HONESDALE BOROUGH

ANNUAL FINANCIAL STATEMENTS

DECEMBER 31, 2025

Honesdale Borough
Annual Financial Statements
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J.H. Williams & Co., LLC
OUR PASSION IS SERVICE
Certified Public Accountants

Independent Auditors' Report

Board of Supervisors
Honesdale Borough
Honesdale Borough, Pennsylvania

Report on the Audit of the Financial Statements

Opinions

We have audited the modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Honesdale Borough, Pennsylvania, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise Honesdale Borough's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Honesdale Borough as of December 31, 2025, and the respective changes in financial position – modified cash basis for the year ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibility for the Audit of the Financial Statements section of our report. We are required to be independent of the Borough of Honesdale and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Emphasis of Matter – Footnote Disclosures

As discussed in Note 6 to the financial statements, Honesdale Borough does not include all disclosures regarding its pension fund. The Modified Cash Basis of accounting requires that pension information be disclosed in the footnotes to the financial statements. The amount by which this departure would affect the assets, net position, and revenue has not been determined.

Board of Supervisors
Honesdale Borough

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Honesdale Borough's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Honesdale Borough's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Board of Supervisors
Honesdale Borough

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Honesdale Borough's basic financial statements. The budgetary comparison information on pages 32 through 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

J.H. Williams & Co., LLC

July 20, 2026

Honesdale Borough
Statement of Net Position - Modified Cash Basis
December 31, 2025

	Governmental Activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 1,991,025
Cash and cash equivalents - Restricted	270,558
TOTAL CURRENT ASSETS	2,261,583
PROPERTY, PLANT, AND EQUIPMENT (NET)	
Buildings and improvements	744,570
Infrastructure	1,863,139
Vehicles	350,568
Machinery and equipment	330,642
TOTAL PROPERTY, PLANT AND EQUIPMENT (NET)	3,288,919
TOTAL ASSETS	$ 5,550,502
LIABILITIES AND NET POSITION	
LIABILITIES	
Current portion of long term debt	53,046
Payroll taxes payable	91
TOTAL CURRENT LIABILITIES	53,137
NON-CURRENT LIABILITIES- Long term debt	163,197
TOTAL LIABILITIES	216,334
NET POSITION	
Investment in capital assets, net of related debt	3,072,676
Restricted for:	
Highway operations	125,119
Pension obligations	115,789
Debt service	29,650
Unrestricted	1,990,934
TOTAL NET POSITION	5,334,168
	$ 5,550,502

The accompanying notes are an integral part of these financial statements.

Honesdale Borough
Statement of Activities - Modified Cash Basis
For the year ended December 31, 2025

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Program Revenues: Capital Grants	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					
General government	$ 449,205	$ 46,336	$ 5,981	$ -	$ (396,888)
Public safety	846,818	116,580	32,303	158,313	(539,622)
Streets and public works	1,395,556	175,200	143,486	-	(1,076,870)
Streets and public works - stormwater	569,672	-	-	228,652	(341,020)
Culture and recreation	248,284	37,080	-	7,093	(204,111)
Community Development	44,555	-	-	-	(44,555)
Unallocated expenses:					
Insurance	213,557	-	-	-	(213,557)
Employee benefits and payroll taxes	828,233	-	79,988	-	(748,245)
Debt service interest	12,000	-	-	-	(12,000)
Miscellaneous	11,294	-	-	-	(11,294)
TOTAL GOVERNMENTAL ACTIVITIES	$ 4,619,174	$ 375,196	$ 261,758	$ 394,058	(3,588,162)
GENERAL REVENUES					
Taxes:					
Property taxes, levied for general purposes					3,066,196
Local services and per capita taxes					187,457
Other taxes					107,732
Investment earnings					35,438
Miscellaneous income					80,402
TOTAL GENERAL REVENUES					3,477,225
CHANGE IN NET POSITION					(110,937)
NET POSITION - BEGINNING					5,445,105
NET POSITION - ENDING					$ 5,334,168

The accompanying notes are an integral part of these financial statements.

Honesdale Borough
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2025

	General Fund	Highway Aid Fund	Pension Tax Fund	Debt Service Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 1,991,025	$ -	$ -	$ -	$ 1,991,025
Cash and cash equivalents - restricted	-	125,119	115,789	29,650	270,558
	$ 1,991,025	$ 125,119	$ 115,789	$ 29,650	$ 2,261,583
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Payroll taxes payable	$ 91	$ -	$ -	$ -	$ 91
TOTAL LIABILITIES	91	-	-	-	91
FUND BALANCES					
Restricted					
Highway operations	-	125,119	-	-	125,119
Pension obligations	-	-	115,789	-	115,789
Debt service	-	-	-	29,650	29,650
Unassigned	1,990,934	-	-	-	1,990,934
TOTAL FUND BALANCES	1,990,934	125,119	115,789	29,650	2,261,492
	$ 1,991,025	$ 125,119	$ 115,789	$ 29,650	$ 2,261,583

The accompanying notes are an integral part of these financial statements.

Honesdale Borough
Reconciliation of Balance Sheet - Modified Cash Basis - Governmental Funds to the Statement of Net Position - Modified Cash Basis
December 31, 2025

Total Fund Balances - Governmental Funds		***$ 2,261,492***
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in government activities are not financial resources and therefore are not reported in the Governmental Fund statements.		3,288,919
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Fund statements.		
Current portion of long-term debt	$ (53,046)	
Long-term portion of debt	(163,197)	(216,243)
Total Net Position - Governmental Activities		***$ 5,334,168***

The accompanying notes are an integral part of these financial statements.

Honesdale Borough

Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds

For the year ended December 31, 2025

	General Fund	Highway Aid Fund	Pension Tax Fund	Debt Service Fund	Total Governmental Funds
REVENUE RECEIPTS					
Real estate taxes	$ 2,927,720	$ -	$ 125,939	$ 12,537	$ 3,066,196
Local enabling act taxes	292,476	-	-	-	292,476
Licenses and permits	44,336	-	-	-	44,336
Fines, forfeits and costs	25,097	-	-	-	25,097
Interest and rents	29,094	4,722	1,463	161	35,440
Grants and gifts	511,090	143,486	-	-	654,576
Departmental earnings	311,744	-	-	-	311,744
Miscellaneous revenue receipts	27,672	-	-	-	27,672
TOTAL REVENUE RECEIPTS	4,169,229	148,208	127,402	12,698	4,457,537
GOVERNMENTAL EXPENDITURES					
General government	868,771	-	-	-	868,771
Public safety	917,188	-	-	-	917,188
Streets and public works	925,966	271,997	-	13,499	1,211,462
Streets and public works - stormwater	569,672	-	-	-	569,672
Sanitation	155,247	-	-	-	155,247
Culture and recreation	235,085	-	-	-	235,085
Community development	44,555	-	-	-	44,555
Insurance	147,160	-	-	-	147,160
Employee benefits and payroll taxes	656,936	-	171,751	-	828,687
Miscellaneous	10,279	15	-	-	10,294
Debt service					
Principal	-	26,862	-	23,795	50,657
Interest	-	9,353	-	2,647	12,000
TOTAL GOVERNMENTAL EXPENDITURES	4,530,859	308,227	171,751	39,941	5,050,778
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(361,630)	(160,019)	(44,349)	(27,243)	(593,241)
OTHER FINANCING SOURCES (USES)					
Refunds of prior year expenditures	42,895	-	-	-	42,895
Proceeds from sales of assets	3,252	4,550	-	-	7,802
Proceeds from issuance of long term debt	-	151,900	-	13,499	165,399
Transfers from other governmental funds	-	-	79,988	26,442	106,430
Judgements and losses	(49,701)	-	-	-	(49,701)
Transfers to other governmental funds	(106,430)	-	-	-	(106,430)
TOTAL OTHER FINANCING SOURCES (USES)	(109,984)	156,450	79,988	39,941	166,395
NET CHANGE IN FUND BALANCES	(471,614)	(3,569)	35,639	12,698	(426,846)
FUND BALANCES - BEGINNING	2,462,548	128,688	80,150	16,952	2,688,338
FUND BALANCES - ENDING	$ 1,990,934	$ 125,119	$ 115,789	$ 29,650	$ 2,261,492

The accompanying notes are an integral part of these financial statements.

Honesdale Borough

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds to the Statement of Activities - Modified Cash Basis

For the year ended December 31, 2025

Change in Fund Balances - Governmental Funds	***$ (426,846)***
Amounts reported for governmental activities in the Statement of Activities are different because:	
Repayments on outstanding debt are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the governmental activities.	50,657
Issuance of debt is a direct liability in governmental activities; however, it is considered an "other financing source" in the governmental funds	(165,398)
Governmental activities report the costs of capital outlay as fixed assets and allocate those costs over their esimtated useful lives as depreciation, whereas in the governmental funds, capital outlay costs are reported as current expenditures.	665,483
Governmental activities report depreciation expense on fixed assets over their estimated useful lives; however, governmental funds do not report depreciation.	(234,833)
Change in Net Position - Governmental Activities	***$ (110,937)***

The accompanying notes are an integral part of these financial statements.

Honesdale Borough
Statement of Fiduciary Net Position - Modified Cash Basis
December 31, 2025

	Private Purpose Trust Fund	Pension Trust Funds		
	Rev. Doherty Fuel Fund	Non-Uniformed Pension Plan	Uniformed Pension Plan	Total Fiduciary Fund Types
ASSETS				
Cash and equivalents	$ 45,313	$ -	$ 443,006	$ 488,319
Investments	906,240	255,832	5,614,616	6,776,688
Miscellaneous assets	-	-	4,274	4,274
TOTAL ASSETS	$ 951,553	$ 255,832	$ 6,061,896	$ 7,269,281
LIABILITIES	$ -	$ -	$ -	$ -
NET POSITION				
Reserved in accordance with trust agreement	$ 951,553	$ -		$ 951,553
Reserved for pension benefits	-	255,832	6,061,896	6,317,728
TOTAL NET POSITION	$ 951,553	$ 255,832	$ 6,061,896	$ 7,269,281

The accompanying notes are an integral part of these financial statements.

Honesdale Borough
Statement of Changes in Fiduciary Net Position - Modified Cash Basis
For the year ended December 31, 2025

	Private Purpose Trust Fund	Pension Trust Funds		
	Doherty Fund	Non-Uniformed Pension Plan	Uniformed Pension Plan	Total Fiduciary Fund Types
ADDITIONS				
Contributions				
State aid	$ -	$ -	$ 79,988	$ 79,988
Contributions - employer	-	10,500	81,263	91,763
Contributions - employees	-	-	16,097	16,097
Total contributions	-	10,500	177,348	187,848
Investment Earnings				
Interest and dividends	20,425	12,460	98,473	131,358
Net realized/unrealized gains (losses) on investments	67,118	18,283	622,679	708,080
Investment expenses	-	-	(43,432)	(43,432)
Net investment earnings	87,543	30,743	677,720	796,006
TOTAL ADDITIONS	87,543	41,243	855,068	983,854
DEDUCTIONS				
Pension distributions	-	-	313,196	313,196
Administrative expenses	9,600	8,207	13,731	31,538
TOTAL DEDUCTIONS	9,600	8,207	326,927	344,734
CHANGE IN NET POSITION	77,943	33,036	528,141	639,120
NET POSITION - BEGINNING	873,610	222,796	5,533,755	6,630,161
NET POSITION - ENDING	$ 951,553	$ 255,832	$ 6,061,896	$ 7,269,281

The accompanying notes are an integral part of these financial statements.

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The Borough of Honesdale, Pennsylvania (the "Borough) was incorporated in 1831 and operates under an elected mayor/council form of government. The Borough's major services include general government, public safety, public works, parks and recreation, and community development and assistance.

All significant activities and organizations on which the Borough exercises oversight responsibility have been included in the Borough's financial statements for the year ended December 31, 2025. The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board (GASB) Statements No. 14, The Financial Reporting Entity, and No. 39, Determining Whether Certain Organizations are Component Units (an amendment of No. 14), and No. 61, The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and No. 34, and No. 80, Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following criteria regarding manifestation of oversight were considered by the Borough in its evaluation of Borough organizations and activities:

- Financial interdependency - The Borough is responsible for its debts and is entitled to surpluses. No other separate agency receives a financial benefit nor imposes a financial burden on the Borough.

- Election of the government authority - The Board is responsible for all public decisions and accountable for the decisions it makes.

- Designation of management - The Board hires all members of the management team. The activities under the purview of management are within the scope of the reporting entity and management is accountable to the Board for the activities being managed.

- Ability to significantly influence operations - The Board has authority to significantly influence operations. This authority includes, but is not limited to, control over all assets, including facilities and properties, short-term borrowings, signing contracts, establishing a budget, levying taxes, issuing bonded debt and developing programs to be provided.

- Accountability of fiscal matters - The responsibility and accountability over all funds are vested in the Board.

The Borough has reviewed these requirements and has determined that there are no component units that should be included in these financial statements.

The more significant of the Borough's accounting policies are described below:

Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the Borough as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting entity. These statements include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes and intergovernmental revenue and other non-exchange revenue.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Borough's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Borough does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to users for goods, services, or privileges provided, and
- operating grants and contributions
- capital grants and contributions

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Generally, the effect of inter-fund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for inter-fund services provided are not eliminated if doing so would distort the direct costs and program revenues reported by the departments concerned.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditures/expenses. Separate statements are presented for governmental funds and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. A fund is considered to be major if it is the primary operating fund of the Borough or meets the following criteria in accordance with GASB Statement No. 34:

- total assets, liabilities, revenues or expenditures/expenses of that individual governmental fund or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type, and

- total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental or enterprise funds combined.

All funds not meeting the above criteria are reported as "other funds" in the fund financial statements. Fiduciary funds are aggregated and reported by fund type. At its discretion, the Borough may designate any fund not meeting the above criteria to be reported as major funds.

The funds of the reporting entity are described below:

Governmental Funds

General Fund:

The General Fund is the primary operating fund of the Borough and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds:

Special revenue funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Borough. The Borough includes the following special revenue funds:

Fund	Description	Major/Non-major
Highway Aid Fund	Accounts for gasoline excise and commercial vehicle taxes legally restricted for street and alley improvements.	Major

Pension Tax Fund	Accounts for real estate taxes and other revenues legally restricted to assist the Borough with funding its annual pension obligations.	Major

Debt Service Fund:

The Borough's Debt Service Fund is established to account for real estate taxes legal restricted to pay the Borough's long-term debt obligations. This fund is classified as a major fund.

Fiduciary Fund:

Fiduciary funds account for assets held by the Borough as a trustee or agent for individuals, private organizations and other units of government. The Borough reports the following fund type:

Fund Type	Description
Pension Trust Funds	Account for pension benefits for Borough employees. The principal revenue sources for this fund are employer contributions, employee contributions, and grants from the Commonwealth of Pennsylvania.
Private Purpose Trust Funds	Used to report resources held and administered by the reporting government where it is acting in a fiduciary capacity for individuals, private organizations or other governments.

Basis of Accounting and Measurement Focus

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the modified cash basis of accounting. The modified cash basis of accounting recognizes revenues when received rather than when earned and expenditures when paid rather than when the liability is incurred.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the Borough utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

Financial Reporting

In December 2023, the GASB issued Statement No. 102 Certain Risk Disclosures. This Statement provides users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes that primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The provisions of this Statement are effective for reporting periods beginning after June 15, 2024, and those provisions have been included in these financial statements.

In April 2024, the GASB issued Statement No. 103 Financial Reporting Model Improvements. This Statement improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The provisions of this statement are effective for reporting periods beginning after June 15, 2025.

In September 2024, the GASB issued Statement No. 104 Disclosures of Certain Capital Assets. This Statement provides users of governmental financial statements with essential information about certain types of capital assets. The provisions of this statement are effective for reporting periods beginning after June 15, 2025.

In December 2025, the GASB issued Statement No. 105 Subsequent Events. This statement improves the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. The provisions for this statement are effective for fiscal years beginning after June 15, 2026.

Net Position

In June 2011, the GASB issued Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*" GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. It identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. The provisions of this Statement are effective for periods beginning after December 15, 2011.

Government-Wide Financial Statements

Government-wide net position is divided into the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and is reduced by any debt outstanding against the acquisition, construction, or improvement of those assets. These amounts are increased by deferred outflows of resources and reduced by deferred inflows of resources related to those assets.

Restricted Net Position – This component of net position consists of assets reported as a result of constraints placed on the use of those assets imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. These amounts are reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted Net Position – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Borough's policy to first use restricted resources prior to the use of unrestricted resources (net position) when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Governmental Fund Balances

Effective January 1, 2011, the Borough implemented GASB Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions.*" This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Non-Spendable Fund Balance

Represents amounts that are not in spendable form (such as inventory and prepaid expenses) or are legally or contractually required to remain intact.

Restricted Fund Balance

Represents amounts constrained to specific purposes by their provisions (such as grantors, bondholders, and higher levels of government) through constitutional provisions, or by enabling legislation.

Committed Fund Balance

Represents amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

Assigned Fund Balance

Represents amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official of body to which the governing body delegates the authority.

Unassigned Fund Balance

Represents amounts that are available for any purpose and includes all spendable amounts not contained in the other classifications.

It is the Borough's policy to first use restricted funds prior to the use of unassigned funds when an expense is incurred for purposes for which both restricted and unassigned fund balances are available.

Budgets and the Budgetary Process

The Board of the Borough adopts an annual operating budget, which can be amended by the Board throughout the year. Formal budgetary accounting is employed as a management control for all funds of the Borough, and legal budgets are adopted for those funds as well. The modified cash basis of accounting is used for both budgetary and financial reporting purposes.

With proper approval by the Board of the Borough, budgetary transfers between departments can be made. The annual operating budget is adopted each year through passage of an annual budget ordinance and is amended as required from time to time. The budgeted financial statements represented in this report reflect the final budget authorization, including all amendments.

All unencumbered budget appropriations lapse at the end of each year.

Cash Equivalents

For purposes of presentation in the accompanying modified cash basis financial statements, the Borough classifies all highly liquid instruments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are carried at fair value in the accompanying modified cash basis financial statements and unrealized gains and losses are included in the changes in net position for the year.

Capital Assets

The Borough's modified cash basis of accounting reports capital assets resulting from cash transactions or events and reports depreciation where appropriate. All capital assets are stated at historical cost net of accumulated depreciation. Donated assets are reported at fair value as of the date received. Depreciation is computed over the estimated useful lives of the assets using the straight-line method. General infrastructure assets consist of roadways and are stated at cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset is not capitalized. A capitalization threshold of $5,000 is used to report capital assets.

Depreciation on all assets is provided on the straight-line method over the following useful lives:

Building and improvments	50 years
Infrastructure	50 years
Vehicles	5-10 years
Furniture	20 years
Machinery and equipment	5-10 years

Inter-Fund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Net Position and Statement of Activities, amounts, if any, reported as inter-fund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

Inter-fund activity within and among the governmental fund categories is reported as follows in the fund financial statements:

1. Inter-fund loans – Amounts provided with a requirement for repayment are reported as inter-fund receivables and payables.

2. Internal services – Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.

3. Inter-fund reimbursements – Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in respective funds.

4. Inter-fund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in or out.

Government-Wide Financial Statements

Inter-fund balances and activities, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances – Amounts reported in the fund financial statements as inter-fund receivables and payables are eliminated in the governmental activities column of the Statement of Net Position.

2. Internal activities – Amounts reported as inter-fund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities.

Property Tax Revenues and Property Tax Calendar

The total tax on real estate, as levied by the Borough Council was 7.58 mills ($7.58 per $1,000 of taxable value) for 2025. Property taxes are billed based on the assessed value of property. Assessed values are on approximations of market value. The Borough's assessed valuation for its 2025 tax bills amounted to $412,986,034.

Property taxes collected are remitted to the Borough by an elected tax collector. Taxes are levied annually and are due based on the following payment schedule:

Discount Period:	April 1 to June 1
Face Period:	June 2 to July 31
Penalty Period:	August 1 to December 31

The taxes are recorded as revenue in the year received. Taxes remaining unpaid as of December 31 are turned over to Wayne County for collection each January. Delinquent tax payments received throughout the year are recorded as revenue in the year received.

A summary of the current year millage is as follows:

	Mills
General fund	6.50
Fire protection	0.35
Parks and recreation	0.38
Debt service	0.03
Pension fund	0.32
TOTAL	7.58

Pension Costs

Pension costs are actuarially computed. The Borough's policy is to record pension costs when paid.

Compensated Absences

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

Revenues and Expenditures/Expenses

Revenues for governmental funds are recorded when they are received. Generally, tax revenues, fees, and non-tax revenues are recognized when received. Unrealized gains on investments are included in investment income. Grants from other governments are recognized when qualifying expenditures are incurred. Expenditures for governmental funds are recorded when paid.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – Deposits and Investments

Deposits

Pennsylvania statutes provide for investment of Governmental Funds into certain authorized investment types including:

1. United States Treasury bills, short-term obligations of the United States Government or its agencies.

2. Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and for any amounts above the insured maximum, provided that approved collateral as provided by law shall be pledged by the depository.

3. Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

4. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments listed above.

In addition to the investments authorized for its general operations, Pennsylvania statutes prescribe a "prudent person rule" for a Borough's fiduciary funds to make investments in securities in which a prudent person of discretion and intelligence, who is seeking reasonable income and preservation of capital, would buy.

Deposits of the Governmental Funds are maintained in demand deposit accounts, money market accounts, and time deposit accounts. Investments of the Fiduciary Funds are administered by trustees and are held separately from those of other municipal funds. There were no deposit or investment transactions during the year that were in violation of state statutes. As of December 31, 2025, the Borough had the following deposits:

	Carrying Amount	Bank Balance
GOVERNMENTAL ACTIVITIES		
Demand deposits	$ 2,154,170	$ 2,236,069
Time and savings deposits	107,297	107,297
Petty cash	116	-
TOTAL GOVERNMENTAL ACTIVITIES	2,261,583	2,343,366
FIDUCIARY FUNDS		
Demand deposits	45,313	45,313
Money market mutual funds	443,006	443,006
TOTAL FIDUCIARY FUNDS	488,319	488,319
	$ 2,749,902	$ 2,831,685

Custodial credit risk is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough does not have a deposit policy addressing custodial credit risk. As of December 31, 2025, $629,691 of the Borough's bank balance was exposed to custodial credit risk because it was uninsured and the collateral held by the depository was not in the Borough's name. Furthermore, any balance in excess of the insurance limits is required to be collateralized by a pool of eligible securities in accordance with the act of the General Assembly of the Commonwealth of Pennsylvania as of August 6, 1971 (P.L. 281, No. 72).

Investments

Carrying amounts of investments as of December 31, 2025 are summarized as follows:

	Fair Value
Reverend Doherty Fuel Fund	
7,080 shares Honat Bancorp stock	$ 906,240
Non-Uniformed Pension Plan	
PSAB Municipal Retirment Trust	255,832
Uniformed Pension Plan	
Wilmington Trust	5,614,616
TOTAL INVESTMENTS	$ 6,776,688

Reverend Doherty Fuel Fund is a trust established with shares of Honat Bancorp, Inc. stock. The trust was established through the Estate of John J. Doherty with his passing on April 7, 1896. The Borough holds 7,080 shares of Honat Bancorp, Inc. common stock. Pursuant to the trust indenture, only income generated from the stock could be used for the purpose of the Trust which is to subsidize utility payments for the underprivileged citizens in the Borough.

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

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

Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GASB No. 72 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Borough has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Exchange traded funds: Valued at the net asset value (NAV) of shares held by the Borough at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Borough believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair values of assets measured on a recurring basis at December 31, 2025 are set forth by level, within the fair value hierarchy as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs Other than Level 1 (Level 2)	Significant Unobservable Inputs (Level 3)
Non-Uniformed Pension				
PSABMP Trust pooled investment plan	$ 255,832	$ 255,832	$ -	$ -
Uniformed Pension				
US government agencies	$ 13,144	$ 13,144	$ -	$ -
Corporate bonds	416,508	416,508	-	-
Equity securities	4,690,898	4,690,898	-	-
Equity securities	494,066	494,066	-	-
	$ 5,614,616	$ 5,614,616	$ -	$ -
Reverend Doherty Fuel Fund				
Equity securities	$ 906,240	$ 906,240	$ -	$ -

Custodial credit risk – For an investment, custodial credit risk is the risk that in the event of a failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Borough does not have an investment policy addressing custodial credit risk. As of December 31, 2025, the entire investment portfolio of both pension plans of the Borough was exposed to custodial credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Borough does not have a policy addressing interest rate risk that limits maturities as a means of managing its exposure to fair value losses arising from changes in interest rates. The Borough's investments are primarily in exchange traded funds and thus have no fixed maturities.

Concentration of credit risk – The Borough's investment policy places no limit on the amount the Borough may invest in any one issuer. However, the Borough manages market risk through diversification by including several types of investments. Investments held through Wilmington Trust as equity securities, the PSABMP Trust Pooled investment plan and the Honat Bancorp, Inc. stock held in trust are all greater than 5% and subject to risk.

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

	Fair Value	Less than 1 year	2-10 years	10-20 years
U.S. Government Agency Agency bonds	$ 13,144	$ -	$ -	$ 13,144
Corporate bonds	416,508	-	416,508	-
	$ 429,652	$ -	$ 416,508	$ 13,144

NOTE 3 – Capital Assets

	Balances at 01/01/25	Additions	Dispositions/ Reclassifications	Balances at 12/31/25
GOVERNMENTAL ACTIVITIES				
Cost:				
Buildings and improvements	$ 1,043,047	$ -	$ -	$ 1,043,047
Infrastructure	1,628,236	373,121	-	2,001,357
Vehicles	706,719	81,179	-	787,898
Machinery and equipment	253,419	211,183	-	464,602
TOTAL DEPRECIABLE ASSETS AT COST	3,631,421	665,483	-	4,296,904
Less: Accumulated Depreciation				
Buildings and improvements	(253,290)	(45,187)	-	(298,477)
Infrastructure	(73,745)	(64,473)	-	(138,218)
Vehicles	(361,898)	(75,433)	-	(437,331)
Machinery and equipment	(84,220)	(49,739)	-	(133,959)
TOTAL ACCUMULATED DEPRECIATION	(773,153)	(234,832)	-	(1,007,985)
NET CAPITAL ASSETS	$ 2,858,268	$ 430,651	$ -	$ 3,288,919

Depreciation expense was charged to governmental activities as follows:

General government		$ 20,472
Public safety		29,926
Public works		170,236
Culture and recreation		14,198
	TOTAL DEPRECIATION	$ 234,832

NOTE 4 – Long-Term Liabilities

The following schedule details the Borough's long-term liability and obligation activity for the year ended December 31, 2025:

	Balance 01/01/25	Additions	Reductions	Balance 12/31/25	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Notes payable:					
2019 General Obligation Note	$ 98,943	$ -	$ 20,924	$ 78,019	$ 21,121
Capital Leases:					
Konica Minolta - copiers	2,558	-	2,166	392	392
Lease Servicing Center - Mower	-	13,499	705	12,794	3,017
First Equipment Finance - Equipment	-	151,900	26,862	125,038	28,516
TOTAL LONG-TERM LIABILITIES	$ 101,501	$ 165,399	$ 50,657	$ 216,243	$ 53,046

2019 General Obligation Note

In July 2019, the Borough issued General Obligation Bond Series of 2019 in the principal amount of $200,000 through a local financial institution. The note bears interest at 2.88% and is payable in monthly installments of $1,924 including principal and interest through July 2029. The proceeds of the note were to finance emergency road repairs. The loan is secured by a pledge of the Borough's revenues, and the full credit of the Borough. The loan contains a provision that in the event of default (defined as failure to make required payments on the loan or meet any covenant or agreement contained in the loan documents), the financial institution, at its option, may declare the outstanding balance of the loan immediately due and payable, incur and pay reasonable expenses to cure the default from Borough funds, or take possession of the facility, repair, maintain, and operate or rent it. The balance outstanding as of December 31, 2025 is $78,019.

Capital Lease Obligations

The Borough executed a lease agreement to lease office equipment for a period of five years. Terms of the lease require the Borough to pay monthly lease payments in the amount of $197 including interest at a rate of .1111%.

The Borough executed a lease agreement to lease equipment for a period of four years. Terms of the lease require the Borough to pay monthly lease payments in the amount of $334 including interest at a rate of 8.707%. The lease contains a provision that in the event of default (as defined in the lease agreement), the financial institution, at its option, may declare all payments due for that fiscal year to be due immediately and/or repossess the leased property.

The Borough executed a lease agreement to lease equipment for a period of five years. Terms of the lease require the Borough to pay annual lease payments in the amount of $36,215 including interest at a rate of 5.99%. The lease contains a provision that in the event of default (as defined in the lease agreement), the financial institution, at its option, may declare all payments due for that fiscal year to be due immediately and/or repossess the leased property.

A summary of aggregate maturities of the Borough's long-term debt as of December 31, 2025 for each of the next five years and five-year increments thereafter is as follows:

December 31:	
2026	$ 63,706
2027	63,314
2028	63,314
2029	52,130
	242,464
Less: Amounts representing interest	26,221
	$ 216,243

NOTE 5 – Pension Plans

The Borough maintains a defined benefit pension plan covering all full-time police officers, and a defined contribution plan covering non-uniformed employees. An actuarial study is performed every two years by an independent actuary. The Borough has elected not to include the required disclosures under the modified cash basis of accounting.

NOTE 6 – Reverend Doherty Fuel Fund

The Reverend Doherty Fuel Fund is a trust fund established to provide assistance for citizens in need as a means to help pay utility bills. Under terms of the endowment, and consistent with State statutes, the Borough is authorized to annually distribute to citizens an amount not to exceed the available cash balance plus any earnings in interest and dividends. The amount of cash on hand is available for distribution in subsequent years.

NOTE 7 – Other Post-Employment Benefits

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

NOTE 8 – Litigation

The Borough normally becomes involved in legal actions in the ordinary course of its operations. In the opinion of Borough management, the estimated amounts of actual or potential claims against the Borough will not materially affect the accompanying financial statements.

NOTE 9 – Risk Management

The Borough is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters and workers' compensation for which the Borough carries commercial insurance. There have been no significant reductions in coverage from the prior year. Settled claims have not exceeded insurance coverage in the current year or the past three years.

NOTE 10 – Claims and Judgments

The Borough participates in federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Borough may be required to reimburse the grantor government. As of December 31, 2025, no grant expenditures have been audited and the Borough's management believes that all expenditures are in accordance with the terms and conditions of the programs' guidelines.

NOTE 11 – Interfund Transfers

Interfund transfers for the year ended December 31, 2025 were as follows:

	Interfund Transfers In	Interfund Transfers Out
GOVERNMENTAL ACTIVITIES		
General Fund	$ -	$ 106,430
Pension Tax Fund	79,988	-
Debt Service Fund	26,442	-
TOTAL GOVERNMENTAL ACTIVITIES	$ 106,430	$ 106,430

NOTE 12 – Commitments

The Borough executed agreements related to various projects to be undertaken in the near future. The projects that are currently still open, and a summary of committed costs related to those projects is as follows:

Project	Estimated Costs to Complete	Total Costs Incurred as of 12/31/25	Remaining Costs to Complete
Castle Street retaining wall	$ 357,074	$ 352,409	$ 4,665
Borough strategic plan	58,875	35,325	23,550
Forest Street paving project	67,761	-	67,761
CODY Pathfinder software	45,492	-	45,492
Vine/Terrace storm sewer project	735,859	-	735,859
Borough garage roof repairs	66,624	-	66,624

The Borough obtained an irrevocable letter of credit in the amount of $210,000 from a local financial institution in May 2025 as part of a road construction project. There have been no draws against this letter of credit as of December 31, 2025. The letter of credit expires in May 2028.

NOTE 13 – Subsequent Events

In June 2026, the Borough issued General Obligation Bond Series of 2026 in the principal amount of $1,229,500 through a local financial institution. The note bears interest at 5.95%. Interest-only payments are due in June of each year under the loan, and principal and interest payments are due in December of each year under the loan until full repayment in December 2035. The proceeds of the note were to finance certain legal settlements.

The Borough has evaluated subsequent events through July 20, 2026, which is the date at which the Borough's financial statements were available to be issued. Other than the event disclosed above, no material subsequent events have occurred since December 31, 2025 that required recognition or disclosure in the accompanying financial statements.

Honesdale Borough
Budgetary Comparison Schedule - Modified Cash Basis - General Fund
For the year ended December 31, 2025

	General Fund		
	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUE RECEIPTS			
Real estate taxes	$ 3,020,132	$ 2,927,720	$ (92,412)
Local enabling act taxes	251,960	292,476	40,516
Licenses and permits	44,000	44,336	336
Fines, forfeits and costs	36,000	25,097	(10,903)
Interest and rents	47,900	29,094	(18,806)
Grants and gifts	203,994	511,090	307,096
Departmental earnings	539,922	311,744	(228,178)
Miscellaneous revenue receipts	17,200	27,672	10,472
TOTAL REVENUES	4,161,108	4,169,229	8,121
GOVERNMENTAL EXPENDITURES			
General government	824,760	868,771	(44,011)
Public safety	1,156,850	917,188	239,662
Streets and public works	1,178,027	925,966	252,061
Streets and public works - stormwater	605,000	569,672	35,328
Sanitation	14,500	155,247	(140,747)
Culture and recreation	251,924	235,085	16,839
Community development	774,885	44,555	730,330
Insurance	163,030	147,160	15,870
Employee benefits and payroll taxes	877,717	656,936	220,781
Miscellaneous	6,829	10,279	(3,450)
Debt service			
Principal	431,643	-	431,643
Interest	22,400	-	22,400
TOTAL EXPENDITURES	6,307,565	4,530,859	1,776,706
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(2,146,457)	(361,630)	1,784,827
OTHER FINANCING SOURCES (USES)			
Refunds of prior year expenditures	20,000	42,895	22,895
Proceeds from issuance of long term debt	400,000	-	(400,000)
Proceeds from sales of assets	12,000	3,252	(8,748)
Judgements and losses	(46,000)	(49,701)	(3,701)
Transfers to other governmental funds	(93,106)	(106,430)	(13,324)
TOTAL OTHER FINANCING SOURCES (USES)	292,894	(109,984)	(402,878)
NET CHANGE IN FUND BALANCES	$ (1,853,563)	(471,614)	$ 1,381,949
FUND BALANCE - BEGINNING		2,462,548	
FUND BALANCE - ENDING		$ 1,990,934	

The accompanying notes are an integral part of these financial statements.

Budget and Budgetary Accounting

The Borough prepares its annual operating budgets under the provisions of the budget laws of the Commonwealth of Pennsylvania. In accordance with those laws, the following process is used to adopt the annual budgets.

1) Prior to December 1st, the Borough Council proposes an operating budget for all applicable funds for the year commencing the following January 1st.

2) The budget is reviewed by the Council, adopted, and filed with the Commonwealth of Pennsylvania prior to January 1st of the subsequent year.

3) Subsequent to the Council's adoption, the budget is then publicly advertised in the newspaper at which time it is made available for public inspection.

The budget and actual comparisons are made by source for revenues and by category level for expenditures. The Borough recognizes the following expenditure categories for budgetary as well as operating purposes:

- General government
- Public safety
- Streets and public works
- Sanitation
- Culture and recreation
- Insurance
- Employee benefits and payroll taxes
- Miscellaneous
- Debt service
- Capital outlay

The budget is prepared on the same modified cash basis of accounting as applied to governmental funds in the basic financial statements. Revenues and expenditures are reported when they result from cash transactions. Furthermore, all appropriations which are not expended lapse at year end.