3,803,869
Expenses		
Depreciation	\$ 34,958	\$ 41,507
General Government	196,092	181,478
Public Safety	1,053,700	830,696
Public Works	2,088,649	1,716,232
Recreation	71,526	72,403
Pension, Taxes & Insurance	140,434	128,867
Debt Service	<u>11,775</u>	<u>11,892</u>
Total Expenses	\$ 3,597,134	\$ 2,983,075
Increase in Net Assets	\$ 1,136,483	\$ 820,792
Net Assets – Beginning	<u>\$ 3,840,876</u>	<u>\$ 3,020,082</u>
Net Assets – Ending	<u>\$ 4,977,359</u>	<u>\$ 3,840,876</u>

The Borough of Honesdale

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

CERTIFIED PUBLIC ACCOUNTANTS

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

Kevin P. Noone, CPA
Thomas F. Telesz, CPA

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, 2007 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.

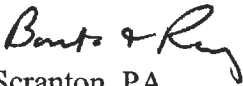
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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, 2007, 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
April 24, 2008

**Borough of Honesdale
Statement of Net Assets
As of December 31, 2007**

	<u>Governmental Activities</u>	<u>Business Type</u>	<u>Total Primary Government</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 438,503	\$ 753,012	\$ 1,191,515
Investments	91,095	51,199	142,294
Taxes Receivable - Net	79,988		79,988
Receivables - Other	3,626	421,453	425,079
Internal Balances	(96,335)	96,335	-
Fixed Assets	789,677	6,821,193	7,610,870
Less: Accumulated Depreciation	(628,990)	(1,439,872)	(2,068,862)
TOTAL ASSETS	<u>\$ 677,564</u>	<u>\$ 6,703,320</u>	<u>\$ 7,380,884</u>
<u>LIABILITIES AND NET ASSETS</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 33,086	\$ 66,429	\$ 99,515
Salaries & Benefits Payable	34,593	6,337	40,930
Capital Leases - Due Within One Year	1,622	-	1,622
Debt Service-Due Within One Year	24,217	125,069	149,286
Debt Service-Due After One Year	170,392	1,941,780	2,112,172
TOTAL LIABILITIES	<u>\$ 263,910</u>	<u>\$ 2,139,615</u>	<u>\$ 2,403,525</u>
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ (38,638)	\$ 3,314,472	\$ 3,275,834
Restricted Net Assets	54,110	-	54,110
Unrestricted Net Assets	398,182	1,249,233	1,647,415
TOTAL NET ASSETS	<u>\$ 413,654</u>	<u>\$ 4,563,705</u>	<u>\$ 4,977,359</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 677,564</u>	<u>\$ 6,703,320</u>	<u>\$ 7,380,884</u>

Borough of Honesdale
Statement of Activities
For The Year Ended December 31, 2007

	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	\$ 34,958				\$ (34,958)	\$ -	\$ (34,958)
General Government	196,092				(196,092)		(196,092)
Public Safety	1,053,700		5,982	212,356	(835,362)		(835,362)
Public Works	749,821	241,474	96,228	360,945	(51,174)		(51,174)
Culture & Recreation	71,526				(71,526)		(71,526)
Pension, Taxes and Insurance	140,434		96,192		(44,242)		(44,242)
Debt Service	11,775	-	-	-	(11,775)	-	(11,775)
Total Government	\$ 2,258,306	\$ 241,474	\$ 198,402	\$ 573,301	\$ (1,245,129)	\$ -	\$ (1,245,129)
<u>Business Type Activities</u>							
Enterprise Funds	\$ 1,338,828	1,489,960	-	810,502	-	961,634	961,634
Total Primary Government	\$ 3,597,134	\$ 1,731,434	\$ 198,402	\$ 1,383,803	\$ (1,245,129)	\$ 961,634	\$ (283,495)
<u>General Revenues</u>							
Taxes Levied for General Purposes					\$ 1,190,870	\$ -	\$ 1,190,870
Grants, Subsidies, Contributions Not Restricted					17,581		17,581
License and Permits					5,225		5,225
Fines and Forfeits					196,667		196,667
Investment Earnings					4,621	7,003	11,624
Transfers Between Governmental & Business Type Activities					100,224	(100,224)	-
Gain on Sale of General Fixed Assets					(10,004)		(10,004)
Miscellaneous Income					8,015		8,015
Total General Revenues					\$ 1,513,199	\$ (93,221)	\$ 1,419,978
Change In Net Assets					\$ 268,070	\$ 868,413	\$ 1,136,483
Net Assets - January 1, 2007					145,584	3,695,292	3,840,876
Net Assets - December 31, 2007					\$ 413,654	\$ 4,563,705	\$ 4,977,359

Borough of Honesdale
Balance Sheet - Governmental Funds
As of December 31, 2007

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Fund Types</u>
Assets				
Cash - Checking	\$ 138,835	\$ 245,558	\$ 54,110	\$ 438,503
Certificates of Deposit	-	91,095	-	91,095
Total Assets	<u>\$ 138,835</u>	<u>\$ 336,653</u>	<u>\$ 54,110</u>	<u>\$ 529,598</u>
Liabilities				
Due To Enterprise Fund	\$ 96,335	-	-	\$ 96,335
Total Liabilities	<u>\$ 96,335</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,335</u>
Fund Balance				
Unreserved	\$ 42,500	-	-	\$ 42,500
Reserved For Debt Retirement	-	-	54,110	54,110
Designated For Specific Fund Purpose	-	336,653	-	336,653
Total Fund Balance	<u>\$ 42,500</u>	<u>\$ 336,653</u>	<u>\$ 54,110</u>	<u>\$ 433,263</u>
Total Liabilities and Fund Balance	<u>\$ 138,835</u>	<u>\$ 336,653</u>	<u>\$ 54,110</u>	<u>\$ 529,598</u>

Borough of Honesdale
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Assets
As of December 31, 2007

Total fund balance – total governmental funds	\$ 433,263
Capital assets(net) used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	160,687
Accounts Payable and Accrued Salaries are not reported as a liability in the governmental funds balance sheet.	(67,679)
Debt not reported in the governmental funds balance sheet.	(196,231)
Property taxes and other receivables are not reported in the governmental funds balance sheet.	<u>83,614</u>
Net assets governmental activities	<u>\$ 413,654</u>

Borough of Honesdale
Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds
For the Year Ended December 31, 2007

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Fund Types</u>
Revenues				
Taxes and assessments	\$ 1,055,130	\$ 12,409	\$ 124,086	\$ 1,191,625
Licenses and permits	5,225	-	-	5,225
Fines and forfeits	182,417	14,111	-	196,528
Interest	4,052	-	569	4,621
Intergovernmental revenues	229,938	559,346	-	789,284
Charges for services	241,474	-	-	241,474
Proceeds of Long Term Debt	-	-	-	0
Tax Anticipation Loan	220,000	-	-	220,000
Sales of General Fixed Assets	6,360	-	-	6,360
Miscellaneous Income	8,015	-	-	8,015
Operating transfers in	106,206	-	-	106,206
Total revenues	\$ 2,058,817	\$ 585,866	\$ 124,655	\$ 2,769,338
Expenditures				
General government	\$ 227,594	\$ 156	\$ -	\$ 227,750
Public safety	1,089,318	-	-	1,089,318
Public Works	475,229	273,693	-	748,922
Culture - recreation	77,093	-	-	77,093
Debt Service - Principal	145,000	-	98,282	243,282
Debt Service - Interest	3,412	-	8,343	11,755
Pension, Insurance and Miscellaneous	37,710	102,724	-	140,434
Operating transfers out	-	5,982	-	5,982
Total Expenditures	\$ 2,055,356	\$ 382,555	\$ 106,625	\$ 2,544,536
Net Change In Fund Balance	\$ 3,461	\$ 203,311	\$ 18,030	\$ 224,802
Fund balance - January 1, 2007	39,039	133,342	36,080	208,461
Fund balance - December 31, 2007	\$ 42,500	\$ 336,653	\$ 54,110	\$ 433,263

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, 2007

Net changes in fund balances - total governmental funds		\$ 224,802
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.		63,078
The Statement of Activities reports depreciation expense on fixed assets over their estimated useful life. The governmental funds do not report depreciation.		(34,958)
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.		252,726
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.		(16,962)
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	\$ (220,000)	(220,000)
The Statement of Activities include certain revenues while the governmental funds include those revenues that generate financial resources.		<u>(616)</u>
Total change in net assets of governmental activities		<u>\$ 268,070</u>

Borough of Honesdale
Statement of Revenues, Expenditures and Changes in Fund
Balance - General Fund - Budget vs Actual
For the Year Ended December 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes and assessments	\$ 1,006,594	\$ 1,006,594	\$ 1,055,130	\$ 48,536
Licenses and permits	2,450	2,450	5,225	2,775
Fines and forfeits	183,850	183,850	182,417	(1,433)
Interest	5,000	5,000	4,052	(948)
Intergovernmental revenues	365,153	365,153	229,938	(135,215)
Charges for services	288,842	288,842	241,474	(47,368)
Tax Anticipation Loan	250,000	250,000	220,000	(30,000)
Sales of General Fixed Assets	-	-	6,360	6,360
Miscellaneous Income	7,000	7,000	8,015	1,015
Operating transfers in	-	-	106,206	106,206
Total revenues	<u>\$ 2,108,889</u>	<u>\$ 2,108,889</u>	<u>\$ 2,058,817</u>	<u>\$ (50,072)</u>
Expenditures				
General government	\$ 381,898	\$ 381,898	\$ 227,594	\$ 154,304
Public safety	951,768	951,768	1,089,318	(137,550)
Public Works	436,982	436,982	475,229	(38,247)
Culture - recreation	115,923	115,923	77,093	38,830
Debt Service	176,500	176,500	148,412	28,088
Pension, Insurance and Miscellaneous	-	-	37,710	(37,710)
Operating transfers out	-	-	-	-
Total expenditures	<u>\$ 2,063,071</u>	<u>\$ 2,063,071</u>	<u>\$ 2,055,356</u>	<u>\$ 7,715</u>
 Change in Fund Balance	 <u>\$ 45,818</u>	 <u>\$ 45,818</u>	 \$ 3,461	 <u>\$ (42,357)</u>
 Fund balance - January 1, 2007			 <u>39,039</u>	
 Fund balance - December 31, 2007			 <u>\$ 42,500</u>	

Borough of Honesdale
Statement of Net Assets - Proprietary Fund
As of December 31, 2007

	Sewer Fund
Current Assets	
Cash & Cash Equivalents	\$ 753,012
Certificates of Deposit	51,199
Grants Receivable	
Accounts Receivable	421,453
Due From General Fund	96,335
Total Current Assets	\$ 1,321,999
Property and Equipment	
Property and Equipment	\$ 6,821,193
Accumulated Depreciation	(1,439,872)
Net Property and Equipment	\$ 5,381,321
TOTAL ASSETS	\$ 6,703,320
Current Liabilities	
Accounts Payable	\$ 11,805
Retainages Payable	54,624
Salaries Payable	6,337
Current Portion of Debt	125,069
Total Current Liabilities	\$ 197,835
Long Term Liabilities	
Long Term Portion of Debt	\$ 1,941,780
Total Long Term Liabilities	\$ 1,941,780
Total Liabilities	\$ 2,139,615
Net Assets	
Invested in Capital Assets, Net of Related Debt	\$ 3,314,472
Unrestricted Net Assets	1,249,233
Total Net Assets	\$ 4,563,705
TOTAL LIABILITES & NET ASSETS	\$ 6,703,320

Borough of Honesdale
Statement of Cash Flows - Proprietary Fund
For the Year Ended December 31, 2007

Cash Flows Provided by Operating Activities

Cash Received From Users	\$ 1,710,141	
Cash Payments To Employees For Services	(113,508)	
Cash Payments To Suppliers for Goods and Services	<u>(1,593,579)</u>	
Net Cash Provided by Operating Activities		\$ 3,054

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

Cash Received From Federal & State Subsidies	\$ 866,362	
Operating Transfers	<u>(100,224)</u>	
Net Cash Provided by (Used in) Non-Capital Financing Activities		\$ 766,138

Cash Flows Provided by (Used in) Capital Financing Activities

Capital Outlay	\$ (1,978,053)	
Proceeds from long term financing	1,518,101	
Debt Reduction	<u>(108,467)</u>	
Net Cash Provided by (Used in) Capital Financing Activities		\$ (568,419)

Cash Flows From Investing Activities

Earnings on Investments		\$ <u>7,003</u>
Net Increase in Cash and Cash Equivalents		\$ 207,776
Cash and Cash Equivalents - January 1, 2007		\$ <u>596,435</u>
Cash and Cash Equivalents - December 31, 2007		\$ <u><u>804,211</u></u>

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

Cash Flows From Operating Activities

Operating Income		\$ 151,132
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Adjustments to Reconcile Operating Income to Net Cash Used For:

Depreciation and Net Amortization	\$ 96,816	
Decrease in Accounts Receivable	220,181	
Decrease in Interfund Receivable	-	
Decrease in Accounts Payable	(465,639)	
Increase in Salaries Payable	<u>564</u>	
Total Adjustments		\$ <u>(148,078)</u>

Net Cash Provided by Operating Activities		\$ <u><u>3,054</u></u>
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Borough of Honesdale
Statement of Fiduciary Net Assets - Fiduciary Funds
As of December 31, 2007

	<u>Private-Purpose</u> <u>Trust Fund</u>	<u>Pension Trust Funds</u>		<u>Agency Fund</u>
	<u>Rev. Doherty</u> <u>Fuel Fund</u>	<u>Non Uniform</u> <u>Pension</u>	<u>Uniform</u> <u>Pension</u>	<u>Fire Loss</u> <u>Escrow Fund</u>
<u>Assets</u>				
Current Assets				
Cash and Cash Equivalents	\$ 15,948	\$ -	\$ -	\$ 13,325
Investments	436,010	379,878	2,441,153	-
Total Assets	\$ 451,958	\$ 379,878	\$ 2,441,153	\$ 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	\$ 451,958	\$ -	\$ -	\$ -
Held in trust for pension benefits	-	364,045	2,269,925	-
Total Net Assets	\$ 451,958	\$ 364,045	\$ 2,269,925	\$ -
Total Liabilities and Net Assets	\$ 451,958	\$ 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, 2007

	Private-Purpose		
	Trust Fund	Pension Trust Funds	
	Rev. Doherty Fuel Fund	Non Uniform Pension	Uniform Pension
Additions			
State Aid	\$ -	\$ 24,436	\$ 71,756
Contributions - Employee	-	1,200	29,966
Contributions - Employer	-	6,533	-
Interest / Dividend Income	5,124	8,021	67,721
Realized Gain on Sale of Investments	-	25,797	53,958
Net Appreciation/Depreciation in Fair Values of Investments	<u>590</u>	<u>(11,085)</u>	<u>90,690</u>
Total Additions	\$ 5,714	\$ 54,902	\$ 314,091
Deductions			
Expenditures in Accordance with Trust Instrument	\$ -	\$ -	\$ -
Pension Benefits	-	33,165	134,053
Administrative Expenses	-	5,904	8,810
Total Deductions	\$ -	\$ 39,069	\$ 142,863
Change in Net Assets	\$ 5,714	\$ 15,833	\$ 171,228
Net Assets - January 1, 2007	\$ 446,244	\$ 364,045	\$ 2,269,925
Net Assets - December 31, 2007	\$ 451,958	\$ 379,878	\$ 2,441,153

Borough of Honesdale
Notes to Financial Statements
December 31, 2007

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

Borough of Honesdale
Notes to Financial Statements
December 31, 2007

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.

Borough of Honesdale
Notes to Financial Statements
December 31, 2007

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, 2007 was 3.3 mills on an assessed valuation of \$261,330,510. During the year, the Borough collected \$811,993 after various adjustments for discounts, penalties and credits on a total tax levied in the amount of \$863,858. The Borough's rate of collection approximated 94% of total taxes due during the year.

The 2006 tax duplicates were issued April 1, 2007 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>

Borough of Honesdale
Notes to Financial Statements
December 31, 2007

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, 2007, \$1,493,377 of the Borough's bank balance of \$1,782,958 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, 2007. 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 2007. As of December 31, 2007, delinquent real estate taxes outstanding amounted to \$56,687.

NOTE 5 - FIXED ASSETS AND DEPRECIATION:

Fixed asset activity for the year ended December 31, 2007, was as follows:

	Balance 1/01/2007	Additions	Disposals	Balance 12/31/2007
Governmental Activities:				
Equipment	\$ 178,924	\$ 0	\$ 0	\$ 178,924
Vehicles	551,527	52,849	(45,762)	558,614
Buildings & Improvements	<u>25,545</u>	<u>26,594</u>	<u>0</u>	<u>52,139</u>
Totals Estimated at Historical Cost	\$ 755,996	\$ 79,443	\$ (45,762)	\$ 789,677
Less Accumulated Depreciation				
Equipment	\$ (102,177)	\$ (14,797)	\$ 0	\$ (116,974)
Vehicles	(517,420)	(16,278)	29,398	(504,300)
Buildings & Improvements	<u>(3,832)</u>	<u>(3,884)</u>	<u>0</u>	<u>(7,716)</u>
Total Accumulated Depreciation	\$ (623,429)	\$ (34,959)	\$ 29,398	\$ (628,990)
Net Governmental Fixed Assets	<u>\$ 132,567</u>	<u>\$ 44,484</u>	<u>\$ (16,364)</u>	<u>\$ 160,687</u>

Borough of Honesdale
Notes to Financial Statements
December 31, 2007

	Balance 1/01/2007	Additions	Disposals	Balance 12/31/2007
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	2,318,643	1,978,053	0	4,293,696
Totals Estimated at Historical Cost	\$ 4,843,140	\$ 1,978,053	\$ 0	\$ 6,821,193
Less Accumulated Depreciation	(1,343,057)	(96,815)	0	(1,439,872)
Net Business-type Fixed Assets	\$ 3,500,083	\$ 1,881,238	\$ 0	\$ 3,500,081

NOTE 6 – LONG TERM DEBT:

The following is a summary of changes in Long-Term Debt for the year ended December 31, 2007.

<u>Type of Debt</u>	<u>Rate of Interest</u>	<u>Monthly Payment</u>	<u>Balance 1/01/2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/2007</u>	<u>Due Within One Year</u>
Governmental Activities:							
2007 Tax Anticipation Note			0	220,000	220,000	0	0
General Obligation Note	3.97%	\$ 2,635	217,892	0	23,283	194,609	24,217
Capital Lease Payable	5.20%	\$ 816	11,065	0	9,443	1,622	1,622
Total Governmental			\$ 260,288	\$ 220,000	\$ 252,726	\$ 196,231	\$ 25,839
Business-Type Activities:							
General Obligation Note	4.17%	\$ 7,165	657,212	0	59,337	597,875	61,825
General Obligation Note	1.996%	\$ 7,662	0	1,515,587	46,613	1,468,974	63,244
Total Business Type			\$ 657,212	\$ 1,515,587	\$ 105,950	\$ 2,066,849	\$ 125,069

Annual Debt Service Requirements

Annual requirements to amortize principal and interest on debt outstanding as of December 31, 2007, are:

**Borough of Honesdale
Notes to Financial Statements
December 31, 2007**

<u>Year Ending</u>	<u>Governmental Activities</u>		<u>Business-Type</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 25,839	\$ 7,276	\$ 125,069	\$ 52,857
2009	25,335	6,292	129,076	48,849
2010	25,359	5,267	133,157	44,768
2011	27,425	4,202	137,383	40,542
2012	28,534	3,098	141,724	36,201
2013-2028	63,739	2,684	1,400,440	114,833
	<u>\$ 196,231</u>	<u>\$ 28,819</u>	<u>\$ 657,212</u>	<u>\$ 338,050</u>

NOTE 7 - PENSION PLAN:

Police Pension

The Borough received \$96,192 as its annual allocation from the Commonwealth of Pennsylvania and remitted \$96,192 to the pension plans. Pension plan expense for 2006 was as follows:

	<u>State Aid</u>	<u>Municipal Contribution</u>	<u>Pension Plan Expense</u>
Police	\$ 71,756	\$ 0	\$ 71,756
Non – Uniformed	24,436	6,533	30,969
	<u>\$ 96,192</u>	<u>\$ 6,533</u>	<u>\$ 102,725</u>

The Borough has a pension plan, which covers all full-time police officers in accordance with Act 205 of 1985, the Municipal Pension Funding Standards and Recovery Act. The plan is funded primarily through an annual allocation from the Commonwealth of the 2% tax imposed on foreign casualty insurance premiums and through contributions received from the Borough of Honesdale and plan members. The Commonwealth, through the enactment of Act 205, distributes the allocation on a need only basis. The actuarial study conducted as of January 1, 2007 concluded that there is an unfunded actuarial accrued liability of \$274,135. The Minimum Municipal Obligation for 2008 is calculated to be \$100,656.

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.

Summary of Plan Provisions

1. Dates

Plan Year: Twelve-month period beginning January 1 and ending December 31
 Date Plan Established: September 1, 1960.

2. Definitions

Employee..... Any person employed on a full-time basis by the Borough of Honesdale as a police officer.
 Retirement Benefit
 Beginning Date..... The day following eligibility for and election to retire.
 Accrued Benefit..... Normal Retirement Benefit multiplied by Service to date and divided by projected Service to Normal Retirement.
 Salary..... Total wages paid by the employer including base salary, longevity pay, ranking officer pay and overtime pay.

**Borough of Honesdale
Notes to Financial Statements
December 31, 2007**

Years of Service.....	Date of hire through date of retirement or other severance. Participants may purchase up to 5 years of military service for pension purposes as allowed by state law.
Normal Form of Payment.....	A monthly pension benefit payable for life.
3. <u>Participation</u>	
Entry Date.....	Date of hire.
Eligibility.....	No other requirements.
4. <u>Normal Retirement</u>	
Eligibility.....	Age 50 and the completion of 25 years of service.
Amount of Benefit.....	Monthly benefit equal to 50 percent of Average Monthly Salary.
5. <u>Disability</u>	
Eligibility.....	Total and permanent disablement that occurs while performing the duties of a police officer for the Borough of Honesdale.
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 2008 is calculated to be \$47,055.

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, 2007:

Borough of Honesdale
Notes to Financial Statements
December 31, 2007

	<u>Contract</u> <u>Inception</u>	<u>Contract</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.

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.

CERTIFIED PUBLIC ACCOUNTANTS

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

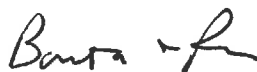
Kevin P. Noone, CPA
Thomas F. Telesz, CPA

INDEPENDENT AUDITOR'S REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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 Borough of Honesdale, as of and for the year ended December 31, 2007, which collectively comprise the Borough's basic financial statements as listed in the table of contents and have issued our report dated April 24, 2008 thereon.

Our audit was performed for the purpose of forming an opinion on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the Borough taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the Borough taken as a whole.



Scranton, Pennsylvania
April 24, 2008

**BOROUGH OF HONESDALE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

GRANTOR/PROJECT TITLE	GRANTORS NUMBER	CFDA NUMBER	GRANT PERIOD	GRANT AWARD	CASH RECEIVED		ACCRUED (DEFERRED)		REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) DEC. 31, 2007
					JAN. 1, 2007 to DEC. 31, 2007	JAN. 1, 2007	JAN. 1, 2007	DEC. 31, 2007			
U.S. ENVIRONMENTAL PROTECTION AGENCY											
Passed through the PA Department of Environmental Protection:											
Sanitary Sewer System Rehabilitation	XP-983819-01		5/03 to 6/07	\$ 631,852	\$ 63,252	\$ 8,580	\$ 54,672	\$ 54,672	\$ 54,672	\$ -	\$ -
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY											
Passed through the PA Emergency Management Agency											
Summer Floods 2006	1649-DR-PA	97.036	2006	212,356	\$ 212,356		\$ 212,356	\$ 212,356	\$ 212,356	\$ -	\$ -
U.S. DEPARTMENT OF EDUCATION											
Passed through Pennvest											
Sanitary Sewer Rehab	64033040601-CS	66.458	6/30/1909	1,814,386	\$ 755,830	\$ -	\$ 755,830	\$ 755,830	\$ 755,830	\$ -	\$ -
TOTAL FEDERAL ASSISTANCE											
				\$ 1,031,438	\$ 1,031,438	\$ 8,580	\$ 1,022,858	\$ 1,022,858	\$ 1,022,858	\$ 255,715	\$ -
Testing Requirements - 25% Rule											
Total expenditures (listed above) \$ 1,022,858											
Testing Requirement \$ 255,715											
*Programs Tested											
Sanitary Sewer Rehab \$ 755,830											
Total Expenditures Test \$ 755,830											
Total Percentage Tested 74%											

**Borough of Honesdale
Summary of Auditors Results
As of December 31, 2007**

Part I - Summary of Auditors Results

Financial Statement Section

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified not considered to be material weaknesses? Yes X No

Noncompliance material to financial statements noted? Yes X No

Federal Awards Section

Dollar threshold used to determine Type A programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

Type of auditor's report on compliance for major programs: Unqualified

Internal Control over compliance:

Material weakness(es) identified? Yes X No

Were reportable condition(s) identified not considered to be material weakness(es)? Yes X No

Any audit findings disclosed that are required to be reported in accordance with Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Sanitary Sewer Rehab

CERTIFIED PUBLIC ACCOUNTANTS

Thomas P. Rainey, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Borough Council
Honesdale Borough
Wayne County, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Borough of Honesdale (the "Borough") as of and for the year ended December 31, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits containing in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Borough's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Borough of Honesdale's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of deficiencies, that adversely affects the Borough's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Borough's financial statements that is more than inconsequential will not be prevented or detected by the Dallas School District's internal control.

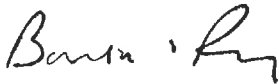
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Borough of Honesdale's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters involving the internal control over financial reporting that we have reported to the management of the Borough, in a separate letter dated April 24, 2008.

This report is intended solely for the information and use of the Borough Council, management and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Scranton, PA
April 24, 2008

CERTIFIED PUBLIC ACCOUNTANTS

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

Kevin P. Noone, CPA
Thomas F. Telesz, CPA

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Borough Council
Honesdale Borough
Wayne County, Pennsylvania

Compliance

We have audited the compliance of Borough of Honesdale with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Borough of Honesdale's major federal programs is identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Borough of Honesdale's management. Our responsibility is to express an opinion on Wilkes Borough of Honesdale's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Borough of Honesdale's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Wilkes-Barre Area School District's compliance with those requirements.


In our opinion, Borough of Honesdale complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of Borough of Honesdale's is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Borough of Honesdale's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Scranton, PA
April 24, 2008