

**Application of Pennsylvania-American Water Company for Acquisition of  
the Wastewater Assets of the Township of Sadsbury  
66 Pa. C.S. §1329  
Application Filing Checklist – Water/Wastewater  
Docket No. A-2018-\_\_\_\_\_**

19. Cost of Service.
- a. Provide a copy of the seller's audited financial statement for the previous two years.

**RESPONSE:**

- a. See enclosed audited financial statements provided by the Township for the previous two years (2015 and 2016) for the Township of Sadsbury.



**SADBURY TOWNSHIP  
FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**SADSBURY TOWNSHIP**

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## **Independent Auditor's Report**

To the Board of Supervisors  
Sadsbury Township  
Chester 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 Sadsbury Township, Chester County, Pennsylvania, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Sadsbury Township's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Sadsbury Township's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinions***

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 Sadsbury Township as of December 31, 2015, and the respective changes in financial position and, where applicable,

cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages MD&A 1 through MD&A 18 and budgetary comparison information on pages 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sadsbury Township's basic financial statement. The introductory section and the non-major fund budget and actual financial statement is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The non-major fund budget and actual financial statement 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. Such 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 non-major fund budget and actual financial statement is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

*Mauls & Company, Ltd.*

West Chester, Pennsylvania  
October 18, 2016

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**

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The Management Discussion and Analysis of Sadsbury Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2015. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. Readers should also review the financial statements and related notes.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis - for State and Local Governments*, presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

- The Township's assets exceeded its liabilities by \$12,398,583 (net position) for the fiscal year. The 2015 increase was \$409,490.
- Total net position is comprised of the following:
  - 1) Capital assets, net of related debt, of \$8,759,728 include property and equipment, net of accumulated depreciation, and are reduced by outstanding debt related to the purchase or construction of capital assets. The 2015 decrease was \$110,857.
  - 2) Net position of \$522,722 are restricted by constraints imposed from outside the Township such as grantors, laws, or regulations. The 2015 decrease was \$593,946.
  - 3) Unrestricted net assets of \$3,116,133 represent the portion available to maintain the Township's continuing obligations to citizens and creditors. The 2015 increase was \$1,114,293.
- The Township's governmental activities reported total ending net assets of \$7,475,648 this year. The 2015 increase was \$196,600.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$822,065 or 57.0% of total General Fund expenditures, including transfers, and 46.0% of total General Fund revenues, including transfers. The 2015 increase was \$289,611.
- This increase in fund balance relates to increased payroll related tax revenue such as earned income taxes and local service taxes, an increase in developer contributions, and a reduction in legal expenses and highway road project costs compared to 2014.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The accompanying financial statements have been prepared in accordance with GASB Statement Number 34 and present both government-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

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**Government-Wide Financial Statements**

- The first two statements are government-wide financial statements - the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the Township's overall financial status.
- The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.
- The two government-wide statements report the Township's net position and how they have changed. Net position, the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.
- Over time, increases or decreases in the Township's net position are an indication of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, a reader needs to consider additional non-financial factors, such as changes in the Township's property tax base and increases in development in the Township.
- The government-wide financial statements of the Township are divided into two categories:
  - Governmental Activities - All of the Township's basic services are included here, such as administration and community services. Taxes, charges for services, and state grants finance most of these activities.
  - Business-Type Activities - The Township runs a sewer system and charges fees to residents for conveyance of waste through the Township's sewer system.

**Fund Level Financial Statements**

The remaining statements are fund financial statements that focus on individual parts of the Township's operations in more detail than the government-wide statements. The governmental fund statements tell how the Township's general services were financed in the short-term, as well as, what remains for future spending. Proprietary fund statements offer short-term and long-term financial information about the activities that the Township operates like a business. For this Township, this is the Sewer Fund. Fiduciary fund statements provide information about financial relationships in which the Township acts solely as a trustee or agent for the benefit of others.

- **Governmental Funds** - Most of the Township's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental funds are reported using an accounting basis called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.



**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

**Schedule of Net Position**  
**Year Ended December 31, 2014**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current and other assets	\$ 2,317,192	\$ 1,194,085	\$ 3,511,277
Capital assets, net	<u>5,022,685</u>	<u>7,071,900</u>	<u>12,094,585</u>
Total Assets	<u>\$ 7,339,877</u>	<u>\$ 8,265,985</u>	<u>\$ 15,605,862</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 60,829	\$ 566,940	\$ 627,769
Non-current liabilities	<u>                    </u>	<u>2,989,000</u>	<u>2,989,000</u>
Total Liabilities	<u>60,829</u>	<u>3,555,940</u>	<u>3,616,769</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	5,022,685	3,847,900	8,870,585
Restricted	1,116,668		1,116,668
Unrestricted	<u>1,139,695</u>	<u>862,145</u>	<u>2,001,840</u>
Total Net Position	<u>7,279,048</u>	<u>4,710,045</u>	<u>11,989,093</u>
Total Liabilities and Net Position	<u>\$ 7,339,877</u>	<u>\$ 8,265,985</u>	<u>\$ 15,605,862</u>

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, and revenues that directly relate to specific expense categories are represented to determine the final amount of the Township's activities that are supported by other general revenues. The largest revenues are property taxes, other taxes, and charges for services.

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

The following tables present condensed financial information for the Statement of Activities in a different format, in order to present total revenues for the years ended December 31, 2015 and 2014.

**Changes in Net Position**  
**For The Year Ended December 31, 2015**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>REVENUES</b>			
Program Services			
Charges for services	\$ 593,584	\$ 1,216,303	\$ 1,809,887
Operating grants and contributions	195,031		195,031
Capital grants and contributions			0
General Revenues			
Real estate taxes	215,163		215,163
Transfer taxes	72,886		72,886
Per capita taxes	6,030		6,030
Earned income taxes	641,165		641,165
Local Services taxes	106,680		106,680
Investment earnings	2,584	599	3,183
Rental income	23,805		23,805
Miscellaneous	13,836		13,836
	<u>1,870,764</u>	<u>1,216,902</u>	<u>3,087,666</u>
<b>Total Revenues</b>			
	<u>1,870,764</u>	<u>1,216,902</u>	<u>3,087,666</u>
<b>EXPENSES</b>			
General government	428,460		428,460
Public safety	506,693		506,693
Solid waste collection	242,083		242,083
Highways and streets	441,186		441,186
Culture and recreation	13,422		13,422
Miscellaneous expenditures	92,049		92,049
Sewer system		954,283	954,283
	<u>1,723,893</u>	<u>954,283</u>	<u>2,678,176</u>
<b>Total Expenses</b>			
	<u>1,723,893</u>	<u>954,283</u>	<u>2,678,176</u>
Increase (decrease) in net position before transfers	146,871	262,619	409,490
<b>TRANSFERS</b>	<u>49,729</u>	<u>(49,729)</u>	
Increase (decrease) in net position	196,600	212,890	409,490
Net position - beginning	<u>7,279,048</u>	<u>4,710,045</u>	<u>11,989,093</u>
Net position - ending	<u>\$ 7,475,648</u>	<u>\$ 4,922,935</u>	<u>\$ 12,398,583</u>

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

**Changes in Net Position**  
**For The Year Ended December 31, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>REVENUES</b>			
Program Services			
Charges for services	\$ 513,487	\$ 1,276,730	\$ 1,790,217
Operating grants and contributions	134,185		134,185
Capital grants and contributions	363,560	93,372	456,932
General Revenues			
Real estate taxes	214,293		214,293
Transfer taxes	174,941		174,941
Per capita taxes	8,754		8,754
Earned income taxes	671,464		671,464
Local Services taxes	105,487		105,487
Investment earnings	4,214	388	4,602
Rental Income	22,252		22,252
Miscellaneous	24,260		24,260
Total Revenues	<u>2,236,897</u>	<u>1,370,490</u>	<u>3,607,387</u>
<b>EXPENSES</b>			
General government	523,237		523,237
Public safety	523,456		523,456
Solid waste collection	242,062		242,062
Highways and streets	390,210		390,210
Culture and recreation	18,228		18,228
Miscellaneous expenditures	117,680		117,680
Sewer system		961,937	961,937
Total Expenses	<u>1,814,873</u>	<u>961,937</u>	<u>2,776,810</u>
Increase (decrease) in net position before transfers	422,024	408,553	830,577
<b>TRANSFERS</b>	<u>44,764</u>	<u>(41,291)</u>	<u>3,473</u>
Increase (decrease) in net position	466,788	367,262	834,050
Net position - beginning	<u>6,812,260</u>	<u>4,342,783</u>	<u>11,155,043</u>
Net position - ending	<u>\$ 7,279,048</u>	<u>\$ 4,710,045</u>	<u>\$ 11,989,093</u>

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

**EXPENSES**

The following tables present condensed financial information on the expenses of the Township by function.

**Expense Analyses**

**Expenses - Governmental Activities**

The following table illustrates both the gross and net costs of services. Unrestricted grants and contributions are deducted to reflect the amount needed to be funded by other revenue sources. Capital contributions from developers are not included in the analysis.

	<u>For the year ended December 31, 2015</u>		<u>For the year ended December 31, 2014</u>	
	<u>Total Cost of Services</u>	<u>Net Cost (Benefit) of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost (Benefit) of Services</u>
General government	\$ 428,460	\$ 342,750	\$ 523,237	\$ 518,412
Public safety	506,693	294,190	523,456	316,567
Solid waste collection	242,083	(90,242)	242,062	(93,258)
Highways and streets	441,186	323,858	390,210	(73,038)
Culture and recreation	13,422	(27,327)	18,228	17,278
Miscellaneous	92,049	92,049	117,680	117,680
<b>Total Expenses</b>	<b>\$ 1,723,893</b>	<b>\$ 935,278</b>	<b>\$ 1,814,873</b>	<b>\$ 803,641</b>
Less: Grants, subsidies, and contributions not restricted		0		0
<b>Amount funded by other revenue sources</b>		<b>\$ 935,278</b>		<b>\$ 803,641</b>

**Expenses - Business-Type Activities**

The following table reflects condensed financial activities of the sewer system, the only business-type activity of the Township.

	<u>For the year ended December 31, 2015</u>		<u>For the year ended December 31, 2014</u>	
	<u>Total Cost of Services</u>	<u>Net Cost (Benefit) of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost (Benefit) of Services</u>
Sewer system	\$ 954,283	\$ (262,020)	\$ 961,937	\$ (408,165)

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

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**THE TOWNSHIP FUNDS**

**General Fund**

- At December 31, 2015 and 2014, the Township reported fund balances of \$1,256,027 and \$904,922, respectively, which represents 87.2% and 56.8% of total expenses. Fund balance as a percent of total expenses increased because of higher taxes as explained below and a reduction in legal expense and highway road project expenses as compared to 2014. The fund balance is allocated as follows:

Non-spendable - prepaid expense	\$	49,288
Restricted		
Parks capital		39,319
Stormwater maintenance		6,215
Assigned - budgetary reserve		339,140
Unassigned		<u>822,065</u>
	\$	<u>1,256,027</u>

**REVENUE**

General fund revenues totaled \$1,791,826 for the year ended December 31, 2015. The following table reflects a comparison of current year revenues with the revenues reflected in the 2015 budget year:

	<u>Actual</u> 2015	<u>% of</u> Total	<u>Budget</u> 2015	<u>Inc/(Dec)</u> from Budget
Taxes	\$ 1,076,564	60.1%	\$ 1,063,600	\$ 12,964
Licenses and permits	78,968	4.4%	73,400	5,568
Fees and fines	18,934	1.1%	27,700	(8,766)
Interest income	978	0.1%	740	238
Rental income	23,805	1.3%	23,800	5
Intergovernmental revenues	28,800	1.6%	473,500	(444,700)
Charges for services	441,076	24.6%	398,200	42,876
Contributions from private sector	59,136	3.3%	46,600	12,536
Miscellaneous	13,836	0.8%	3,800	10,036
Other financing sources	<u>49,729</u>	<u>2.7%</u>	<u>46,100</u>	<u>3,629</u>
	<u>\$ 1,791,826</u>	<u>100.0%</u>	<u>\$ 2,157,440</u>	<u>\$ (365,614)</u>

Intergovernmental revenues were lower than expected due to the 2015 budget including a transportation enhancement grant for \$436,000 that was not received. Contributions from private sector was higher than the budget due to increased developer projects in 2015.

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

**EXPENDITURES**

General fund expenditures totaled \$1,440,721. These expenditures were segregated into various programs depending on the functions of the activity. These programs and the costs associated with each, as well as, comparison to the original 2015 budget, are as follows:

	<u>Actual</u> <u>2015</u>	<u>% of</u> <u>Total</u>	<u>Budget</u> <u>2015</u>	<u>Inc/(Dec)</u> <u>from Budget</u>
General government	\$ 474,478	32.9%	\$ 726,200	\$ (251,722)
Public safety	477,774	33.2%	545,300	(67,526)
Public works, solid waste collection	242,083	16.8%	244,600	(2,517)
Public works, highways and streets	148,723	10.3%	140,600	8,123
Culture and recreation	5,614	0.4%	40,400	(34,786)
Special projects	3,600	0.2%	420,000	(416,400)
Miscellaneous	88,449	6.2%	114,300	(25,851)
	<u>\$ 1,440,721</u>	<u>100.0%</u>	<u>\$ 2,231,400</u>	<u>\$ (790,679)</u>

General government was lower than budget because of lower legal fees, engineering fees and administration costs such as payroll and insurance costs. Public safety was lower than budget because of lower payroll costs and gasoline cost by the police department. Culture and recreation were lower because a project that was budgeted did not occur in 2015. Special project costs were lower than budget because a highway project funded by federal and state grants was delayed.

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

**CONDENSED STATEMENT OF ACTIVITIES**

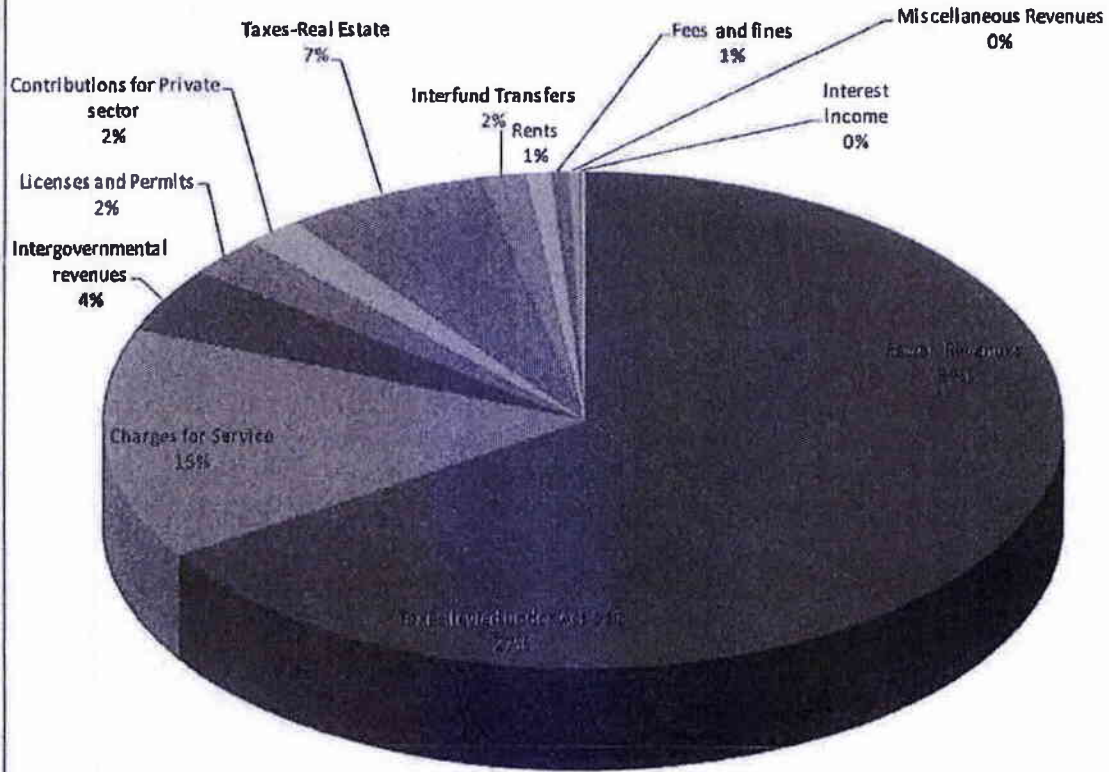
**Governmental and Proprietary (Sewer) Fund**

A comparison including graphs of the Township's Governmental and Proprietary (Sewer) Funds revenue and expenditures/expenses for 2015 and 2014 by category (as used for budgeting purposes) is shown below:

	<u>2015</u>	<u>2014</u>
<b><u>Revenues</u></b>		
Taxes-real estate	\$ 215,572	\$ 211,909
Taxes levied under Act 511	860,992	968,400
Licenses and permits	78,968	75,328
Fees and fines	18,934	21,908
Interest income	2,584	4,214
Rental income	23,805	22,252
Intergovernmental revenues	135,895	126,205
Charges for service	477,286	416,104
Contributions for private sector	59,136	10,480
Miscellaneous revenues	13,836	24,260
Interfund transfers	49,729	44,764
Sewer system revenues	<u>1,216,902</u>	<u>1,277,118</u>
<b>Total Revenues</b>	<b><u>\$ 3,153,639</u></b>	<b><u>\$ 3,202,942</u></b>
<b><u>Expenditures/Expenses</u></b>		
General Government	\$ 474,478	\$ 548,915
Public Safety	477,774	501,927
Public works-solid waste collection	242,083	242,062
Public works- highways and streets	241,363	287,426
Culture and recreation	5,614	14,321
Special project	3,600	19,316
Miscellaneous	88,449	117,680
Sewer system expenses	<u>1,004,012</u>	<u>1,003,228</u>
<b>Total Expenditures/Expenses</b>	<b><u>\$ 2,537,373</u></b>	<b><u>\$ 2,734,875</u></b>

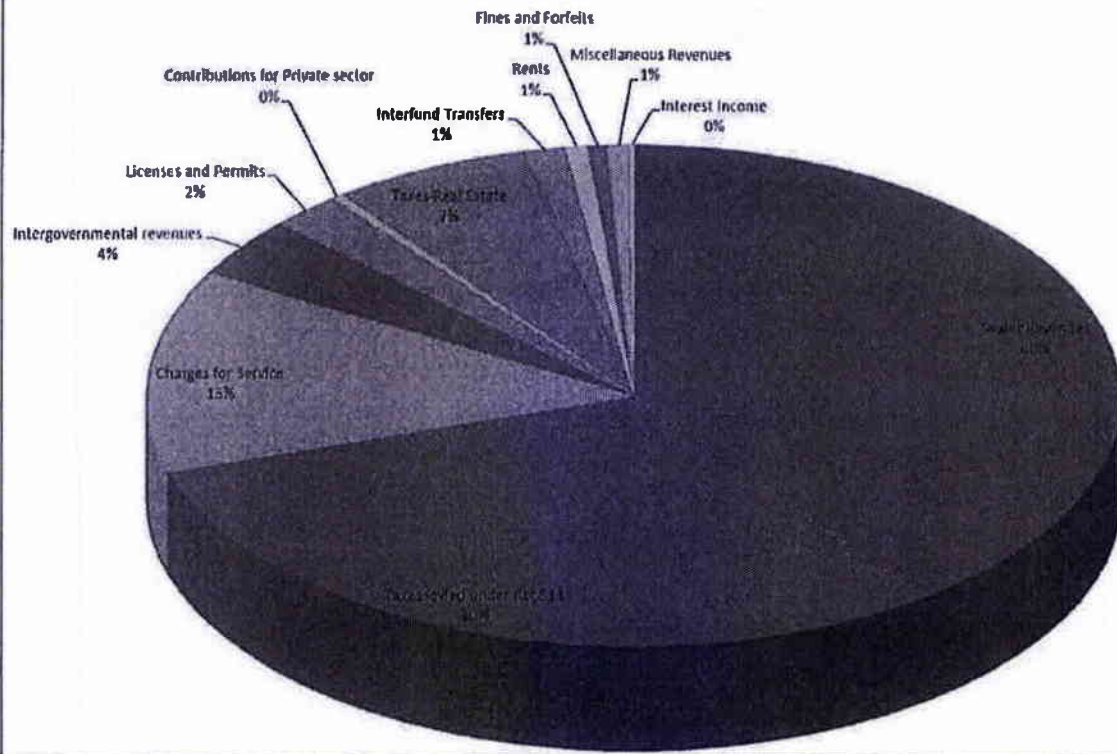
**SADBURY TOWNSHIP  
Management Discussion and Analysis  
December 31, 2015  
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**Revenues Year ended December 31, 2015**



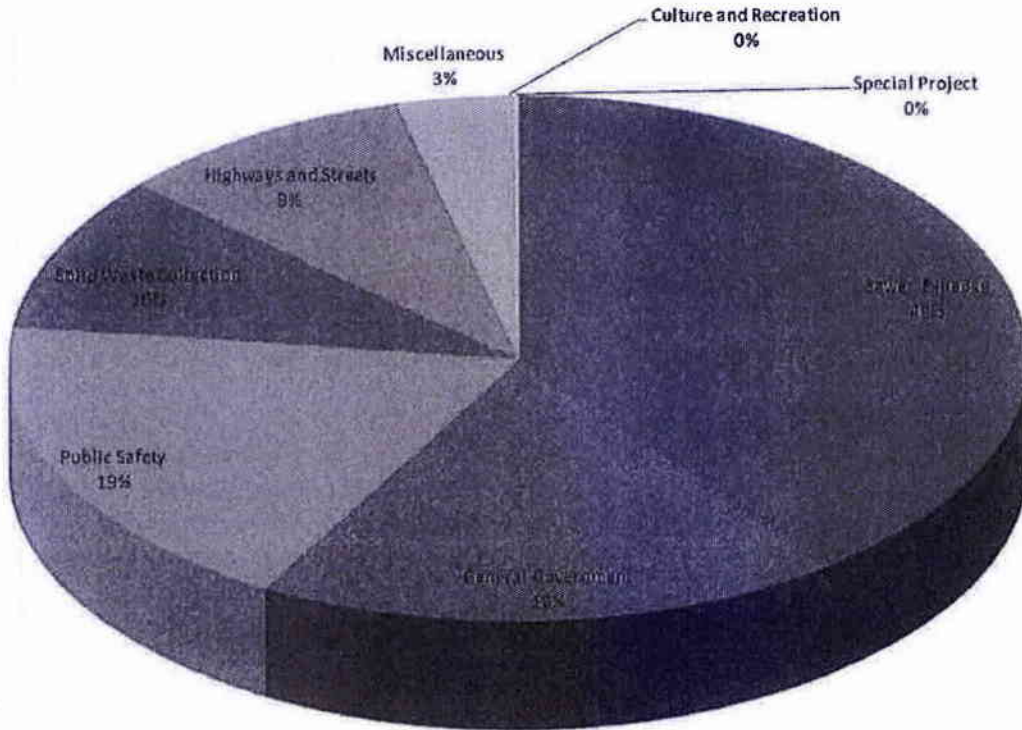
**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
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**Revenues Year Ended December 31, 2014**



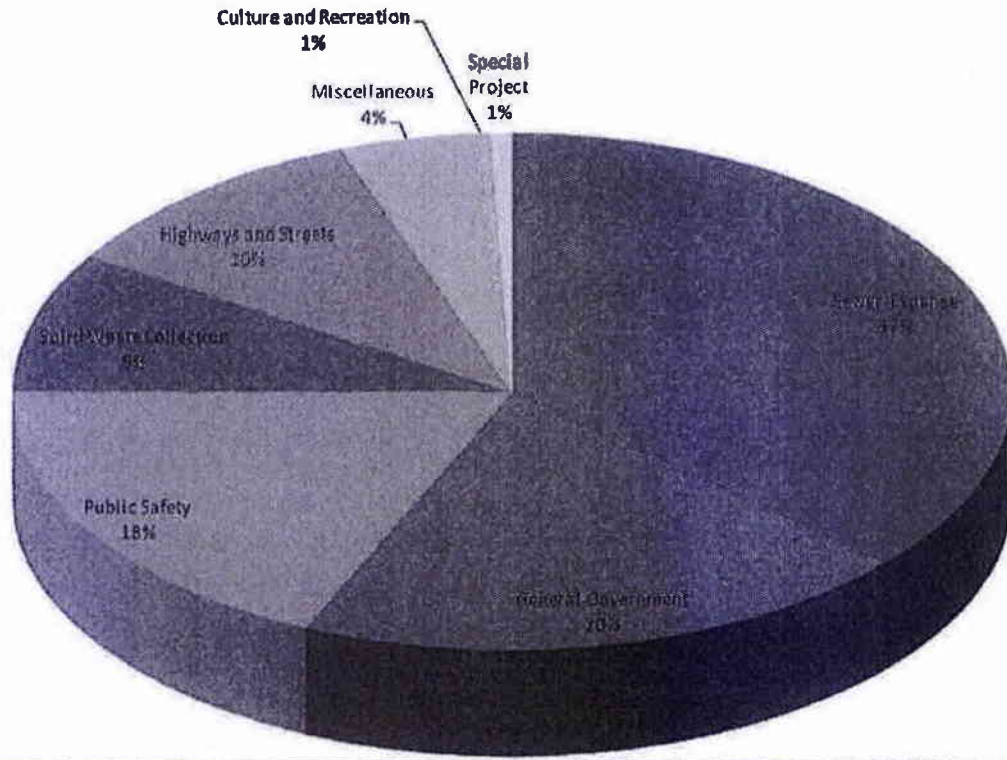
**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

**Expenses/Expenditures Year ended December 31, 2015**



**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

**Expenses/Expenditures Year Ended December 31, 2014**



**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

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**CAPITAL PROJECTS FUND**

At December 31, 2015 and 2014, the Township reported a fund balance of \$689,751 and \$689,077, which is an increase of \$674 and a decrease of \$16,057, respectively. During 2015 and 2014, this fund received no transfers from the general fund and transferred \$0 and \$18,556 respectively, to pay for capital assets.

**GENERAL FUND BUDGET**

During the fiscal year, the Board of Township Supervisors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the Township. Those adjustments are again confirmed at the time the annual audit is accepted. This is done after the end of the fiscal year in accordance with state law. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in the financial statements.

The Township applies for federal, state, and local grants and these grants cannot always be anticipated in the budgeting process. Budgeted revenues are adjusted to reflect actual revenues received for all approved grants.

Budgeted expenditures are also adjusted to reflect the actual expenditures made for all approved grants. Transfers between specific categories of expenditures/financing uses occur during the year.

**CAPITAL ASSETS**

At December 31, 2015 and 2014, the Township had \$11,748,728 and \$12,094,585, respectively, invested in a broad range of capital assets (net of accumulated depreciation), including land, buildings, sewer, collection system, vehicles, and machinery and equipment. This amount represents a net increase in cost of \$167,226, and an increase in accumulated depreciation of \$513,083.

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

The following schedules present the changes in capital assets for the years ended December 31, 2015 and 2014. During this period, the Township had the following significant additions in capital assets.

**Schedule of Capital Assets**  
**For The Year Ended December 31, 2015**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>CAPITAL ASSETS</b>			
Land	\$ 407,868	\$ 49,112	\$ 456,980
Buildings	1,607,012	140,000	1,747,012
Machinery and equipment	431,013	143,652	574,665
Vehicles	440,262		440,262
Highways and streets	3,246,507		3,246,507
Storm sewers	1,189,215		1,189,215
Sewer collection system		8,521,323	8,521,323
Construction in progress	<u>411,062</u>	<u>93,914</u>	<u>504,976</u>
Total Capital Assets	<u>7,732,939</u>	<u>8,948,001</u>	<u>16,680,940</u>
<b>ACCUMULATED DEPRECIATION</b>			
Buildings	387,844	42,233	430,077
Machinery and equipment	363,988	75,815	439,803
Vehicles	322,154		322,154
Highways and streets	1,623,104		1,623,104
Storm sewers	203,696		203,696
Sewer collection system		<u>1,913,378</u>	<u>1,913,378</u>
Total Accumulated Depreciation	<u>2,900,786</u>	<u>2,031,426</u>	<u>4,932,212</u>
Capital Assets, Net	<u>\$ 4,832,153</u>	<u>\$ 6,916,575</u>	<u>\$ 11,748,728</u>

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

**Schedule of Capital Assets**  
**For The Year Ended December 31, 2014**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>CAPITAL ASSETS</b>			
Land	\$ 407,868	\$ 49,112	\$ 456,980
Buildings	1,607,012	140,000	1,747,012
Machinery and equipment	402,751	110,863	513,614
Vehicles	440,262		440,262
Highways and streets	3,246,507		3,246,507
Storm sewers	1,158,838		1,158,838
Sewer collection system		8,521,323	8,521,323
Construction in progress	<u>335,264</u>	<u>93,914</u>	<u>429,178</u>
Total Capital Assets	<u>7,598,502</u>	<u>8,915,212</u>	<u>16,513,714</u>
<b>ACCUMULATED DEPRECIATION</b>			
Buildings	344,403	39,433	383,836
Machinery and equipment	337,312	60,896	398,208
Vehicles	278,319		278,319
Highways and streets	1,435,568		1,435,568
Storm sewers	180,215		180,215
Sewer collection system		<u>1,742,983</u>	<u>1,742,983</u>
Total Accumulated Depreciation	<u>2,575,817</u>	<u>1,843,312</u>	<u>4,419,129</u>
Capital Assets, Net	<u>\$ 5,022,685</u>	<u>\$ 7,071,900</u>	<u>\$ 12,094,585</u>

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2015**  
**(Continued)**

**DEBT ADMINISTRATION**

As of January 1, 2015, the Township had total outstanding principal on notes of \$3,224,000. During the year, the Township made payments against principal in the amount of \$235,000, resulting in ending outstanding debt, as of December 31, 2015, of \$2,989,000.

**Debt Service Schedule**  
**December 31, 2015**

	Principal Outstanding Jan. 1, 2015	Additions	Payments	Principal Outstanding Dec. 31, 2015
Guaranteed Sewer Revenue Note Series 1998	\$ 719,000	\$ 0	\$ 47,000	\$ 672,000
Guaranteed Sewer Revenue Note Series 2003	1,960,000		187,000	\$ 1,773,000
Guaranteed Sewer Revenue Note Series 2009	<u>545,000</u>		<u>1,000</u>	<u>544,000</u>
	<u>\$ 3,224,000</u>	<u>\$ 0</u>	<u>\$ 235,000</u>	<u>\$ 2,989,000</u>

More detailed information about our long-term liabilities is included in the Notes to the Financial Statements.

**THE TOWNSHIP'S FUTURE**

The Township expects to experience growth in the next five years as the economy improves.

**FINANCIAL MANAGEMENT**

Our financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Linda Shank, Assistant Secretary/Assistant Treasurer at the Township office.

**SADSBURY TOWNSHIP**  
**Statement of Net Position**  
**December 31, 2015**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,897,069	\$ 292,134	\$ 2,189,203
Investments			
Accounts receivables	392,581	974,805	1,367,386
Taxes receivable, net	289,486		289,486
Internal balances	1,107	(1,107)	
Prepaid items	49,288	75,580	124,868
Other current assets	43,243		43,243
Capital assets not being depreciated			
Land	407,868	10,000	417,868
Right-of-way easements		39,112	39,112
Construction in progress	411,062	93,914	504,976
Capital assets, net of accumulated depreciation			
Buildings	1,219,168	97,767	1,316,935
Highways and streets	1,623,403		1,623,403
Machinery and equipment	67,025	67,837	134,862
Storm Sewer	985,519		985,519
Vehicles	118,108		118,108
Sewer collection system		6,607,945	6,607,945
<b>Total assets</b>	<b>\$ 7,504,927</b>	<b>\$ 8,257,987</b>	<b>\$ 15,762,914</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 25,514	\$ 42,184	\$ 67,698
Accrued liabilities	3,765		3,765
Interest payable		2,225	2,225
Unearned revenue		301,643	301,643
Long-term liabilities			
Portion due or payable within one year			
Notes payable		244,000	244,000
Portion due or payable after one year			
Notes payable		2,745,000	2,745,000
<b>Total liabilities</b>	<b>29,279</b>	<b>3,335,052</b>	<b>3,364,331</b>
<b>NET POSITION</b>			
Net investment in capital assets	4,832,153	3,927,575	8,759,728
Restricted			
Parks capital	39,319		39,319
Stormwater maintenance	6,215		6,215
Highways and streets	138,524		138,524
Act 209 capital projects	338,664		338,664
Unrestricted	2,120,773	995,360	3,116,133
<b>Total net position</b>	<b>7,475,648</b>	<b>4,922,935</b>	<b>12,398,583</b>
<b>Total liabilities and net position</b>	<b>\$ 7,504,927</b>	<b>\$ 8,257,987</b>	<b>\$ 15,762,914</b>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Statement of Activities**  
**For the Year Ended December 31, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Governmental activities</b>							
General government	\$ 428,460	\$ 74,968	\$ 10,742	\$ 0	\$ (342,750)	\$ 0	\$ (342,750)
Public safety	506,693	183,325	29,178		(294,190)		(294,190)
Solid waste collection	242,083	331,941	384		90,242		90,242
Highways and streets	441,186	2,500	114,828		(323,858)		(323,858)
Culture and recreation	13,422	850	39,899		27,327		27,327
Miscellaneous	92,049				(92,049)		(92,049)
Total governmental activities	<u>1,723,893</u>	<u>593,584</u>	<u>195,031</u>	<u>0</u>	<u>(935,278)</u>	<u>0</u>	<u>(935,278)</u>
<b>Business activities</b>							
Sewer system	<u>954,283</u>	<u>1,216,303</u>				<u>262,020</u>	<u>262,020</u>
Total primary government	<u>\$ 2,678,176</u>	<u>\$ 1,809,887</u>	<u>\$ 195,031</u>	<u>\$ 0</u>	<u>(935,278)</u>	<u>262,020</u>	<u>(673,258)</u>
<b>General revenues</b>							
<b>Taxes</b>							
Real estate taxes					215,163		215,163
Transfer taxes					72,886		72,886
Per capita taxes					6,030		6,030
Earned income taxes					641,165		641,165
Local services taxes					106,680		106,680
Investment earnings					2,584	599	3,183
Rental income					23,805		23,805
Miscellaneous					13,836		13,836
Transfers					<u>49,729</u>	<u>(49,729)</u>	
Total general revenues					<u>1,131,878</u>	<u>(49,130)</u>	<u>1,082,748</u>
Change in net position					196,600	212,890	409,490
Net position - beginning					<u>7,279,048</u>	<u>4,710,045</u>	<u>11,989,093</u>
Net position - ending					<u>\$ 7,475,648</u>	<u>\$ 4,922,935</u>	<u>\$ 12,398,583</u>

See accompanying notes to the financial statements.

**SADBURY TOWNSHIP**  
**Balance Sheet—Governmental Funds**  
**December 31, 2015**

	General Fund	Capital Projects Fund	Act 209 Fund	Liquid Fuels Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 728,218	\$ 689,751	\$ 338,664	\$ 140,436	\$ 1,897,069
Other receivables, net	392,433			148	392,581
Taxes receivable	289,486				289,486
Due from other funds	3,077				3,077
Prepaid expenses	49,288				49,288
Other current assets	43,243				43,243
<b>Total assets</b>	<b>\$ 1,505,745</b>	<b>\$ 689,751</b>	<b>\$ 338,664</b>	<b>\$ 140,584</b>	<b>\$ 2,674,744</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 25,424	\$ 0	\$ 0	\$ 90	\$ 25,514
Payroll and withholding taxes payable	3,765				3,765
Due to other funds				1,970	1,970
<b>Total liabilities</b>	<b>29,189</b>	<b>0</b>	<b>0</b>	<b>2,060</b>	<b>31,249</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue, property taxes	7,947				7,947
Unavailable revenue, other taxes	72,973				72,973
Unavailable revenue, trash services	139,609				139,609
<b>Total deferred inflows of resources</b>	<b>220,529</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>220,529</b>
<b>FUND BALANCES</b>					
Nonspendable, prepaid expenses	49,288				49,288
Restricted					
Parks capital	39,319				39,319
Stormwater maintenance	6,215				6,215
Highways and streets				138,524	138,524
Act 209 capital projects			338,664		338,664
Assigned					
Capital projects		689,751			689,751
Budgetary reserve	339,140				339,140
Unassigned	822,065				822,065
<b>Total fund balances</b>	<b>1,256,027</b>	<b>689,751</b>	<b>338,664</b>	<b>138,524</b>	<b>2,422,966</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,505,745</b>	<b>\$ 689,751</b>	<b>\$ 338,664</b>	<b>\$ 140,584</b>	<b>\$ 2,674,744</b>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Reconciliation of Total Governmental Funds Balances**  
**To Net Position of Governmental Activities**  
**December 31, 2015**

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**Total Fund Balances - Governmental Funds** \$ 2,422,966

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements but are reported in the governmental activities of the statement of net position. Those assets consist of:

Land	\$ 407,868	
Construction in progress	411,062	
Buildings and improvements, net of accumulated depreciation of \$387,844	1,219,168	
Machinery and equipment, net of accumulated depreciation of \$363,988	67,025	
Storm sewers, net of accumulated depreciation of \$203,696	985,519	
Vehicles, net of accumulated depreciation of \$322,154	118,108	
Infrastructure, net of accumulated depreciation of \$1,623,104	<u>1,623,403</u>	<u>4,832,153</u>

Taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

220,529

**Total Net Position - Governmental Activities** **\$ 7,475,648**

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances--**  
**Governmental Funds**  
**For the Year Ended December 31, 2015**

	General Fund	Capital Projects Fund	Act 209 Fund	Liquid Fuels Fund	Total Governmental Funds
<b>REVENUES</b>					
Taxes - real estate	\$ 215,572	\$ 0	\$ 0	\$ 0	\$ 215,572
Act 511 taxes	860,992				860,992
Licenses and permits	78,968				78,968
Fees and fines	18,934				18,934
Interest income	978	674	561	371	2,584
Rental income	23,805				23,805
Intergovernmental revenues	28,800			107,095	135,895
Charges for services	441,076		36,210		477,286
Contributions from private sector	59,136				59,136
Miscellaneous revenue	13,836				13,836
Total revenues	<u>1,742,097</u>	<u>674</u>	<u>36,771</u>	<u>107,466</u>	<u>1,887,008</u>
<b>EXPENDITURES</b>					
General government	474,478	0	0	0	474,478
Public safety	477,774				477,774
Public works, solid waste collection	242,083				242,083
Public works, highways and streets	148,723			92,640	241,363
Culture and recreation	5,614				5,614
Special Project	3,600				3,600
Miscellaneous (payroll taxes, employee benefits)	88,449				88,449
Total Expenditures	<u>1,440,721</u>	<u>0</u>	<u>0</u>	<u>92,640</u>	<u>1,533,361</u>
Excess (deficiency) of revenues over expenditures	<u>301,376</u>	<u>674</u>	<u>36,771</u>	<u>14,826</u>	<u>353,647</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund Transfers	<u>49,729</u>				<u>49,729</u>
Net Change In Fund Balances	351,105	674	36,771	14,826	403,376
Fund balance--January 1, 2015	<u>904,922</u>	<u>689,077</u>	<u>301,893</u>	<u>123,698</u>	<u>2,019,590</u>
Fund balance--December 31, 2015	<u>\$ 1,256,027</u>	<u>\$ 689,751</u>	<u>\$ 338,664</u>	<u>\$ 138,524</u>	<u>\$ 2,422,966</u>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Reconciliation of the Governmental Funds Statement of Revenues,**  
**Expenditures and Changes in Fund Balances to the Statement of Activities**  
**For the Year Ended December 31, 2015**

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<b>Total net change in fund balances - governmental funds</b>	<b>\$ 403,376</b>
Governmental Funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$324,969) exceeds capital outlay (\$134,437) in the current period (Note 4).	<u>(190,532)</u>
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the	<u>(16,244)</u>
Change in net position of governmental activities	<u>\$ 196,600</u>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Statement of Net Position—Proprietary Fund**  
**December 31, 2015**

	<u>Sewer System Fund</u>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 292,134
Accounts receivable	974,805
Prepaid expenses	<u>75,580</u>
Total current assets	<u>1,342,519</u>
<b>Noncurrent assets</b>	
Capital assets	
Land	10,000
Right-of-way easements	39,112
Construction in progress	93,914
Other capital assets, net of accumulated depreciation	<u>6,773,549</u>
Total noncurrent assets	<u>6,916,575</u>
Total assets	<u>\$ 8,259,094</u>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	\$ 42,184
Other current liabilities	2,225
Unearned revenues	301,643
Due to other funds	1,107
Notes payable, current	<u>244,000</u>
Total current liabilities	<u>591,159</u>
<b>Noncurrent liabilities</b>	
Portion due or payable in more than one year	
Notes payable	<u>2,745,000</u>
Total liabilities	<u>3,336,159</u>
<b>Net position</b>	
Net investment in capital assets	3,927,575
Unrestricted	<u>995,360</u>
Total net position	<u>4,922,935</u>
Total liabilities and net position	<u>\$ 8,259,094</u>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Statement of Revenues, Expenses and**  
**Changes in Net Position—Proprietary Fund**  
**For the Year Ended December 31, 2015**

	<u>Sewer System Fund</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ <u>1,216,303</u>
<b>OPERATING EXPENSES</b>	
Wastewater and sewage collection	645,552
Depreciation	<u>188,114</u>
Total Operating expenses	<u>833,666</u>
Operating Income	<u>382,637</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	599
Interest expense	<u>(120,617)</u>
Total non-operating revenues (expenses)	<u>(120,018)</u>
Income before transfers	262,619
<b>TRANSFERS OUT</b>	<u>(49,729)</u>
Change in net positions	212,890
Total net position - January 1, 2015	<u>4,710,045</u>
Total net position - December 31, 2015	<u>\$ <u>4,922,935</u></u>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Statement of Cash Flows—Proprietary Fund**  
**For the Year Ended December 31, 2015**

	<u>Sewer System Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,306,248
Payments to suppliers	<u>(646,771)</u>
Net cash provided by (used in) operating activities	<u>659,477</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	<u>(148,622)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets	(32,789)
Principal payments on debt	(235,000)
Interest paid on long-term debt	<u>(120,790)</u>
Net cash provided by (used in) capital and related financing activities	<u>(388,579)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	<u>599</u>
Net increase in cash and cash equivalents	122,875
Cash and cash equivalents at beginning of year	<u>169,259</u>
Cash and cash equivalents at end of year	<u>\$ 292,134</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 382,637
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	188,114
Change in assets and liabilities	
Decrease in accounts receivable	72,130
Decrease in prepaid expenses	2,311
Decrease in accounts payable	(3,530)
Increase in unearned revenue	<u>17,815</u>
Net cash provided by operating activities	<u>\$ 659,477</u>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Statement of Fiduciary Net Position**  
**December 31, 2015**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>397,596</u>
<b>LIABILITIES</b>	
Other current liabilities	\$ <u>397,596</u>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**

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**1. ORGANIZATION**

Sadsbury Township is located in western Chester County, Pennsylvania. The Township was incorporated in 1717 and follows the provisions of Act P. L. 1481, No. 567, as amended, the Second Class Township Code. It operates under the supervisor form of government and provides the following services:

Public Safety (Police, Fire)  
Planning and Zoning  
Highways and Streets  
Culture - Recreation  
Public Improvements  
General Administrative  
Sewer

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Sadsbury Township (the Township) conform to United States generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

**A. BASIS OF PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net position and the statement of activities provide information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities and for the single business-type activity of the Township. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Township.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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**FUND FINANCIAL STATEMENTS**

During the fiscal year, the Township segregates transactions related to certain Township functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**REPORTING ENTITY**

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision whether to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles. No component units are included in the reporting entity of Sadsbury Township.

**B. FUND ACCOUNTING**

The Township uses funds to report its assets, liabilities, and fund balances and revenues and expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements into three broad fund categories, which include five generic fund types.

**GOVERNMENTAL FUNDS**

Governmental Funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they will be used. The difference between governmental fund assets and liabilities is reported as fund balance.

- **General Fund**

The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

- **Special Revenue Funds**

Special Revenue Funds are generally used to account for the expenditure of revenues that have been restricted to specific program or projects. They may be separately accounted for because of specific legal or regulatory provisions or by administrative action. The Township has one special revenue fund:

- **Liquid Fuels Fund**

The Liquid Fuels Fund is used to account for the Liquid Fuels Grant received from the Pennsylvania Department of Transportation.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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- **Capital Projects Funds**

- **Capital Reserve Fund**

- The Capital Reserve Fund is used to account for financial resources used in the acquisition, construction, or improvements of major capital facilities within the Township.

- **Act 209 Fund**

- The Act 209 Fund is used to account for transportation impact fees charged to new developments based on the effect each development will have on the township roadways. These monies are to fund future roadway improvements.

**PROPRIETARY FUNDS**

- **Sewer Fund**

- The Sewer Fund is used to account for the operations of the sewer system. The sewer system is financed and operated in a manner similar to a private business operation, whereby the costs of providing goods or services to the general public on a continuing basis are recovered primarily through user charges.

**FIDUCIARY FUNDS**

- **Trust and Agency Funds**

- Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals and private organizations. This fund consists of an escrow fund.

**C. BUDGET AND BUDGETARY ACCOUNTING**

The Township follows these procedures in establishing the budget:

- 1) Prior to December 1st, the Township Treasurer submits to the Board of Supervisors a proposed operating budget for the fiscal year commencing the following January 1st. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain taxpayer comments.
- 3) Prior to December 31st, the budget is legally enacted through passage of an ordinance by the Board of Supervisors.
- 4) The Board of Supervisors may, by resolution, transfer unencumbered budgeted amounts between departments within any fund.
- 5) Budgets for all funds are adopted on a cash basis.

**D. MEASUREMENT FOCUS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are prepared using a flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. All assets and all liabilities associated with the operation of the Township are included on the statement of net position while excluding fiduciary activities.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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**FUND FINANCIAL STATEMENTS**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included in the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the proprietary fund is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net position.

The statement of changes in revenues, expenses, and changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows reflects how the Township finances and meets the cash flow needs of its proprietary fund.

**E. BASIS OF ACCOUNTING**

The basis of accounting that is used determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**F. REVENUES - EXCHANGE AND NON-EXCHANGE TRANSACTIONS**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Township, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the Township receives value without directly giving equal in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year that the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Township must provide local

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**G. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In additions to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Township has three items, which arise only under a modified basis of accounting, which qualify for reporting in this category. Accordingly, unavailable revenues for property taxes, other taxes and trash services, are reported only in the Governmental Funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**H. EXPENSES/EXPENDITURES**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**I. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Investments with an original maturity of three months or less at the time they are issued are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

The Township maintains separate cash accounts for each fund. Under the Second Class Township Code of the Commonwealth of Pennsylvania, the Township is authorized to invest in the following types of investments:

United States Treasury Bills, Obligations of the United States Government or Commonwealth of Pennsylvania or its agencies or instrumentalities backed by their full faith and credit.

Deposits in savings accounts or certificates of deposit in institutions secured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, the National Credit Union Share Insurance Fund, the Pennsylvania Deposit Insurance Corporation, or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured. Amounts above the insured maximum are permitted, provided that approved collateral, as provided by law, shall be pledged by the depository.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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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 for Township funds listed above.

During 2015, the Township invested its funds as authorized by the Second Class Township Code.

**J. Accounts Receivable and Allowance for Doubtful Accounts**

The Township provides sewer and trash services to its residents and extends credit to them in the process. The Township has provided an allowance for uncollectible accounts of \$29,000 on trash service receivables and \$81,000 on sewer service receivables at December 31, 2015. In reviewing aged receivables, management considers their knowledge of the customers, historical activity, and current economic and other activity in establishing the allowance for doubtful accounts. A receivable is charged to bad debt expense when management determines the receivable is uncollectible.

**K. PREPAID ITEMS**

Payments made to vendors for services that will benefit periods beyond December 31, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which the services are consumed.

**L. INTERFUND RECEIVABLES/PAYABLES**

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as Interfund Receivables/Payables. Interfund balances within the governmental activities and within the business-types activities are eliminated on the government-wide statement of net assets.

**M. PROPERTY TAX**

The Township is permitted by the Second Class Township Code to levy taxes as follows:

General purposes (5 additional mills may be levied with court approval)	14 mills
Lighting—highways, roads, & public places	5 mills
Fire	3 mills
Fire hydrant	2 mills
Ambulance and rescue squads	0.5 mills
Parks and recreation	unlimited
Principal and interest payments	unlimited

Property taxes are levied on January 1<sup>st</sup> of each year. The elected tax collector bills and collects all taxes and then remits them to the Township.

The taxes are subject to discount and penalty per the following schedule:

Discount Period	March 1 to April 30 - 2% of Gross Levy
Flat Period	May 1 to June 30
Penalty Period	July 1 to Collection - 10% of Gross Levy

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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Delinquent property taxes are liened in January of the following year and collected by Chester County.

**N. CAPITAL ASSETS**

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets used by the proprietary fund are reported in both the business-type activities column on the government-wide statement of net assets and in the fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market value on the date donated. The Township maintains a capitalization threshold of \$1,000.

All capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	15-40 years
Buildings and building improvements	15-40 years
Furniture and fixtures	5-10 years
Vehicles	5-15 years
Equipment	5-20 years
Highways and streets	15 years
Lighting	25 years
Sewer system	50 years
Storm system	50 years

**O. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary fund are reported on the business-type financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

**P. NET POSITION**

Net position represents the difference between assets and liabilities. Net position invested in capital assets represents the cost of fixed assets net of related debt and net of accumulated depreciation. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Township's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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**Q. NET POSITION/FUND BALANCES**

The government-wide and business-type activities financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- **Net Investment in Capital Assets** - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance of this category.
- **Restricted Net Position** - This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** - This category represents net position of the Township not restricted for any project or other purpose.

The Township has 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 the Township's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable Fund Balance** includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.
- **Restricted Fund Balance** includes fund balance amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation.
- **Committed Fund Balance** includes fund balance amounts that are constrained for specific purposes that are internally imposed by the Township through formal action of the Board of Directors and do not lapse at year-end. To be reported as committed, amounts cannot be used for any other purpose unless the Township takes the same highest level action to remove or change the constraint.
- **Assigned Fund Balance** includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed, as expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.
- **Unassigned Fund Balance** includes the residual classifications for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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The details of the fund balances are included in the Governmental Funds balance sheet (page 5). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of Supervisors. The Township Board of Supervisors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. Assigned fund balance is intended to be used by the Township for specific purposes but does not meet the criteria to be classified as restricted or committed.

**R. OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Township, these revenues are charges for sewer service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the proprietary fund.

**S. INTERFUND TRANSACTIONS**

On fund financial statements, receivables and payables resulting from short-term Interfund loans or Interfund services provided and used are classified as "due to/from other funds". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position. The only interfund balances which remain on the government-wide statement of net position are those between governmental and business-type activities. These amounts are reflected as "internal balances" in the financial statements.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in enterprise funds.

**T. ESTIMATES**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**U. PROGRAM REVENUES**

Program revenues are allocated to specific departments and consist of charges for services for solid waste collection and building permits, cable franchise fees, citation income, and grants and subsidies.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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**3. INTERFUND RECEIVABLE/PAYABLE AND TRANSFER**

The balances of short-term Interfund receivables and payables at December 31, 2015, are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 3,077	\$
Capital Project Fund		
Act 209 Fund		
Liquid Fuels Fund		1,970
Sewer System Fund		<u>1,107</u>
Totals	<u>\$ 3,077</u>	<u>\$ 3,077</u>

Interfund transfers for the year ending December 31, 2015, are as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 49,729	\$
Sewer Fund		<u>49,729</u>
Totals	<u>\$ 49,729</u>	<u>\$ 49,729</u>

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

**4. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated:				
Land	\$ 407,868	\$ 0	\$ 0	\$ 407,868
Construction in progress	<u>335,264</u>	<u>75,798</u>	<u>0</u>	<u>411,062</u>
Total capital assets not being depreciated	<u>743,132</u>	<u>75,798</u>	<u>0</u>	<u>818,930</u>
Capital assets being depreciated:				
Building	1,607,012			1,607,012
Highways & streets	3,246,507			3,246,507
Machinery & equipment	402,751	28,262		431,013
Storm sewers	1,158,838	30,377		1,189,215
Vehicles	<u>440,262</u>	<u>0</u>	<u>0</u>	<u>440,262</u>
Total capital assets being depreciated	<u>6,855,370</u>	<u>58,639</u>	<u>0</u>	<u>6,914,009</u>
Total capital assets	<u>7,598,502</u>	<u>134,437</u>	<u>0</u>	<u>7,732,939</u>
Less accumulated depreciation:				
Building	(344,403)	(43,441)		(387,844)
Highways & streets	(1,435,568)	(187,536)		(1,623,104)
Machinery & equipment	(337,312)	(26,676)		(363,988)
Storm sewers	(180,215)	(23,481)		(203,696)
Vehicles	<u>(278,319)</u>	<u>(43,835)</u>	<u>0</u>	<u>(322,154)</u>
Total accumulated depreciation	<u>(2,575,817)</u>	<u>(324,969)</u>	<u>0</u>	<u>(2,900,786)</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,022,685</u>	<u>\$ (190,532)</u>	<u>\$ 0</u>	<u>\$ 4,832,153</u>

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets not being depreciated:				
Land	\$ 10,000	\$ 0	\$ 0	\$ 10,000
Right-of-way easements	39,112			39,112
Construction in progress	<u>93,914</u>			<u>93,914</u>
 Total capital assets not being depreciated	 <u>143,026</u>	 <u>0</u>	 <u>0</u>	 <u>143,026</u>
Capital assets being depreciated:				
Building	140,000			140,000
Machinery & equipment	110,863	32,789		143,652
Sewer collection system	<u>8,521,323</u>			<u>8,521,323</u>
 Total capital assets being depreciated	 <u>8,772,186</u>	 <u>32,789</u>	 <u>0</u>	 <u>8,804,975</u>
 Total capital assets	 <u>8,915,212</u>	 <u>32,789</u>	 <u>0</u>	 <u>8,948,001</u>
Less accumulated depreciation:				
Building	(39,433)	(2,800)		(42,233)
Machinery & equipment	(60,896)	(14,919)		(75,815)
Sewer collection system	<u>(1,742,983)</u>	<u>(170,395)</u>		<u>(1,913,378)</u>
 Total accumulated depreciation	 <u>(1,843,312)</u>	 <u>(188,114)</u>	 <u>0</u>	 <u>(2,031,426)</u>
 Business Type Activities Capital Assets, Net	 <u>\$ 7,071,900</u>	 <u>\$ (155,325)</u>	 <u>\$ 0</u>	 <u>\$ 6,916,575</u>

Depreciation expense was charged to the functions/programs of the Township as follows:

Governmental activities	
General government	\$ 41,089
Public safety	34,471
Public works - highways and streets	241,601
Culture and recreation	<u>7,808</u>
 Total governmental activities	 324,969
 Business-type activities	 <u>188,114</u>
 Total depreciation	 <u>\$ 513,083</u>

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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**5. OPERATING LEASES**

The Township is the lessor of land under an operating lease expiring in 2019.

Minimum future rentals to be received on non-cancelable leases as of

Year ending December 31:	
2016	\$ 23,805
2017	23,805
2018	23,805
2019	<u>11,902</u>
Total	\$ <u>83,317</u>

Minimum future rentals do not include contingent rentals that may be received by the Township if the lessee subleases the property.

There were no contingent rentals received by the Township in 2015.

The lessee has the option to renew the lease for three additional five year periods at the following annual rent:

Period 1	\$ 23,805 per year
Period 2	\$ 27,376 per year
Period 3	\$ 31,482 per year

**6. DEPOSITS AND INVESTMENTS**

**Deposits**

Custodial credit risk – Custodial credit risk is the risk that in the event of a bank failure, the Township’s deposits may not be returned to it. At year end, the total carrying amount of the Township’s checking, savings, and money market deposits was \$2,586,799 and the corresponding bank balance was \$2,692,178. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$2,442,178 was collateralized through pools of securities held by the respective depository institutions. There is no custodial credit risk.

**Investments**

Statutes authorize the Township to invest in U.S. Treasury bills, U.S. Government Agency bonds, time, or share accounts or institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, State Treasurer’s Investment pools, and mutual funds.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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**Interest Rate Risk**

The Township has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Township has no interest rate risk.

**Credit Risk**

The Township has no investment policy that would limit its investment choices to certain credit ratings.

**Concentration of Credit Risk**

The Township places no limit on the amount that the Township may invest in any one issuer.

**7. DEBT OBLIGATIONS**

Following is a summary of changes in debt obligations for the year ended December 31, 2015:

(See next page)

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

Description	Amount Outstanding 1/1/2015	Additions Current Year	Retired Current Year	Amount Outstanding 12/31/2015
<u>1998 Guaranteed Sewer Revenue Note</u> The original issue amount of \$975,000 had a fixed interest rate of 4.584%. Beginning September 2006, the note bears interest at a fixed rate of 4.25%.	\$ 480,000	\$ 0	\$ 31,000	\$ 449,000
<u>1998 Guaranteed Sewer Revenue Note</u> The original issue amount of \$405,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Bond Market Association. This rate cannot exceed 25% per annum. The average rate was 3.35%. Beginning September 2006, the note bears interest at a fixed rate of 4.045%.	239,000		16,000	223,000
<u>2003 Guaranteed Sewer Revenue Notes Series A</u> The original issue amount of \$2,123,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Bond Market Association. This rate cannot exceed 15% per annum. The average rate was 3.37%. Beginning September 2006, the note bears interest at a fixed rate of 3.979%.	583,000		187,000	396,000
<u>2003 Guaranteed Sewer Revenue Notes Series B</u> The original issue amount of \$1,377,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Bond Market Association. This rate cannot exceed 15% per annum. The average rate was 3.37%. Beginning September 2006, the note bears interest at a fixed rate of 3.979%.	1,377,000			1,377,000
<u>2009 Guaranteed Sewer Revenue Notes Series A-1</u> The original issue amount of \$8,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Securities Industry and Financial Market Association. This rate cannot exceed 15% per annum. The average rate was .9529%.	3,000		1,000	2,000
<u>2009 Guaranteed Sewer Revenue Notes Series A-2</u> The original issue amount of \$542,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Securities Industry and Financial Market Association. This rate cannot exceed 15% per annum. The average rate was .9529%.	542,000			542,000
<b>Total Debt Obligations</b>	<b>\$ 3,224,000</b>	<b>\$ 0</b>	<b>\$ 235,000</b>	<b>\$ 2,989,000</b>

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

The Township can prepay the Guaranteed Sewer Revenue Notes—the Series of 1998, and both Series A and B of 2003, and both Series A-1 and A-2 of 2009 subject to paying the costs associated with the liquidation of the notes.

The Guaranteed Sewer Revenue Notes—Series of 1998, both Series A and B of 2003, and both Series A-1 and A-2 of 2009—are secured by the revenue base of the sewer system and by the full faith, credit, and taxing powers of the Township.

Interest expense was \$120,617 for the year ended December 31, 2015

The amounts of future annual principal and interest payments on debt outstanding, assuming a variable rate of 4% for the 2009 notes, as of December 31, 2015, for each of the next five years and in the aggregate are as follows:

<b>Year Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 244,000	\$ 117,483	\$ 361,483
2017	254,000	107,383	361,383
2018	263,000	96,899	359,899
2019	273,000	86,029	359,029
2020	284,000	74,798	358,798
2021-2025	1,263,000	200,783	1,463,783
2026-2028	408,000	21,795	429,795
	<u>\$ 2,989,000</u>	<u>\$ 705,170</u>	<u>\$ 3,694,170</u>

Proceeds from tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The Township invests, records, and reports these proceeds in the manner set forth by the U.S. Treasury and Internal Revenue Service to maintain the tax-exempt status of the bonds at December 31, 2015. There are no arbitrage liabilities. The Township is in compliance with provisions of all note agreements.

The Township issued the Guaranteed Sewer Revenue Notes, 1998 A and B Series, the Guaranteed Sewer Revenue Notes, 2003 A and B Series, and the Guaranteed Sewer Revenue Notes, 2009 Series to the Delaware Valley Regional Finance Authority ("DelVal") to evidence its obligations for loans from DelVal. Under the terms of the Loan Agreements, the Township pays interest on the loans sufficient to pay its allocable share of DelVal's bond debt service, interest rate swaps (including termination costs), and administrative costs.

DelVal has entered into interest rate swap transactions to hedge its exposure to changing market conditions, to minimize the costs to provide loans, and to minimize fixed and variable loan rates. All DelVal loans are initially variable rate, and all loans are allocated a notional amount, equal to the outstanding principal of the loans, of DelVal interest rate swaps under which DelVal pays a variable rate to its Counterparty. These are programmatic swap agreements that would only be terminated if the DelVal Loan Program were being collapsed. DelVal provides a fixed rate loan if requested by a borrower by entering into an offsetting swap transaction under which DelVal pays a fixed rate. This offsetting transaction is entirely allocable to the fixed rate borrower. The offsetting transaction would only be terminated if the fixed rate borrower requested the termination (to prepay its loan or to reset the interest rate), the fixed rate borrower defaulted on its payment obligations, or the DelVal Loan Program were collapsed.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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**INTEREST RATE SWAP - SERIES OF 1998 GUARANTEED SEWER REVENUE NOTES A**

Objective of the interest rate swap - The Township issued the \$975,000 Series of 1998. Guaranteed Sewer Revenue Notes to DelVal to minimize its costs of issuance and to take advantage of the ability to set the Notes at a variable rate or a fixed rate. The Notes were converted to a fixed rate in 2006.

Terms - The Township's obligations for the allocable notional amounts of the DelVal swap agreements are scheduled to terminate on September 25, 2026. The allocable notional amount equals the Notes balance outstanding. Currently, under the Loan Agreement, the Township pays DelVal a fixed rate of 4.25% plus a spread of 40 basis points.

Fair Value - The allocable portion of DelVal's variable rate swap had a positive fair value of \$81,983 at December 31, 2015. The fixed rate swap allocable to the Township had a negative fair value of \$83,604 at December 31, 2015. The fair value was derived from proprietary models based upon well recognized financial principals and reasonable estimates about relevant future market conditions.

Credit risk - As of December 31, 2015, the Township was exposed to credit risk because the swaps had a combined negative fair value. The Township is exposed to credit risk in the amount of the derivatives fair value if the DelVal Loan Program is collapsed, the Township elects to prepay the Notes or to reset the interest rate on the Notes, or the Township defaults on its payment obligations. DelVal was rated A2 by Moody's Investors Service and A+ Standard and Poor's as of December 31, 2015.

Basis risk - The Township does not have any basis risk under the allocable DelVal swap agreements.

**INTEREST RATE SWAP SERIES OF 1998 GUARANTEED SEWER REVENUE NOTES B**

Objective of the interest rate swap - The Township issued the \$405,000 Series of 1998. Guaranteed Sewer Revenue Notes to DelVal to minimize its costs of issuance and to take advantage of the ability to set the Notes at a variable rate or a fixed rate. The Notes were converted to a fixed rate in 2006.

Terms - The Township's obligations for the allocable notional amounts of the DelVal swap agreements are scheduled to terminate on September 25, 2026. The allocable notional amount equals the Notes balance outstanding. Currently, under the Loan Agreement, the Township pays DelVal a fixed rate of 4.045% plus a spread of 40 basis points.

Fair Value - The allocable portion of DelVal's variable rate swap had a positive fair value of \$40,718 at December 31, 2015. The fixed rate swap allocable to the Township had a negative fair value of \$34,733 at December 31, 2015. The fair value was derived from proprietary models based upon well recognized financial principals and reasonable estimates about relevant future market conditions.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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Credit risk - As of December 31, 2015, the Township was not exposed to credit risk because the swaps had a combined positive fair value. The Township is exposed to credit risk in the amount of the derivatives fair value if the DelVal Loan Program is collapsed, the Township elects to prepay the Notes or to reset the interest rate on the Notes, or the Township defaults on its payment obligations. DelVal was rated A2 by Moody's Investors Service and A+ Standard and Poor's as of December 31, 2015.

Basis risk - The Township does not have any basis risk under the allocable DelVal swap agreements.

**INTEREST RATE SWAP - SERIES OF 2003 GUARANTEED SEWER REVENUE NOTES A AND B**

Objective of the interest rate swap - The Township issued the \$3,500,000 Series of 2003. Guaranteed Sewer Revenue Notes to DelVal to minimize its costs of issuance and to take advantage of the ability to set the Notes at a variable rate or a fixed rate. The Notes were converted to a fixed rate in 2006.

Terms - The Township's obligations for the allocable notional amounts of the DelVal swap agreements are scheduled to terminate on June 25, 2023. The allocable notional amount equals the Notes balance outstanding. Currently, under the Loan Agreement, the Township pays DelVal a fixed rate of 3.979% plus a spread of 40 basis points.

Fair Value - The allocable portion of DelVal's variable rate swap had a positive fair value of \$323,732 at December 31, 2015. The fixed rate swap allocable to the Township had a negative fair value of \$205,743 at December 31, 2015. The fair value was derived from proprietary models based upon well recognized financial principals and reasonable estimates about relevant future market conditions.

Credit risk - As of December 31, 2015, the Township was not exposed to credit risk because the swaps had a combined positive fair value. The Township is exposed to credit risk in the amount of the derivatives fair value if the DelVal Loan Program is collapsed, the Township elects to prepay the Notes or to reset the interest rate on the Notes, or the Township defaults on its payment obligations. DelVal was rated A2 by Moody's Investors Service and A+ Standard and Poor's as of December 31, 2015.

Basis risk - The Township does not have any basis risk under the allocable DelVal swap agreements.

**INTEREST RATE SWAP - SERIES OF 2009 GUARANTEED SEWER REVENUE NOTES**

Objective of the interest rate swap - The Township issued the \$550,000 Series of 2009. Guaranteed Sewer Revenue Notes to DelVal to minimize its costs of issuance and to take advantage of the ability to set the Notes at a variable rate or a fixed rate. The Notes were Issued at a variable rate.

Terms - The Township's obligations for the allocable notional amounts of the DelVal swap agreements are scheduled to terminate on June 25, 2023. The allocable notional amount equals the Notes balance outstanding. At December 31, 2015, the variable Interest rate was 0.91%.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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**Fair value** - The allocable portion of DelVal's variable rate swap had a positive fair value of \$99,329 at December 31, 2015. The fair value was derived from proprietary models based upon well recognized financial principals and reasonable estimates about relevant future market conditions.

**Credit risk** - As of December 31, 2015, the Township had no credit risk because the variable rate swap had a positive fair value. DelVal was rated A2 by Moody's Investors Service and A+ Standard and Poor's as of December 31, 2015.

**Basis risk** - The Township does not have any basis risk under the allocable DelVal swap agreements.

**8. JOINT SEWER AGREEMENTS**

**PENNSYLVANIA-AMERICAN WATER COMPANY (FORMERLY CITY OF COATESVILLE AUTHORITY)**

Under an agreement dated July 7, 1997, the Pennsylvania-American Water Company (formerly City of Coatesville Authority) agreed to provide sewage conveyance and treatment capacity of 410,750 gallons per day to Sadsbury Township. The Pennsylvania-American Water Company constructed facilities needed for the additional sewage conveyance and financed this project by issuing bonds. This agreement expires thirty years from the effective date. Either party may terminate this agreement upon giving five years written notice. The Township is responsible for the design, financing, and construction of the sewer lines and pumping stations located within the Township.

For this service, the Township is paying the Pennsylvania-American Water Company's standard, published rates for sewage conveyance on a monthly basis.

In addition, the Township has reimbursed the Pennsylvania-American Water Company its pro rata share of capacity fees and conveyance costs associated with the Township's connection to the system. The Township will also reimburse the Pennsylvania-American Water Company for the pro rata share of the Pennsylvania-American Water Company's bond interest directly attributable to the construction of facilities related to the additional system. These charges are being paid on a per connection basis. At December 31, 2015, prepaid expense was \$43,205 for conveyance costs and \$28,875 for capacity fees.

Under an agreement dated September 16, 2003, two developments located in West Caln Township agreed to connect to the Sadsbury Township system to have their sewage conveyed to the facility owned by the Pennsylvania-American Water Company. Pennsylvania-American Water Company has agreed to construct a force main to carry flows of 110,000 gallons per day from these two developments to the Township's sewage conveyance system. For this service, the two developments agree to pay to the Township connection fees of \$2,319 per equivalent dwelling unit of which the Township will reimburse \$1,178 per equivalent dwelling unit to Sadsbury Sewer Corporation, as discussed below. In addition, the two developments agreed to pay in advance \$26,000 as a sewage conveyance fee for the period beginning September 16, 2003, and ending December 31, 2006. Beginning January 1, 2007, the Township will charge for sewage conveyance on a quarterly basis on a formula contained in the agreement. Sewage fees were \$10,997 for the year ended December 31, 2015. The two developments and Pennsylvania-American Water Company agreed to reimburse the Township for all expenses incurred relating to this agreement.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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On August 3, 2013, the Township entered in a second agreement with a third development located in West Caln Township that agreed to connect to the Sadsbury Township system to have their sewage conveyed to the facility owned by the Pennsylvania-American Water Company. For this service, the third development agrees to pay to the Township the prevailing connection fees at the time of connection per equivalent dwelling unit. The current connection fee is \$2,938 per equivalent dwelling. In addition, the Township will charge for sewage conveyance on a quarterly basis based on a formula contained in the agreement. Also, Pennsylvania-American Water Company agreed to a proportionate share of future capital costs of the commonly used wastewater facilities and the developer agreed to pay the total capital costs for the upgrades and/or expansion of the pump station as necessary to correct any overload conditions caused by treatment of sewage from this development. Finally, the third developments and Pennsylvania-American Water Company agreed to reimburse the Township for all expenses incurred relating to this agreement.

**SADSBURY SEWER CORPORATION**

Under an agreement dated July 7, 1997, the Sadsbury Sewer Corporation (SSC), a private third-party, constructed the sewage facilities needed to connect the Sadsbury Township system to the Pennsylvania-American Water Company (the interconnector) and a portion of the conveyance system in the SSC development. The Township is obligated to construct all other conveyance systems to be located in the Township. For building the interconnector, Sadsbury Sewer Corporation is entitled to 270,000 gallons per day of the Township's 410,750 gallons per day to be provided by the Pennsylvania-American Water Company. In addition, the Township has agreed to reimburse the Sadsbury Sewer Corporation for any connection to the SSC system by a property owner within the Township (but not in the SSC development) during the ten-year period commencing on the date of dedication of the SSC facilities, subject to extensions agreed upon by both parties. This rebate will be an amount equal to the collection component of the tapping fee (subject to a five-percent administrative fee).

During the same ten-year period, SSC shall also be entitled to reimbursement of a pro rata share of its capital costs incurred in the construction of its facilities when any connection to the system is made from outside the Township.

**9. COMMITMENTS AND CONTINGENCIES**

**LEGAL PROCEEDINGS**

The Township was named, along with other municipalities (Municipal Group) and industrial companies (Industrial Group), as a potentially responsible party by the United States Environmental Protection Agency (EPA) for serious environmental contamination to a landfill operation previously used to dispose of trash under a contract with the Township. EPA has given indications of preliminary approval of an alternative cap remedy proposed by the Industrial Group that would cost several million dollars. In negotiation, EPA is now giving indications that they would accept a proposal from the Municipal Group in which this group agrees to assume discrete tasks in effectuating the cleanup, for example the cost of inspection and maintenance of the remediation area for the next thirty years. The total costs to the Municipal Group is estimated to be approximately \$78,000 annually for years one through five and \$58,500 annually for years six through thirty. The Township will be responsible for a fraction of these total

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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amounts depending on the final number of contributing municipalities. In any event, both EPA and the Municipal Group are concerned that the Industrial Group might challenge the Municipal Group settlement based on the theory that the proposed contribution by the Municipal Group is disproportionately small compared to their contribution. At this time, the settlement discussions with both EPA and the Industrial Group continue. The potential liability of the Township could substantially exceed its share of the cost for inspection and maintenance if the Industrial Group were to pursue contribution claims against the Municipal Group or the Municipal Group settlement is not accepted by EPA. The potential liability to the Township cannot be reasonably estimated at this time.

**SELF-INSURANCE**

The Township is a member of the Pennsylvania Intergovernmental Risk Management Association (PIRMA), a public entity self-insurance pool. PIRMA is comprised of various townships, boroughs, cities, counties, and authorities in the Commonwealth of Pennsylvania. The Township pays an annual premium to PIRMA for its general liability, automobile, police professional liability, and public officials' errors and omissions insurance coverage. The agreement for formation of PIRMA provides that PIRMA will be self-sustaining through member premiums and will return the first \$250,000 of loss, will reinsure through the American Public Entity Excess Pool losses in an amount not to exceed \$1.75 million per claim and \$5 million in the aggregate per year, and will purchase \$5,000,000 annual aggregate excess coverage through a commercial reinsurance company.

If the Township were to withdraw from PIRMA, it would receive its vested interest in the cumulative reserve fund and become responsible for the Township's claims. At December 31, 2015, the vested interest is \$43,243.

**UNION CONTRACT**

The police union contract was negotiated for a two-year term beginning January 1, 2014, through December 31, 2015, and covers two full time employees and several part-time employees

The highway department union contract was negotiated for a three-year, two and one-half months term beginning October 19, 2012, through December 31, 2015, and covers two full-time employees.

As of December 31, 2015, the Township is negotiating a new highway department union contract for periods after December 31, 2015.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(Continued)**

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**10. CURRENT YEAR REAL ESTATE TAXES**

Assessed valuation, adjusted by authorized revisions	\$ 210,159,215
Approved tax rate in mills	<u>0.00105</u>
Gross levy	220,679
Plus penalties applied	<u>730</u>
	221,409
Deductions: Discounts	(3,956)
Abatements	(36)
Taxes lited with county	<u>(5,845)</u>
Net current year real estate taxes collected	<u>\$ 211,572</u>

**11. RETIREMENT PLAN**

The Township established a defined contribution plan (SIMPLE IRA) effective February 2006. The plan is available to all eligible employees. For purposes of Township's matching and other discretionary contributions, all employees are eligible who are reasonably expected to receive \$5,000 in compensation in the calendar year and who have received at least \$5,000 in compensation during any two calendar years preceding the calendar year. The Township's contribution consists of a matching contribution equal to up to 3% of each employee's salary.

Retirement plan expense for the year ended December 31, 2015, was \$7,601.

**12. SUBSEQUENT EVENTS**

The Township has evaluated all events subsequent to the financial statement date of December 31, 2015, through October 18, 2016, which is the date these financial statements were available to be issued, and has determined that except for the following item there are no subsequent events that require recognition or disclosure.

**SADSBURY TOWNSHIP****Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Budget and Actual - General Fund  
For the Year Ended December 31, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
<b>Revenues</b>				
Taxes - real estate	\$ 215,300	\$ 215,300	\$ 215,572	\$ 272
Act 511 taxes	848,300	848,300	860,992	12,692
Licenses and permits	73,400	73,400	78,968	5,568
Fees and fines	27,700	27,700	18,934	(8,766)
Interest income	740	740	978	238
Rental income	23,800	23,800	23,805	5
Intergovernmental revenues	473,500	473,500	28,800	(444,700)
Charges for services	398,200	398,200	441,076	42,876
Contributions from private sector	46,600	46,600	59,136	12,536
Miscellaneous revenue	<u>3,800</u>	<u>3,800</u>	<u>13,836</u>	<u>10,036</u>
Total revenues	<u>2,111,340</u>	<u>2,111,340</u>	<u>1,742,097</u>	<u>(369,243)</u>
<b>Expenditures</b>				
General government	706,200	726,200	474,478	251,722
Public safety	545,300	545,300	477,774	67,526
Public works, solid waste collection	244,600	244,600	242,083	2,517
Public works, highways and streets	140,600	140,600	148,723	(8,123)
Culture and recreation	40,400	40,400	5,614	34,786
Special Project	440,000	420,000	3,600	416,400
Miscellaneous	<u>114,300</u>	<u>114,300</u>	<u>88,449</u>	<u>25,851</u>
Total expenditures	<u>2,231,400</u>	<u>2,231,400</u>	<u>1,440,721</u>	<u>790,679</u>
Excess (deficiency) of revenues over expenditures	<u>(120,060)</u>	<u>(120,060)</u>	<u>301,376</u>	<u>421,436</u>
Other finances sources (uses) transfers in	<u>46,100</u>	<u>46,100</u>	<u>49,729</u>	<u>3,629</u>
Net change in fund balances	<u>\$ (73,960)</u>	<u>\$ (73,960)</u>	<u>\$ 351,105</u>	<u>\$ 425,065</u>
Fund balance -- January 1, 2015			<u>904,922</u>	
Fund balance -- December 31, 2015			<u>\$ 1,256,027</u>	

**SADSBURY TOWNSHIP**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - Capital Projects Fund**  
**For the Year Ended December 31, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
<b>Revenues</b>				
Interest income	\$ 1,600	\$ 1,600	\$ 674	\$ (926)
<b>Expenditures</b>				
General government	9,600	9,600		9,600
Public safety	2,500	2,500		2,500
Public works, highways and streets	39,500	39,500		39,500
Total Expenditures	<u>51,600</u>	<u>51,600</u>		<u>51,600</u>
Excess of revenues over expenditures	<u>(50,000)</u>	<u>(50,000)</u>	674	<u>50,674</u>
Other financing sources (uses) transfers In	<u>16,300</u>	<u>16,300</u>		<u>(16,300)</u>
Net change in fund balances	<u>\$ (33,700)</u>	<u>\$ (33,700)</u>	<u>\$ 674</u>	<u>\$ 34,374</u>
Fund balance -- January 1, 2015			<u>689,077</u>	
Fund balance -- December 31, 2015			<u>\$ 689,751</u>	

**SADSBURY TOWNSHIP**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - Act 209 Fund**  
**For the Year Ended December 31, 2015**

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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Interest Income	\$ 480	\$ 480	\$ 561	\$ 81
Charges for services	<u>115,000</u>	<u>115,000</u>	<u>36,210</u>	<u>(78,790)</u>
Net change in fund balances	<u>\$ 115,480</u>	<u>\$ 115,480</u>	<u>\$ 36,771</u>	<u>\$ (78,709)</u>
Fund balance --January 1, 2015			<u>301,893</u>	
Fund balance -- December 31, 2015			<u>\$ 338,664</u>	

**SADSBURY TOWNSHIP**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - Liquid Fuels Fund**  
**For the Year Ended December 31, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Interest income	\$ 280	\$ 280	\$ 371	\$ 91
Intergovernmental revenues	<u>104,400</u>	<u>104,400</u>	<u>107,095</u>	<u>2,695</u>
Total revenues	<u>104,680</u>	<u>104,680</u>	<u>107,466</u>	<u>2,786</u>
<b>Expenditures</b>				
Public works, highways and streets	<u>136,800</u>	<u>136,800</u>	<u>92,640</u>	<u>44,160</u>
Net change in fund balances	\$ <u>(32,120)</u>	\$ <u>(32,120)</u>	\$ <u>14,826</u>	\$ <u>46,946</u>
Fund balance -- January 1, 2015			<u>123,698</u>	
Fund balance -- December 31, 2015			<u>\$ 138,524</u>	



**SADBURY TOWNSHIP  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**SADSBURY TOWNSHIP**Page  
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# **Maulo & Company, Ltd.**

*Certified Public Accountants*

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West Chester, PA 19382-3224

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## **Independent Auditor's Report**

To the Board of Supervisors  
Sadsbury Township  
Chester 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 Sadsbury Township, Chester County, Pennsylvania, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Sadsbury Township's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Sadsbury Township's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinions***

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 Sadsbury Township as of

December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages MD&A 1 through MD&A 18 and budgetary comparison information on pages 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sadsbury Township's basic financial statement. The introductory section and the non-major fund budget and actual financial statement is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The non-major fund budget and actual financial statement 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. Such 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 non-major fund budget and actual financial statement is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

*Maulo & Company, Ltd.*

West Chester, Pennsylvania  
September 26, 2017

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2016**

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The Management Discussion and Analysis of Sadsbury Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2016. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. Readers should also review the financial statements and related notes.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis - for State and Local Governments*, presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

- The Township's assets exceeded its liabilities by \$13,131,873 (net position) for the fiscal year. The 2016 increase was \$733,290.
- Total net position is comprised of the following:
  - 1) Capital assets, net of related debt, of \$9,366,377 include property and equipment, net of accumulated depreciation, and are reduced by outstanding debt related to the purchase or construction of capital assets. The 2016 increase was \$606,649.
  - 2) Net position of \$661,502 is restricted by constraints imposed from outside the Township such as grantors, laws, or regulations. The 2016 increase was \$138,780.
  - 3) Unrestricted net assets of \$3,103,994 represent the portion available to maintain the Township's continuing obligations to citizens and creditors. The 2016 decrease was \$12,139.
- The Township's governmental activities reported total ending net assets of \$8,129,479 this year. The 2016 increase was \$653,831.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$854,296 or 35.0% of total General Fund expenditures, including transfers, and 35.0% of total General Fund revenues, including transfers. The 2016 increase was \$32,231.
- This increase in fund balance relates to increased tax revenue such as real estate and transfer taxes, an increase in intergovernmental revenues, and a decrease in special project and capital purchase expenditures compared to 2015.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The accompanying financial statements have been prepared in accordance with GASB Statement Number 34 and present both government-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2016**

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**Government-Wide Financial Statements**

- The first two statements are government-wide financial statements - the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the Township's overall financial status.
- The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.
- The two government-wide statements report the Township's net position and how they have changed. Net position, the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.
- Over time, increases or decreases in the Township's net position are an indication of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, a reader needs to consider additional non-financial factors, such as changes in the Township's property tax base and increases in development in the Township.
- The government-wide financial statements of the Township are divided into two categories:
  - Governmental Activities** - All of the Township's basic services are included here, such as administration and community services. Taxes, charges for services, and state grants finance most of these activities.
  - Business-Type Activities** - The Township runs a sewer system and charges fees to residents for conveyance of waste through the Township's sewer system.

**Fund Level Financial Statements**

The remaining statements are fund financial statements that focus on individual parts of the Township's operations in more detail than the government-wide statements. The governmental fund statements tell how the Township's general services were financed in the short-term, as well as, what remains for future spending. Proprietary fund statements offer short-term and long-term financial information about the activities that the Township operates like a business. For this Township, this is the Sewer Fund. Fiduciary fund statements provide information about financial relationships in which the Township acts solely as a trustee or agent for the benefit of others.

- **Governmental Funds** - Most of the Township's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental funds are reported using an accounting basis called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
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- Proprietary Funds - These funds are used to account for Township activities that are similar to business operations in the private sector, where the reporting focus is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the Township charges customers for services it provides—whether to outside customers or to other units in the Township—these services are generally reported in proprietary funds. The Sewer Fund is the Township’s proprietary fund and is the same as the business-type activities reported in the government-wide statements.
- Fiduciary Funds - The Township is the trustee, or fiduciary, for some escrow funds. All of the Township’s fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the Township’s other financial statements because the Township cannot use these assets to finance its operations.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

**FINANCIAL ANALYSIS OF THE TOWNSHIP—GOVERNMENT—WIDE STATEMENTS**

The Township’s total net position was \$13,131,873 at December 31, 2016. The Township’s total net position was \$12,398,583 at December 31, 2015. This represents an increase of \$733,290 which is a 5.9% increase. The following tables present condensed financial information for the net position of the Township as of December 31, 2016 and 2015.

**Schedule of Net Position**  
**Year Ended December 31, 2016**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current and other assets	\$ 3,221,411	\$ 1,402,499	\$ 4,623,910
Capital assets, net	<u>5,369,320</u>	<u>6,742,057</u>	<u>12,111,377</u>
Total Assets	<u>\$ 8,590,731</u>	<u>\$ 8,144,556</u>	<u>\$ 16,735,287</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 461,252	\$ 397,162	\$ 858,414
Non-current liabilities	<u>                    </u>	<u>2,745,000</u>	<u>2,745,000</u>
Total Liabilities	<u>461,252</u>	<u>3,142,162</u>	<u>3,603,414</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	5,369,320	3,997,057	9,366,377
Restricted	661,502		661,502
Unrestricted	<u>2,098,657</u>	<u>1,005,337</u>	<u>3,103,994</u>
Total Net Position	<u>8,129,479</u>	<u>5,002,394</u>	<u>13,131,873</u>
Total Liabilities and Net Position	<u>\$ 8,590,731</u>	<u>\$ 8,144,556</u>	<u>\$ 16,735,287</u>



**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2016**

The following tables present condensed financial information for the Statement of Activities in a different format, in order to present total revenues for the years ended December 31, 2016 and 2015.

**Changes in Net Position**  
**For The Year Ended December 31, 2016**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>REVENUES</b>			
Program Services			
Charges for services	\$ 513,855	\$ 998,174	\$ 1,512,029
Operating grants and contributions	725,757		725,757
General Revenues			
Real estate taxes	278,459		278,459
Transfer taxes	196,741		196,741
Per capita taxes	8,346		8,346
Earned income taxes	671,409		671,409
Local Services taxes	82,115		82,115
Investment earnings	4,956	842	5,798
Rental income	23,805		23,805
Gain on sale of capital assets	1,500		1,500
Miscellaneous	104,225		104,225
<b>Total Revenues</b>	<u>2,611,168</u>	<u>999,016</u>	<u>3,610,184</u>
<b>EXPENSES</b>			
General government	528,214		528,214
Public safety	591,739		591,739
Solid waste collection	268,472		268,472
Highways and streets	442,473		442,473
Culture and recreation	16,376		16,376
Miscellaneous expenditures	154,630		154,630
Sewer system		874,990	874,990
<b>Total Expenses</b>	<u>2,001,904</u>	<u>874,990</u>	<u>2,876,894</u>
Increase (decrease) in net position before transfers	609,264	124,026	733,290
<b>TRANSFERS</b>	<u>44,567</u>	<u>(44,567)</u>	<u>0</u>
Increase (decrease) in net position	653,831	79,459	733,290
Net position - beginning	<u>7,475,648</u>	<u>4,922,935</u>	<u>12,398,583</u>
Net position - ending	<u>\$ 8,129,479</u>	<u>\$ 5,002,394</u>	<u>\$ 13,131,873</u>

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2016**

**Changes in Net Position**  
**For The Year Ended December 31, 2015**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>REVENUES</b>			
Program Services			
Charges for services	\$ 593,584	\$ 1,216,303	\$ 1,809,887
Operating grants and contributions	195,031		195,031
General Revenues			
Real estate taxes	215,163		215,163
Transfer taxes	72,886		72,886
Per capita taxes	6,030		6,030
Earned income taxes	641,165		641,165
Local Services taxes	106,680		106,680
Investment earnings	2,584	599	3,183
Rental income	23,805		23,805
Miscellaneous	13,836		13,836
	<u>1,870,764</u>	<u>1,216,902</u>	<u>3,087,666</u>
<b>Total Revenues</b>			
<b>EXPENSES</b>			
General government	428,460		428,460
Public safety	506,693		506,693
Solid waste collection	242,083		242,083
Highways and streets	441,186		441,186
Culture and recreation	13,422		13,422
Miscellaneous expenditures	92,049		92,049
Sewer system		954,283	954,283
	<u>1,723,893</u>	<u>954,283</u>	<u>2,678,176</u>
<b>Total Expenses</b>			
Increase (decrease) in net position before transfers	146,871	262,619	409,490
<b>TRANSFERS</b>	<u>49,729</u>	<u>(49,729)</u>	<u>0</u>
Increase (decrease) in net position	196,600	212,890	409,490
Net position - beginning	<u>7,279,048</u>	<u>4,710,045</u>	<u>11,989,093</u>
Net position - ending	<u>\$ 7,475,648</u>	<u>\$ 4,922,935</u>	<u>\$ 12,398,583</u>

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2016**

**EXPENSES**

The following tables present condensed financial information on the expenses of the Township by function.

**Expense Analyses**

**Expenses - Governmental Activities**

The following table illustrates both the gross and net costs of services. Unrestricted grants and contributions are deducted to reflect the amount needed to be funded by other revenue sources. Capital contributions from developers are not included in the analysis.

	<u>For the year ended December 31, 2016</u>		<u>For the year ended December 31, 2015</u>	
	<u>Total Cost of Services</u>	<u>Net Cost (Benefit) of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost (Benefit) of Services</u>
General government	\$ 528,214	\$ (114,472)	\$ 428,460	\$ 342,750
Public safety	591,739	468,235	506,693	294,190
Solid waste collection	268,472	(72,369)	242,083	(90,242)
Highways and streets	442,473	313,426	441,186	323,858
Culture and recreation	16,376	12,842	13,422	(27,327)
Miscellaneous	154,630	154,630	92,049	92,049
<b>Total Expenses</b>	<b><u>\$ 2,001,904</u></b>	<b><u>\$ 762,292</u></b>	<b><u>\$ 1,723,893</u></b>	<b><u>\$ 935,278</u></b>
Amount funded by other revenue sources		<u>\$ 762,292</u>		<u>\$ 935,278</u>

**Expenses - Business-Type Activities**

The following table reflects condensed financial activities of the sewer system, the only business-type activity of the Township.

	<u>For the year ended December 31, 2016</u>		<u>For the year ended December 31, 2015</u>	
	<u>Total Cost of Services</u>	<u>Net Cost (Benefit) of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost (Benefit) of Services</u>
Sewer system	<u>\$ 874,990</u>	<u>\$ (220,184)</u>	<u>\$ 954,283</u>	<u>\$ (262,020)</u>

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2016**

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**THE TOWNSHIP FUNDS**

**General Fund**

- At December 31, 2016 and 2015, the Township reported fund balances of \$1,231,764 and \$1,256,027, respectively, which represents 50.4% and 87.2% of total expenses. Fund balance as a percent of total expenses decreased because of higher taxes as explained below and an increase in special project and capital purchase expenditures as compared to 2015. The fund balance is allocated as follows:

Non-spendable - prepaid expense	\$	23,083
Restricted		
Parks capital		120,675
Stormwater maintenance		11,215
Assigned - budgetary reserve		222,495
Unassigned		<u>854,296</u>
	\$	<u>1,231,764</u>

**REVENUE**

General fund revenues totaled \$2,420,305 for the year ended December 31, 2016. The following table reflects a comparison of current year revenues with the revenues reflected in the 2016 budget year:

	<u>Actual 2016</u>	<u>% of Total</u>	<u>Budget 2016</u>	<u>Inc/(Dec) from Budget</u>
Taxes	\$ 1,165,603	48.2%	\$ 1,133,100	\$ 32,503
Licenses and permits	83,731	3.5%	77,600	6,131
Fees and fines	12,967	0.5%	16,850	(3,883)
Interest income	2,043	0.1%	840	1,203
Rental income	23,805	1.0%	23,800	5
Intergovernmental revenues	592,925	24.4%	464,800	128,125
Charges for services	382,654	15.8%	402,950	(20,296)
Contributions from private sector	93,783	3.9%	111,620	(17,837)
Miscellaneous	16,727	0.7%	49,900	(33,173)
Other financing sources	<u>46,067</u>	<u>1.9%</u>	<u>          </u>	<u>46,067</u>
	<u>\$ 2,420,305</u>	<u>100.0%</u>	<u>\$ 2,281,460</u>	<u>\$ 138,845</u>

Intergovernmental revenues were higher than expected due to the 2016 budget including a transportation enhancement grant for \$436,250. Actual grant revenue was \$563,911. Other financing sources were higher than the budget due to interfund transfers and proceeds from the sale of fixed assets in 2016.

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2016**

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**EXPENDITURES**

General fund expenditures totaled \$2,444,568. These expenditures were segregated into various programs depending on the functions of the activity. These programs and the costs associated with each, as well as, comparison to the original 2016 budget, are as follows:

	<u>Actual</u> <u>2016</u>	<u>% of</u> <u>Total</u>	<u>Budget</u> <u>2016</u>	<u>Inc/(Dec)</u> <u>from Budget</u>
General government	\$ 534,724	21.9%	\$ 626,850	\$ (92,126)
Public safety	608,427	24.9%	603,990	4,437
Public works, solid waste collection	268,472	11.0%	255,800	12,672
Public works, highways and streets	320,731	13.0%	462,310	(141,579)
Culture and recreation	8,567	0.4%	64,900	(56,333)
Special projects	598,670	24.5%	522,800	75,870
Miscellaneous	<u>104,977</u>	<u>4.3%</u>	<u>130,850</u>	<u>(25,873)</u>
	<u>\$ 2,444,568</u>	<u>100.0%</u>	<u>\$ 2,667,500</u>	<u>\$ (222,932)</u>

General government was lower than budget because of lower legal fees, engineering fees and administration costs such as payroll and insurance costs. Public works, highways and streets was lower than budget because of lower capital improvements. Culture and recreation were lower because a project that was budgeted did not occur in 2016. Special project costs were higher than budget because a highway project funded by federal and state grants was previously delayed from 2015 and incurred more costs in 2016.

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2016**

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**CONDENSED STATEMENT OF ACTIVITIES**

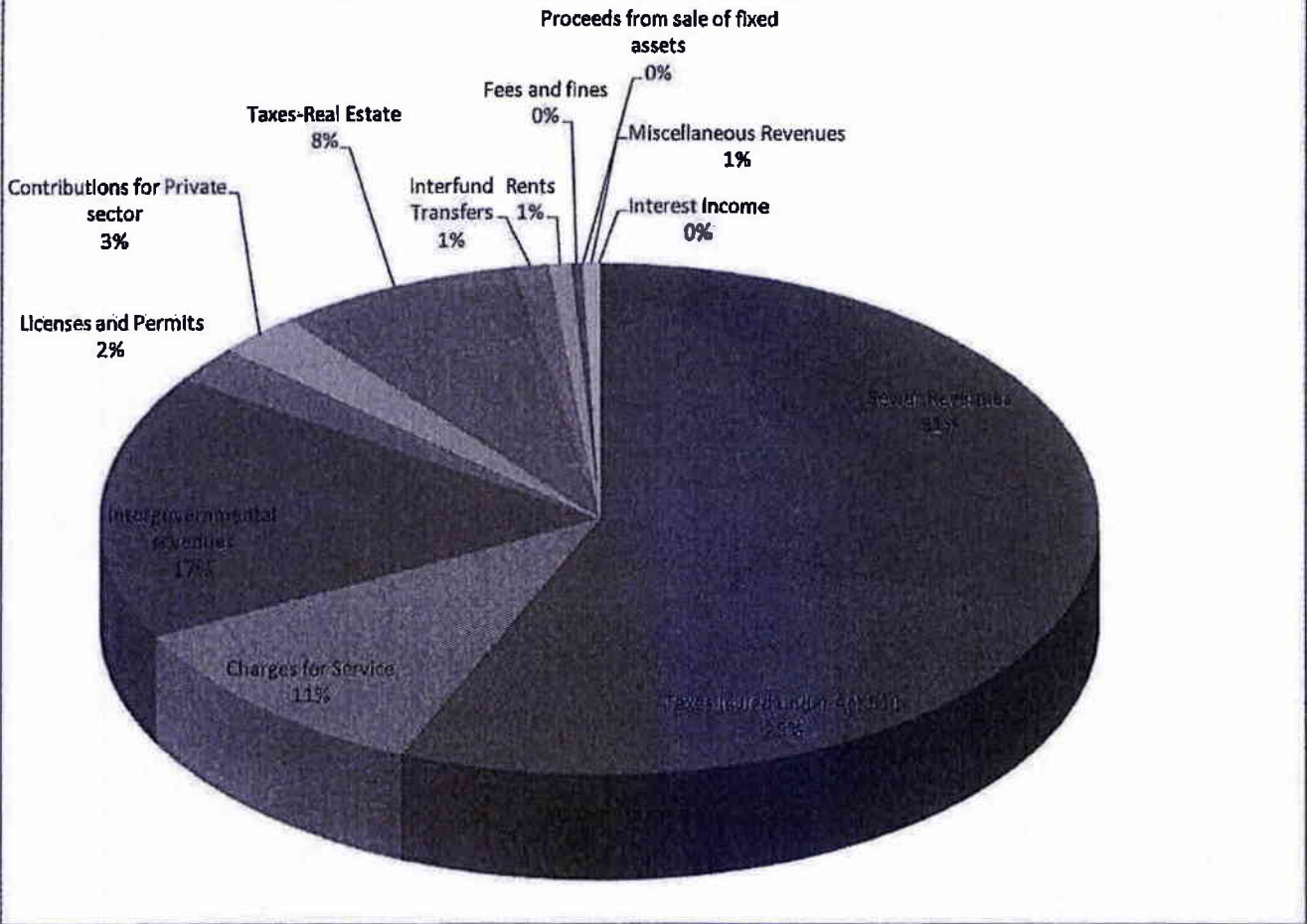
**Governmental and Proprietary (Sewer) Fund**

A comparison including graphs of the Township's Governmental and Proprietary (Sewer) Funds revenue and expenditures/expenses for 2016 and 2015 by category (as used for budgeting purposes) is shown below:

	<u>2016</u>	<u>2015</u>
<b><u>Revenues</u></b>		
Taxes-real estate	\$ 274,604	\$ 215,572
Taxes levied under Act 511	890,999	860,992
Licenses and permits	83,731	78,968
Fees and fines	12,967	18,934
Interest income	2,043	2,584
Rental income	23,805	23,805
Intergovernmental revenues	592,925	135,895
Charges for service	382,654	477,286
Contributions for private sector	93,783	59,136
Proceeds from sale of fixed assets	1,500	
Miscellaneous revenues	16,727	13,836
Interfund transfers	44,567	49,729
Sewer system revenues	<u>1,096,016</u>	<u>1,216,902</u>
<b>Total Revenues</b>	<b><u>\$ 3,516,321</u></b>	<b><u>\$ 3,153,639</u></b>
<b><u>Expenditures/Expenses</u></b>		
General Government	\$ 534,724	\$ 474,478
Public Safety	608,427	477,774
Public works-solid waste collection	268,472	242,083
Public works- highways and streets	320,731	241,363
Culture and recreation	8,567	5,614
Special project	598,670	3,600
Miscellaneous	104,977	88,449
Sewer system expenses	<u>919,557</u>	<u>1,004,012</u>
<b>Total Expenditures/Expenses</b>	<b><u>\$ 3,364,125</u></b>	<b><u>\$ 2,537,373</u></b>

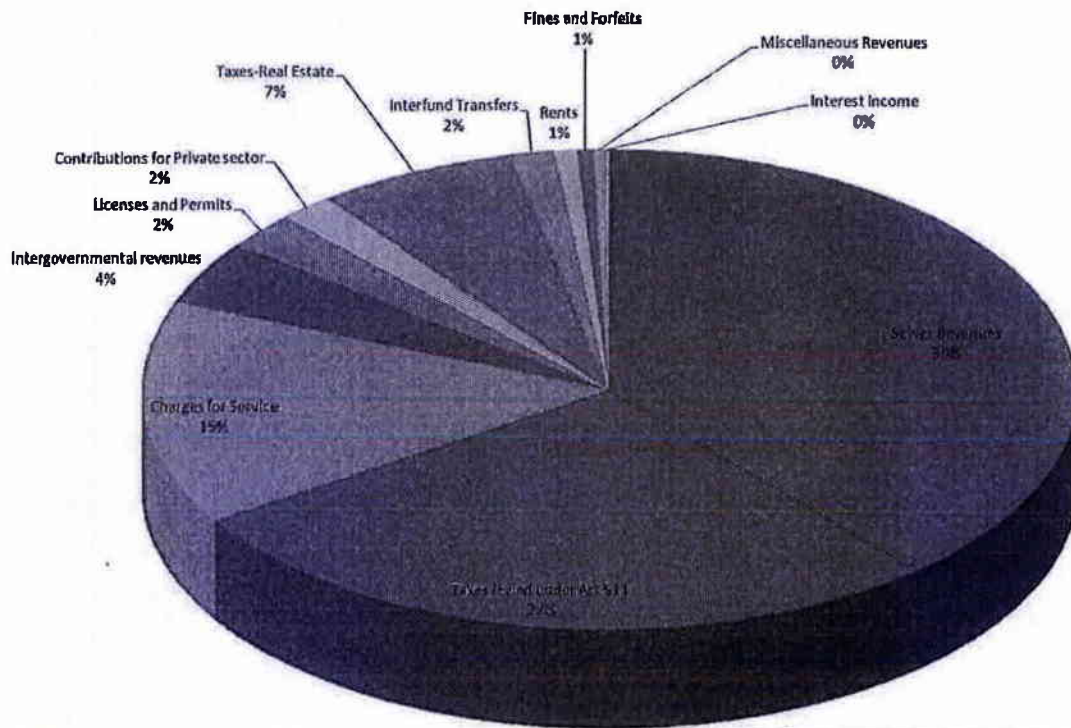
**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
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**Revenues Year ended December 31, 2016**



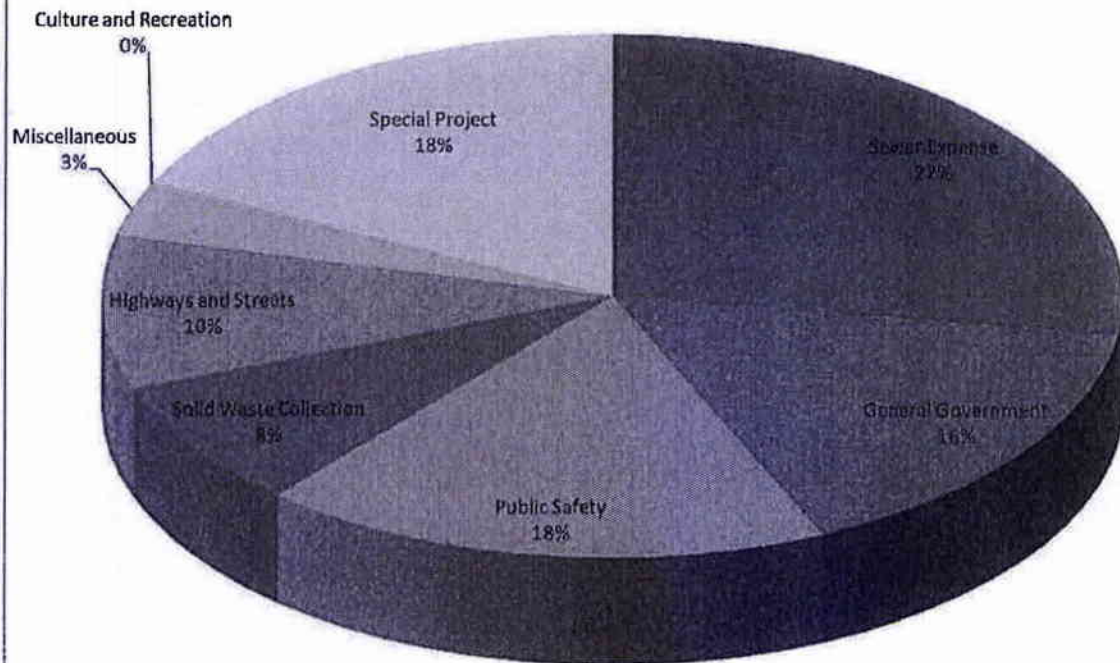
**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
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**Revenues Year Ended December 31, 2015**



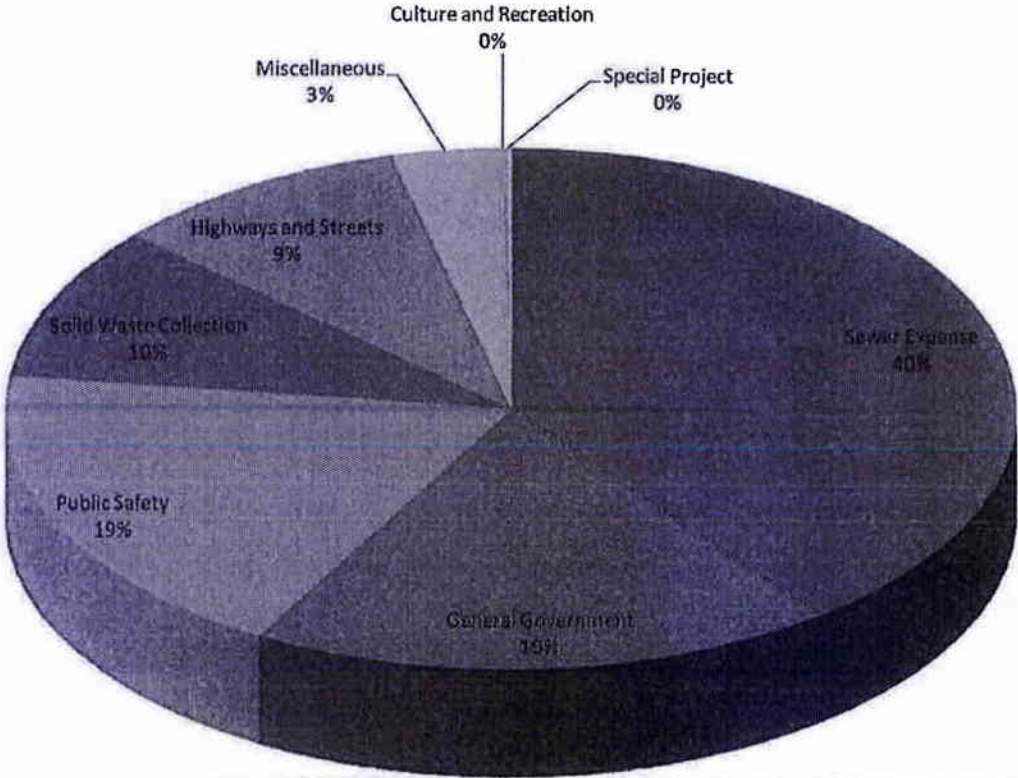
**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
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**Expenses/Expenditures Year ended December 31, 2016**



**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2016**

**Expenses/Expenditures Year Ended December 31, 2015**



**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2016**

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**CAPITAL PROJECTS FUND**

At December 31, 2016 and 2015, the Township reported a fund balance of \$691,454 and \$689,751, which is an increase of \$1,703 and an increase of \$674, respectively. During 2016 and 2015, this fund received no transfers from the general fund and transferred \$213,943 and \$0 respectively, to pay for capital assets.

**GENERAL FUND BUDGET**

During the fiscal year, the Board of Township Supervisors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the Township. Those adjustments are again confirmed at the time the annual audit is accepted. This is done after the end of the fiscal year in accordance with state law. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in the financial statements.

The Township applies for federal, state, and local grants and these grants cannot always be anticipated in the budgeting process. Budgeted revenues are adjusted to reflect actual revenues received for all approved grants.

Budgeted expenditures are also adjusted to reflect the actual expenditures made for all approved grants. Transfers between specific categories of expenditures/financing uses occur during the year.

**CAPITAL ASSETS**

At December 31, 2016 and 2015, the Township had \$12,111,377 and \$11,748,728, respectively, invested in a broad range of capital assets (net of accumulated depreciation), including land, buildings, sewer, collection system, vehicles, and machinery and equipment. This amount represents a net increase in cost of \$851,506, and an increase in accumulated depreciation of \$488,857.

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2016**

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The following schedules present the changes in capital assets for the years ended December 31, 2016 and 2015. During this period, the Township had the following significant additions in capital assets.

**Schedule of Capital Assets**  
**For The Year Ended December 31, 2016**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>CAPITAL ASSETS</b>			
Land	\$ 407,868	\$ 49,112	\$ 456,980
Buildings	1,607,012	140,000	1,747,012
Machinery and equipment	469,095	153,652	622,747
Vehicles	664,496		664,496
Highways and streets	3,246,507		3,246,507
Storm sewers	1,191,546		1,191,546
Sewer collection system		8,521,323	8,521,323
Construction in progress	<u>987,921</u>	<u>93,914</u>	<u>1,081,835</u>
Total Capital Assets	<u>8,574,445</u>	<u>8,958,001</u>	<u>17,532,446</u>
<b>ACCUMULATED DEPRECIATION</b>			
Buildings	431,285	45,033	476,318
Machinery and equipment	383,414	87,107	470,521
Vehicles	353,766		353,766
Highways and streets	1,809,156		1,809,156
Storm sewers	227,504		227,504
Sewer collection system		<u>2,083,804</u>	<u>2,083,804</u>
Total Accumulated Depreciation	<u>3,205,125</u>	<u>2,215,944</u>	<u>5,421,069</u>
Capital Assets, Net	<u>\$ 5,369,320</u>	<u>\$ 6,742,057</u>	<u>\$ 12,111,377</u>

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2016**

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**Schedule of Capital Assets**  
**For The Year Ended December 31, 2015**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>CAPITAL ASSETS</b>			
Land	\$ 407,868	\$ 49,112	\$ 456,980
Buildings	1,607,012	140,000	1,747,012
Machinery and equipment	431,013	143,652	574,665
Vehicles	440,262		440,262
Highways and streets	3,246,507		3,246,507
Storm sewers	1,189,215		1,189,215
Sewer collection system		8,521,323	8,521,323
Construction in progress	<u>411,062</u>	<u>93,914</u>	<u>504,976</u>
Total Capital Assets	<u>7,732,939</u>	<u>8,948,001</u>	<u>16,680,940</u>
<b>ACCUMULATED DEPRECIATION</b>			
Buildings	387,844	42,233	430,077
Machinery and equipment	363,988	75,815	439,803
Vehicles	322,154		322,154
Highways and streets	1,623,104		1,623,104
Storm sewers	203,696		203,696
Sewer collection system		<u>1,913,378</u>	<u>1,913,378</u>
Total Accumulated Depreciation	<u>2,900,786</u>	<u>2,031,426</u>	<u>4,932,212</u>
Capital Assets, Net	<u>\$ 4,832,153</u>	<u>\$ 6,916,575</u>	<u>\$ 11,748,728</u>

**SADSBURY TOWNSHIP**  
**Management Discussion and Analysis**  
**December 31, 2016**

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**DEBT ADMINISTRATION**

As of January 1, 2016, the Township had total outstanding principal on notes of \$2,989,000. During the year, the Township made payments against principal in the amount of \$244,000, resulting in ending outstanding debt, as of December 31, 2016, of \$2,745,000.

**Debt Service Schedule**  
**December 31, 2016**

	Principal Outstanding <u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Payments</u>	Principal Outstanding <u>Dec. 31, 2016</u>
Guaranteed Sewer Revenue Note Series 1998	\$ 672,000	\$	\$ 49,000	\$ 623,000
Guaranteed Sewer Revenue Note Series 2003	1,773,000		194,000	\$ 1,579,000
Guaranteed Sewer Revenue Note Series 2009	<u>544,000</u>		<u>1,000</u>	<u>543,000</u>
	<u>\$ 2,989,000</u>	<u>\$</u>	<u>\$ 244,000</u>	<u>\$ 2,745,000</u>

More detailed information about our long-term liabilities is included in the Notes to the Financial Statements.

**THE TOWNSHIP'S FUTURE**

The Township expects to experience growth in the next five years as the economy improves.

**FINANCIAL MANAGEMENT**

Our financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Linda Shank, Assistant Secretary/Assistant Treasurer at the Township office.

**SADSBURY TOWNSHIP**  
**Statement of Net Position**  
**December 31, 2016**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,946,592	\$ 458,729	\$ 2,405,321
Investments			
Accounts receivables	887,035	892,442	1,779,477
Taxes receivable, net	303,448		303,448
Internal balances	18,010	(18,010)	
Prepaid items	23,083	69,338	92,421
Other current assets	43,243		43,243
Capital assets not being depreciated			
Land	407,868	10,000	417,868
Right-of-way easements		39,112	39,112
Construction in progress	987,921	93,914	1,081,835
Capital assets, net of accumulated depreciation			
Buildings	1,175,727		1,175,727
Highways and streets	1,437,351		1,437,351
Machinery and equipment	85,681		85,681
Storm Sewer	964,042		964,042
Vehicles	310,730		310,730
Sewer collection system		6,599,031	6,599,031
<b>Total assets</b>	<b>\$ 8,590,731</b>	<b>\$ 8,144,556</b>	<b>\$ 16,735,287</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 433,746	\$ 107,563	\$ 541,309
Accrued liabilities	27,506		27,506
Interest payable		2,178	2,178
Unearned revenue		287,421	287,421
Long-term liabilities			
Portion due or payable within one year			
Notes payable		254,000	254,000
Portion due or payable after one year			
Notes payable		2,491,000	2,491,000
<b>Total liabilities</b>	<b>461,252</b>	<b>3,142,162</b>	<b>3,603,414</b>
<b>NET POSITION</b>			
Net investment in capital assets	5,369,320	3,997,057	9,366,377
Restricted			
Parks capital	120,675		120,675
Stormwater maintenance	11,215		11,215
Highways and streets	170,945		170,945
Act 209 capital projects	358,667		358,667
Unrestricted	2,098,657	1,005,337	3,103,994
<b>Total net position</b>	<b>8,129,479</b>	<b>5,002,394</b>	<b>13,131,873</b>
<b>Total liabilities and net position</b>	<b>\$ 8,590,731</b>	<b>\$ 8,144,556</b>	<b>\$ 16,735,287</b>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Statement of Activities**  
**For the Year Ended December 31, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
<b>Governmental activities</b>							
General government	\$ 528,214	\$ 75,936	\$ 566,750	\$	\$ 114,472	\$	\$ 114,472
Public safety	591,739	96,328	27,176		(468,235)		(468,235)
Solid waste collection	268,472	340,691	150		72,369		72,369
Highways and streets	442,473		129,047		(313,426)		(313,426)
Culture and recreation	16,376	900	2,634		(12,842)		(12,842)
Miscellaneous	154,630				(154,630)		(154,630)
Total governmental activities	<u>2,001,904</u>	<u>513,855</u>	<u>725,757</u>		<u>(762,292)</u>		<u>(762,292)</u>
<b>Business activities</b>							
Sewer system	<u>874,990</u>	<u>998,174</u>				<u>123,184</u>	<u>123,184</u>
Total primary government	<u>\$ 2,876,894</u>	<u>\$ 1,512,029</u>	<u>\$ 725,757</u>	<u>\$</u>	<u>(762,292)</u>	<u>123,184</u>	<u>(639,108)</u>
<b>General revenues</b>							
Taxes							
Real estate taxes					278,459		278,459
Transfer taxes					196,741		196,741
Per capita taxes					8,346		8,346
Earned income taxes					671,409		671,409
Local services taxes					82,115		82,115
Investment earnings					4,956	842	5,798
Rental income					23,805		23,805
Gain on sale of capital assets					1,500		1,500
Miscellaneous					104,225		104,225
Transfers					44,567	(44,567)	
Total general revenues					<u>1,416,123</u>	<u>(43,725)</u>	<u>1,372,398</u>
Change in net position					653,831	79,459	733,290
Net position - beginning					<u>7,475,648</u>	<u>4,922,935</u>	<u>12,398,583</u>
Net position - ending					<u>\$ 8,129,479</u>	<u>\$ 5,002,394</u>	<u>\$ 13,131,873</u>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Balance Sheet—Governmental Funds**  
**December 31, 2016**

	General Fund	Capital Projects Fund	Act 209 Fund	Liquid Fuels Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 939,602	\$ 477,511	\$ 358,667	\$ 170,812	\$ 1,946,592
Other receivables, net	886,902			133	887,035
Taxes receivable	303,448				303,448
Due from other funds	18,010	213,943			231,953
Prepaid expenses	23,083				23,083
Other current assets	43,243				43,243
Total assets	<u>\$ 2,214,288</u>	<u>\$ 691,454</u>	<u>\$ 358,667</u>	<u>\$ 170,945</u>	<u>\$ 3,435,354</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 433,746	\$	\$	\$	\$ 433,746
Payroll and withholding taxes payable	27,506				27,506
Due to other funds	213,943				213,943
Total liabilities	<u>675,195</u>				<u>675,195</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue, property taxes	11,802				11,802
Unavailable revenue, other taxes	140,585				140,585
Unavailable revenue, trash services	154,942				154,942
Total deferred inflows of resources	<u>307,329</u>				<u>307,329</u>
<b>FUND BALANCES</b>					
Nonspendable, prepaid expenses	23,083				23,083
Restricted					
Parks capital	120,675				120,675
Stormwater maintenance	11,215				11,215
Highways and streets				170,945	170,945
Act 209 capital projects			358,667		358,667
Assigned					
Capital projects		691,454			691,454
Budgetary reserve	222,495				222,495
Unassigned	854,296				854,296
Total fund balances	<u>1,231,764</u>	<u>691,454</u>	<u>358,667</u>	<u>170,945</u>	<u>2,452,830</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,214,288</u>	<u>\$ 691,454</u>	<u>\$ 358,667</u>	<u>\$ 170,945</u>	<u>\$ 3,435,354</u>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Reconciliation of Total Governmental Funds Balances**  
**To Net Position of Governmental Activities**  
**December 31, 2016**

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**Total Fund Balances - Governmental Funds** **\$ 2,452,830**

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements but are reported in the governmental activities of the statement of net position. Those assets consist of:

Land	\$	407,868	
Construction in progress		987,921	
Buildings and improvements, net of accumulated depreciation of \$431,285		1,175,727	
Machinery and equipment, net of accumulated depreciation of \$383,414		85,681	
Storm sewers, net of accumulated depreciation of \$227,504		964,042	
Vehicles, net of accumulated depreciation of \$353,766		310,730	
Infrastructure, net of accumulated depreciation of \$1,809,156		<u>1,437,351</u>	<u>5,369,320</u>

Taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 307,329

**Total Net Position - Governmental Activities** **\$ 8,129,479**

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances—**  
**Governmental Funds**  
**For the Year Ended December 31, 2016**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Act 209 Fund</u>	<u>Liquid Fuels Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes - real estate	\$ 274,604	\$	\$	\$	\$ 274,604
Act 511 taxes	890,999				890,999
Licenses and permits	83,731				83,731
Fees and fines	12,967				12,967
Interest income	2,043	1,703	833	377	4,956
Rental income	23,805				23,805
Intergovernmental revenues	592,925			126,547	719,472
Charges for services	382,654		19,170		401,824
Contributions from private sector	93,783				93,783
Miscellaneous revenue	16,727				16,727
<b>Total revenues</b>	<u>2,374,238</u>	<u>1,703</u>	<u>20,003</u>	<u>126,924</u>	<u>2,522,868</u>
<b>EXPENDITURES</b>					
General government	534,724				534,724
Public safety	608,427				608,427
Public works, solid waste collection	268,472				268,472
Public works, highways and streets	320,731			94,503	415,234
Culture and recreation	8,567				8,567
Special Project	598,670				598,670
Miscellaneous (payroll taxes, employee benefits)	104,977				104,977
<b>Total Expenditures</b>	<u>2,444,568</u>			<u>94,503</u>	<u>2,539,071</u>
Excess (deficiency) of revenues over expenditures	<u>(70,330)</u>	<u>1,703</u>	<u>20,003</u>	<u>32,421</u>	<u>(16,203)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund Transfers	44,567				44,567
Proceeds from sale of fixed assets	1,500				1,500
<b>Total other financing sources (uses)</b>	<u>46,067</u>				<u>46,067</u>
<b>Net Change In Fund Balances</b>	<u>(24,263)</u>	<u>1,703</u>	<u>20,003</u>	<u>32,421</u>	<u>29,864</u>
Fund balance--January 1, 2016	<u>1,256,027</u>	<u>689,751</u>	<u>338,664</u>	<u>138,524</u>	<u>2,422,966</u>
Fund balance--December 31, 2016	<u>\$ 1,231,764</u>	<u>\$ 691,454</u>	<u>\$ 358,667</u>	<u>\$ 170,945</u>	<u>\$ 2,452,830</u>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**

**Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures and Changes in Fund Balances to the Statement of Activities  
For the Year Ended December 31, 2016**

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**Total net change in fund balances - governmental funds** \$ 29,864

Governmental Funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$889,531) exceeds depreciation (\$352,364) in the current period.

537,167

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the

86,800

Change in net position of governmental activities

\$ 653,831

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Statement of Net Position—Proprietary Fund**  
**December 31, 2016**

	<u>Sewer System Fund</u>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 458,729
Accounts receivable	892,442
Prepaid expenses	<u>69,338</u>
Total current assets	<u>1,420,509</u>
<b>Noncurrent assets</b>	
Capital assets	
Land	10,000
Right-of-way easements	39,112
Construction in progress	93,914
Other capital assets, net of accumulated depreciation	<u>6,599,031</u>
Total noncurrent assets	<u>6,742,057</u>
Total assets	<u>\$ 8,162,566</u>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	\$ 107,563
Other current liabilities	2,178
Unearned revenues	287,421
Due to other funds	18,010
Notes payable, current	<u>254,000</u>
Total current liabilities	<u>669,172</u>
<b>Noncurrent liabilities</b>	
Portion due or payable in more than one year	
Notes payable	<u>2,491,000</u>
Total liabilities	<u>3,160,172</u>
<b>Net position</b>	
Net investment in capital assets	3,997,057
Unrestricted	<u>1,005,337</u>
Total net position	<u>5,002,394</u>
Total liabilities and net position	<u>\$ 8,162,566</u>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Statement of Revenues, Expenses and**  
**Changes in Net Position—Proprietary Fund**  
**For the Year Ended December 31, 2016**

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	<u>Sewer System Fund</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ <u>998,174</u>
<b>OPERATING EXPENSES</b>	
Wastewater and sewage collection	578,891
Depreciation	<u>184,518</u>
Total Operating expenses	<u>763,409</u>
Operating Income	<u>234,765</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	842
Interest expense	<u>(111,581)</u>
Total non-operating revenues (expenses)	<u>(110,739)</u>
Income before transfers	124,026
<b>TRANSFERS OUT</b>	<u>(44,567)</u>
Change in net position	79,459
Total net position - January 1, 2016	<u>4,922,935</u>
Total net position - December 31, 2016	<u>\$ <u>5,002,394</u></u>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Statement of Cash Flows—Proprietary Fund**  
**For the Year Ended December 31, 2016**

	<u>Sewer System Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,066,315
Payments to suppliers	<u>(507,270)</u>
Net cash provided by (used in) operating activities	<u>559,045</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	<u>(27,664)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets	(10,000)
Principal payments on debt	(244,000)
Interest paid on long-term debt	<u>(111,628)</u>
Net cash provided by (used in) capital and related financing activities	<u>(365,628)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	<u>842</u>
Net increase in cash and cash equivalents	166,595
Cash and cash equivalents at beginning of year	<u>292,134</u>
Cash and cash equivalents at end of year	<u>\$ 458,729</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 234,765
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	184,518
Change in assets and liabilities	
Decrease in accounts receivable	82,363
Decrease in prepaid expenses	6,242
Decrease in accounts payable	65,379
Decrease in unearned revenue	<u>(14,222)</u>
Net cash provided by operating activities	<u>\$ 559,045</u>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Statement of Fiduciary Net Position**  
**December 31, 2016**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>349,436</u>
<b>LIABILITIES</b>	
Other current liabilities	\$ <u>349,436</u>

See accompanying notes to the financial statements.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2016**

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**1. ORGANIZATION**

Sadsbury Township is located in western Chester County, Pennsylvania. The Township was incorporated in 1717 and follows the provisions of Act P. L. 1481, No. 567, as amended, the Second Class Township Code. It operates under the supervisor form of government and provides the following services:

Public Safety (Police, Fire)  
Planning and Zoning  
Highways and Streets  
Culture - Recreation  
Public Improvements  
General Administrative  
Sewer

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Sadsbury Township (the Township) conform to United States generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

**A. BASIS OF PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net position and the statement of activities provide information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities and for the single business-type activity of the Township. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Township.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2016**

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**FUND FINANCIAL STATEMENTS**

During the fiscal year, the Township segregates transactions related to certain Township functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**REPORTING ENTITY**

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision whether to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles. No component units are included in the reporting entity of Sadsbury Township.

**B. FUND ACCOUNTING**

The Township uses funds to report its assets, liabilities, and fund balances and revenues and expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements into three broad fund categories, which include five generic fund types.

**GOVERNMENTAL FUNDS**

Governmental Funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they will be used. The difference between governmental fund assets and liabilities is reported as fund balance.

- **General Fund**

The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

- **Special Revenue Funds**

Special Revenue Funds are generally used to account for the expenditure of revenues that have been restricted to specific program or projects. They may be separately accounted for because of specific legal or regulatory provisions or by administrative action. The Township has one special revenue fund:

**Liquid Fuels Fund**

The Liquid Fuels Fund is used to account for the Liquid Fuels Grant received from the Pennsylvania Department of Transportation.

- **Capital Projects Funds**

- **Capital Reserve Fund**

- The Capital Reserve Fund is used to account for financial resources used in the acquisition, construction, or improvements of major capital facilities within the Township.

- **Act 209 Fund**

- The Act 209 Fund is used to account for transportation impact fees charged to new developments based on the effect each development will have on the township roadways. These monies are to fund future roadway improvements.

**PROPRIETARY FUNDS**

- **Sewer Fund**

- The Sewer Fund is used to account for the operations of the sewer system. The sewer system is financed and operated in a manner similar to a private business operation, whereby the costs of providing goods or services to the general public on a continuing basis are recovered primarily through user charges.

**FIDUCIARY FUNDS**

- **Trust and Agency Funds**

- Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals and private organizations. This fund consists of an escrow fund.

**C. BUDGET AND BUDGETARY ACCOUNTING**

The Township follows these procedures in establishing the budget:

- 1) Prior to December 1st, the Township Treasurer submits to the Board of Supervisors a proposed operating budget for the fiscal year commencing the following January 1st. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain taxpayer comments.
- 3) Prior to December 31st, the budget is legally enacted through passage of an ordinance by the Board of Supervisors.
- 4) The Board of Supervisors may, by resolution, transfer unencumbered budgeted amounts between departments within any fund.
- 5) Budgets for all funds are adopted on a cash basis.

**D. MEASUREMENT FOCUS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are prepared using a flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. All assets and all liabilities associated with the operation of the Township are included on the statement of net position while excluding fiduciary activities.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2016**

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**FUND FINANCIAL STATEMENTS**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included in the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the proprietary fund is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net position.

The statement of changes in revenues, expenses, and changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows reflects how the Township finances and meets the cash flow needs of its proprietary fund.

**E. BASIS OF ACCOUNTING**

The basis of accounting that is used determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**F. REVENUES - EXCHANGE AND NON-EXCHANGE TRANSACTIONS**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Township, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the Township receives value without directly giving equal in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year that the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Township must provide local

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2016**

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resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**G. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In additions to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Township has three items, which arise only under a modified basis of accounting, which qualify for reporting in this category. Accordingly, unavailable revenues for property taxes, other taxes and trash services, are reported only in the Governmental Funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**H. EXPENSES/EXPENDITURES**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**I. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Investments with an original maturity of three months or less at the time they are issued are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

The Township maintains separate cash accounts for each fund. Under the Second Class Township Code of the Commonwealth of Pennsylvania, the Township is authorized to invest in the following types of investments:

United States Treasury Bills, Obligations of the United States Government or Commonwealth of Pennsylvania or its agencies or instrumentalities backed by their full faith and credit.

Deposits in savings accounts or certificates of deposit in institutions secured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, the National Credit Union Share Insurance Fund, the Pennsylvania Deposit Insurance Corporation, or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured. Amounts above the insured maximum are permitted, provided that approved collateral, as provided by law, shall be pledged by the depository.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2016**

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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 for Township funds listed above.

During 2015, the Township invested its funds as authorized by the Second Class Township Code.

**J. Accounts Receivable and Allowance for Doubtful Accounts**

The Township provides sewer and trash services to its residents and extends credit to them in the process. The Township has provided an allowance for uncollectible accounts of \$21,500 on trash service receivables and \$84,000 on sewer service receivables at December 31, 2016. In reviewing aged receivables, management considers their knowledge of the customers, historical activity, and current economic and other activity in establishing the allowance for doubtful accounts. A receivable is charged to bad debt expense when management determines the receivable is uncollectible.

**K. PREPAID ITEMS**

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which the services are consumed.

**L. INTERFUND RECEIVABLES/PAYABLES**

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as Interfund Receivables/Payables. Interfund balances within the governmental activities and within the business-types activities are eliminated on the government-wide statement of net assets.

**M. PROPERTY TAX**

The Township is permitted by the Second Class Township Code to levy taxes as follows:

General purposes (5 additional mills may be levied with court approval)	14 mills
Lighting—highways, roads, & public places	5 mills
Fire	3 mills
Fire hydrant	2 mills
Ambulance and rescue squads	0.5 mills
Parks and recreation	unlimited
Principal and interest payments	unlimited

Property taxes are levied on January 1<sup>st</sup> of each year. The elected tax collector bills and collects all taxes and then remits them to the Township.

The taxes are subject to discount and penalty per the following schedule:

Discount Period	March 1 to April 30 - 2% of Gross Levy
Flat Period	May 1 to June 30
Penalty Period	July 1 to Collection - 10% of Gross Levy

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
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Delinquent property taxes are billed in January of the following year and collected by Chester County.

**N. CAPITAL ASSETS**

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets used by the proprietary fund are reported in both the business-type activities column on the government-wide statement of net assets and in the fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market value on the date donated. The Township maintains a capitalization threshold of \$1,000.

All capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	15-40 years
Buildings and building improvements	15-40 years
Furniture and fixtures	5-10 years
Vehicles	5-15 years
Equipment	5-20 years
Highways and streets	15 years
Lighting	25 years
Sewer system	50 years
Storm system	50 years

**O. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary fund are reported on the business-type financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

**P. NET POSITION**

Net position represents the difference between assets and liabilities. Net position invested in capital assets represents the cost of fixed assets net of related debt and net of accumulated depreciation. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Township's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Q. NET POSITION/FUND BALANCES**

The government-wide and business-type activities financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- **Net Investment in Capital Assets** - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance of this category.
- **Restricted Net Position** - This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** - This category represents net position of the Township not restricted for any project or other purpose.

The Township has 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 the Township's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable Fund Balance** includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.
- **Restricted Fund Balance** includes fund balance amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation.
- **Committed Fund Balance** includes fund balance amounts that are constrained for specific purposes that are internally imposed by the Township through formal action of the Board of Directors and do not lapse at year-end. To be reported as committed, amounts cannot be used for any other purpose unless the Township takes the same highest level action to remove or change the constraint.
- **Assigned Fund Balance** includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed, as expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.
- **Unassigned Fund Balance** includes the residual classifications for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

**SADSBURY TOWNSHIP**  
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The details of the fund balances are included in the Governmental Funds balance sheet (page 5). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of Supervisors. The Township Board of Supervisors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. Assigned fund balance is intended to be used by the Township for specific purposes but does not meet the criteria to be classified as restricted or committed.

**R. OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Township, these revenues are charges for sewer service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the proprietary fund.

**S. INTERFUND TRANSACTIONS**

On fund financial statements, receivables and payables resulting from short-term Interfund loans or Interfund services provided and used are classified as "due to/from other funds". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position. The only interfund balances which remain on the government-wide statement of net position are those between governmental and business-type activities. These amounts are reflected as "Internal balances" in the financial statements.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in enterprise funds.

**T. ESTIMATES**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**U. PROGRAM REVENUES**

Program revenues are allocated to specific departments and consist of charges for services for solid waste collection and building permits, cable franchise fees, citation income, and grants and subsidies.

**SADSBURY TOWNSHIP**  
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**3. INTERFUND RECEIVABLE/PAYABLE AND TRANSFER**

The balances of short-term Interfund receivables and payables at December 31, 2016, are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 18,010	\$ 213,943
Capital Project Fund	213,943	
Act 209 Fund		
Liquid Fuels Fund		
Sewer System Fund		<u>18,010</u>
Totals	\$ <u>231,953</u>	\$ <u>231,953</u>

Interfund transfers for the year ending December 31, 2016, are as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 44,567	\$
Sewer System Fund		<u>44,567</u>
Totals	\$ <u>44,567</u>	\$ <u>44,567</u>

**SADSBURY TOWNSHIP**  
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**4. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated:				
Land	\$ 407,868	\$	\$	\$ 407,868
Construction in progress	<u>411,062</u>	<u>576,859</u>		<u>987,921</u>
Total capital assets not being depreciated	<u>818,930</u>	<u>576,859</u>		<u>1,395,789</u>
Capital assets being depreciated:				
Building	1,607,012			1,607,012
Highways & streets	3,246,507			3,246,507
Machinery & equipment	431,013	47,610	(9,528)	469,095
Storm sewers	1,189,215	2,331		1,191,546
Vehicles	<u>440,262</u>	<u>262,731</u>	<u>(38,497)</u>	<u>664,496</u>
Total capital assets being depreciated	<u>6,914,009</u>	<u>312,672</u>	<u>(48,025)</u>	<u>7,178,656</u>
Total capital assets	<u>7,732,939</u>	<u>889,531</u>	<u>(48,025)</u>	<u>8,574,445</u>
Less accumulated depreciation:				
Building	(387,844)	(43,441)		(431,285)
Highways & streets	(1,623,104)	(186,052)		(1,809,156)
Machinery & equipment	(363,988)	(28,954)	9,528	(383,414)
Storm sewers	(203,696)	(23,808)		(227,504)
Vehicles	<u>(322,154)</u>	<u>(70,109)</u>	<u>38,497</u>	<u>(353,766)</u>
Total accumulated depreciation	<u>(2,900,786)</u>	<u>(352,364)</u>	<u>48,025</u>	<u>(3,205,125)</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,832,153</u>	<u>\$ 537,167</u>	<u>\$</u>	<u>\$ 5,369,320</u>

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
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	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets not being depreciated:				
Land	\$ 10,000	\$	\$	\$ 10,000
Right-of-way easements	39,112			39,112
Construction in progress	<u>93,914</u>			<u>93,914</u>
 Total capital assets not being depreciated	 <u>143,026</u>			 <u>143,026</u>
Capital assets being depreciated:				
Building	140,000			140,000
Machinery & equipment	143,652	10,000		153,652
Sewer collection system	<u>8,521,323</u>			<u>8,521,323</u>
 Total capital assets being depreciated	 <u>8,804,975</u>	 <u>10,000</u>		 <u>8,814,975</u>
 Total capital assets	 <u>8,948,001</u>	 <u>10,000</u>		 <u>8,958,001</u>
Less accumulated depreciation:				
Building	(42,233)	(2,800)		(45,033)
Machinery & equipment	(75,815)	(11,292)		(87,107)
Sewer collection system	<u>(1,913,378)</u>	<u>(170,426)</u>		<u>(2,083,804)</u>
 Total accumulated depreciation	 <u>(2,031,426)</u>	 <u>(184,518)</u>		 <u>(2,215,944)</u>
 Business Type Activities Capital Assets, Net	 <u>\$ 6,916,575</u>	 <u>\$ (174,518)</u>	 <u>\$</u>	 <u>\$ 6,742,057</u>

Depreciation expense was charged to the functions/programs of the Township as follows:

Governmental activities	
General government	\$ 43,505
Public safety	37,909
Public works - highways and streets	263,141
Culture and recreation	<u>7,809</u>
 Total governmental activities	 352,364
 Business-type activities	 <u>184,518</u>
 Total depreciation	 <u>\$ 536,882</u>

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2016**

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**5. OPERATING LEASES**

The Township is the lessor of land under an operating lease expiring in 2019.

Minimum future rentals to be received on non-cancelable leases as of

Year ending December 31:	
2017	\$ 23,805
2018	23,805
2019	11,902
	_____
Total	\$ <u>59,512</u>

Minimum future rentals do not include contingent rentals that may be received by the Township if the lessee subleases the property.

There were no contingent rentals received by the Township in 2016.

The lessee has the option to renew the lease for three additional five year periods at the following annual rent:

Period 1	\$ 23,805 per year
Period 2	\$ 27,376 per year
Period 3	\$ 31,482 per year

**6. DEPOSITS AND INVESTMENTS**

**Deposits**

Custodial credit risk – Custodial credit risk is the risk that in the event of a bank failure, the Township’s deposits may not be returned to it. At year end, the total carrying amount of the Township’s checking, savings, and money market deposits was \$2,754,757 and the corresponding bank balance was \$2,773,065. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$2,523,065 was collateralized through pools of securities held by the respective depository institutions. There is no custodial credit risk.

**Investments**

Statutes authorize the Township to invest in U.S. Treasury bills, U.S. Government Agency bonds, time, or share accounts or institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, State Treasurer’s Investment pools, and mutual funds.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
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**Interest Rate Risk**

The Township has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Township has no interest rate risk.

**Credit Risk**

The Township has no investment policy that would limit its investment choices to certain credit ratings.

**Concentration of Credit Risk**

The Township places no limit on the amount that the Township may invest in any one issuer.

**7. DEBT OBLIGATIONS**

Following is a summary of changes in debt obligations for the year ended December 31, 2016:

(See next page)

**SADSBURY TOWNSHIP**  
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<u>Description</u>	<u>Amount Outstanding 1/1/2016</u>	<u>Additions Current Year</u>	<u>Retired Current Year</u>	<u>Amount Outstanding 12/31/2016</u>
<b><u>1998 Guaranteed Sewer Revenue Note</u></b> The original issue amount of \$975,000 had a fixed interest rate of 4.584%. Beginning September 2006, the note bears interest at a fixed rate of 4.25%.	\$ 449,000	\$	\$ 33,000	\$ 416,000
<b><u>1998 Guaranteed Sewer Revenue Note</u></b> The original issue amount of \$405,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Bond Market Association. This rate cannot exceed 25% per annum. The average rate was 3.35%. Beginning September 2006, the note bears interest at a fixed rate of 4.045%.	223,000		16,000	207,000
<b><u>2003 Guaranteed Sewer Revenue Notes Series A</u></b> The original issue amount of \$2,123,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Bond Market Association. This rate cannot exceed 15% per annum. The average rate was 3.37%. Beginning September 2006, the note bears interest at a fixed rate of 3.979%.	396,000		194,000	202,000
<b><u>2003 Guaranteed Sewer Revenue Notes Series B</u></b> The original issue amount of \$1,377,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Bond Market Association. This rate cannot exceed 15% per annum. The average rate was 3.37%. Beginning September 2006, the note bears interest at a fixed rate of 3.979%.	1,377,000			1,377,000
<b><u>2009 Guaranteed Sewer Revenue Notes Series A-1</u></b> The original issue amount of \$8,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Securities Industry and Financial Market Association. This rate cannot exceed 15% per annum. The average rate was 1.210%.	2,000		1,000	1,000
<b><u>2009 Guaranteed Sewer Revenue Notes Series A-2</u></b> The original issue amount of \$542,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Securities Industry and Financial Market Association. This rate cannot exceed 15% per annum. The average rate was 1.210%.	542,000			542,000
Total Debt Obligations	\$ 2,989,000	\$	\$ 244,000	\$ 2,745,000

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
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The Township can prepay the Guaranteed Sewer Revenue Notes—the Series of 1998, and both Series A and B of 2003, and both Series A-1 and A-2 of 2009 subject to paying the costs associated with the liquidation of the notes.

The Guaranteed Sewer Revenue Notes—Series of 1998, both Series A and B of 2003, and both Series A-1 and A-2 of 2009—are secured by the revenue base of the sewer system and by the full faith, credit, and taxing powers of the Township.

Interest expense was \$111,581 for the year ended December 31, 2016.

The amounts of future annual principal and interest payments on debt outstanding, assuming a variable rate of 4% for the 2009 notes, as of December 31, 2016, for each of the next five years and in the aggregate are as follows:

<b>Year Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 254,000	\$ 107,383	\$ 361,383
2018	263,000	96,899	359,899
2019	273,000	86,029	359,029
2020	284,000	74,798	358,798
2021	296,000	62,980	358,980
2022-2026	1,149,000	150,626	1,299,626
2027-2028	<u>226,000</u>	<u>8,972</u>	<u>234,972</u>
	<u>\$ 2,745,000</u>	<u>\$ 587,687</u>	<u>\$ 3,332,687</u>

Proceeds from tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The Township invests, records, and reports these proceeds in the manner set forth by the U.S. Treasury and Internal Revenue Service to maintain the tax-exempt status of the bonds at December 31, 2016. There are no arbitrage liabilities. The Township is in compliance with provisions of all note agreements.

The Township issued the Guaranteed Sewer Revenue Notes, 1998 A and B Series, the Guaranteed Sewer Revenue Notes, 2003 A and B Series, and the Guaranteed Sewer Revenue Notes, 2009 Series to the Delaware Valley Regional Finance Authority ("DelVal") to evidence its obligations for loans from DelVal. Under the terms of the Loan Agreements, the Township pays interest on the loans sufficient to pay its allocable share of DelVal's bond debt service, interest rate swaps (including termination costs), and administrative costs.

DelVal has entered into interest rate swap transactions to hedge its exposure to changing market conditions, to minimize the costs to provide loans, and to minimize fixed and variable loan rates. All DelVal loans are initially variable rate, and all loans are allocated a notional amount, equal to the outstanding principal of the loans, of DelVal interest rate swaps under which DelVal pays a variable rate to its Counterparty. These are programmatic swap agreements that would only be terminated if the DelVal Loan Program were being collapsed. DelVal provides a fixed rate loan if requested by a borrower by entering into an offsetting swap transaction under which DelVal pays a fixed rate. This offsetting transaction is entirely allocable to the fixed rate borrower. The offsetting transaction would only be terminated if the fixed rate borrower requested the termination (to prepay its loan or to reset the interest rate), the fixed rate borrower defaulted on its payment obligations, or the DelVal Loan Program were collapsed.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
**December 31, 2016**

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**INTEREST RATE SWAP - SERIES OF 1998 GUARANTEED SEWER REVENUE NOTES A**

Objective of the interest rate swap - The Township issued the \$975,000 Series of 1998. Guaranteed Sewer Revenue Notes to DelVal to minimize its costs of issuance and to take advantage of the ability to set the Notes at a variable rate or a fixed rate. The Notes were converted to a fixed rate in 2006.

Terms - The Township's obligations for the allocable notional amounts of the DelVal swap agreements are scheduled to terminate on September 25, 2026. The allocable notional amount equals the Notes balance outstanding. Currently, under the Loan Agreement, the Township pays DelVal a fixed rate of 4.25% plus a spread of 40 basis points.

Fair Value - The allocable portion of DelVal's variable rate swap had a positive fair value of \$58,681 at December 31, 2016. The fixed rate swap allocable to the Township had a negative fair value of \$61,200 at December 31, 2016. The fair value was derived from proprietary models based upon well recognized financial principals and reasonable estimates about relevant future market conditions.

Credit risk - As of December 31, 2016, the Township was exposed to credit risk because the swaps had a combined negative fair value. The Township is exposed to credit risk in the amount of the derivatives fair value if the DelVal Loan Program is collapsed, the Township elects to prepay the Notes or to reset the interest rate on the Notes, or the Township defaults on its payment obligations. DelVal was rated A1 by Moody's Investors Service and A+ Standard and Poor's as of December 31, 2016.

Basis risk - The Township does not have any basis risk under the allocable DelVal swap agreements.

**INTEREST RATE SWAP SERIES OF 1998 GUARANTEED SEWER REVENUE NOTES B**

Objective of the interest rate swap - The Township issued the \$405,000 Series of 1998. Guaranteed Sewer Revenue Notes to DelVal to minimize its costs of issuance and to take advantage of the ability to set the Notes at a variable rate or a fixed rate. The Notes were converted to a fixed rate in 2006.

Terms - The Township's obligations for the allocable notional amounts of the DelVal swap agreements are scheduled to terminate on September 25, 2026. The allocable notional amount equals the Notes balance outstanding. Currently, under the Loan Agreement, the Township pays DelVal a fixed rate of 4.045% plus a spread of 40 basis points.

Fair Value - The allocable portion of DelVal's variable rate swap had a positive fair value of \$29,200 at December 31, 2016. The fixed rate swap allocable to the Township had a negative fair value of \$24,682 at December 31, 2016. The fair value was derived from proprietary models based upon well recognized financial principals and reasonable estimates about relevant future market conditions.

**SADSBURY TOWNSHIP**  
**Notes to Financial Statements**  
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Credit risk - As of December 31, 2016, the Township was not exposed to credit risk because the swaps had a combined positive fair value. The Township is exposed to credit risk in the amount of the derivatives fair value if the DelVal Loan Program is collapsed, the Township elects to prepay the Notes or to reset the interest rate on the Notes, or the Township defaults on its payment obligations. DelVal was rated A1 by Moody's Investors Service and A+ Standard and Poor's as of December 31, 2016.

Basis risk - The Township does not have any basis risk under the allocable DelVal swap agreements.

**INTEREST RATE SWAP - SERIES OF 2003 GUARANTEED SEWER REVENUE NOTES A AND B**

Objective of the interest rate swap - The Township issued the \$3,500,000 Series of 2003. Guaranteed Sewer Revenue Notes to DelVal to minimize its costs of issuance and to take advantage of the ability to set the Notes at a variable rate or a fixed rate. The Notes were converted to a fixed rate in 2006.

Terms - The Township's obligations for the allocable notional amounts of the DelVal swap agreements are scheduled to terminate on June 25, 2023. The allocable notional amount equals the Notes balance outstanding. Currently, under the Loan Agreement, the Township pays DelVal a fixed rate of 3.979% plus a spread of 40 basis points.

Fair Value - The allocable portion of DelVal's variable rate swap had a positive fair value of \$222,736 at December 31, 2016. The fixed rate swap allocable to the Township had a negative fair value of \$134,168 at December 31, 2016. The fair value was derived from proprietary models based upon well recognized financial principals and reasonable estimates about relevant future market conditions.

Credit risk - As of December 31, 2016, the Township was not exposed to credit risk because the swaps had a combined positive fair value. The Township is exposed to credit risk in the amount of the derivatives fair value if the DelVal Loan Program is collapsed, the Township elects to prepay the Notes or to reset the interest rate on the Notes, or the Township defaults on its payment obligations. DelVal was rated A1 by Moody's Investors Service and A+ Standard and Poor's as of December 31, 2016.

Basis risk - The Township does not have any basis risk under the allocable DelVal swap agreements.

**INTEREST RATE SWAP - SERIES OF 2009 GUARANTEED SEWER REVENUE NOTES**

Objective of the interest rate swap - The Township issued the \$550,000 Series of 2009. Guaranteed Sewer Revenue Notes to DelVal to minimize its costs of issuance and to take advantage of the ability to set the Notes at a variable rate or a fixed rate. The Notes were issued at a variable rate.

Terms - The Township's obligations for the allocable notional amounts of the DelVal swap agreements are scheduled to terminate on June 25, 2023. The allocable notional amount equals the Notes balance outstanding. At December 31, 2016, the variable interest rate was 1.253%.

**SADSBURY TOWNSHIP**  
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Fair value - The allocable portion of DelVal's variable rate swap had a positive fair value of \$76,596 at December 31, 2016. The fair value was derived from proprietary models based upon well recognized financial principals and reasonable estimates about relevant future market conditions.

Credit risk - As of December 31, 2016, the Township had no credit risk because the variable rate swap had a positive fair value. DelVal was rated A1 by Moody's Investors Service and A+ Standard and Poor's as of December 31, 2016.

Basis risk - The Township does not have any basis risk under the allocable DelVal swap agreements.

**8. JOINT SEWER AGREEMENTS**

**PENNSYLVANIA-AMERICAN WATER COMPANY (FORMERLY CITY OF COATESVILLE AUTHORITY)**

Under an agreement dated July 7, 1997, the Pennsylvania-American Water Company (formerly City of Coatesville Authority) agreed to provide sewage conveyance and treatment capacity of 410,750 gallons per day to Sadsbury Township. The Pennsylvania-American Water Company constructed facilities needed for the additional sewage conveyance and financed this project by issuing bonds. This agreement expires thirty years from the effective date. Either party may terminate this agreement upon giving five years written notice. The Township is responsible for the design, financing, and construction of the sewer lines and pumping stations located within the Township.

For this service, the Township is paying the Pennsylvania-American Water Company's standard, published rates for sewage conveyance on a monthly basis.

In addition, the Township has reimbursed the Pennsylvania-American Water Company its pro rata share of capacity fees and conveyance costs associated with the Township's connection to the system. The Township will also reimburse the Pennsylvania-American Water Company for the pro rata share of the Pennsylvania-American Water Company's bond interest directly attributable to the construction of facilities related to the additional system. These charges are being paid on a per connection basis. At December 31, 2016, prepaid expense was \$40,063 for conveyance costs and \$26,775 for capacity fees.

Under an agreement dated September 16, 2003, two developments located in West Caln Township agreed to connect to the Sadsbury Township system to have their sewage conveyed to the facility owned by the Pennsylvania-American Water Company. Pennsylvania-American Water Company has agreed to construct a force main to carry flows of 110,000 gallons per day from these two developments to the Township's sewage conveyance system. For this service, the two developments agree to pay to the Township connection fees of \$2,319 per equivalent dwelling unit of which the Township will reimburse \$1,178 per equivalent dwelling unit to Sadsbury Sewer Corporation, as discussed below. In addition, the two developments agreed to pay in advance \$26,000 as a sewage conveyance fee for the period beginning September 16, 2003, and ending December 31, 2006. Beginning January 1, 2007, the Township will charge for sewage conveyance on a quarterly basis on a formula contained in the agreement. Sewage fees were \$14,501 for the year ended December 31, 2016. The two developments and Pennsylvania-American Water Company agreed to reimburse the Township for all expenses incurred relating to this agreement.

**SADSBURY TOWNSHIP**  
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On August 3, 2013, the Township entered in a second agreement with a third development located in West Caln Township that agreed to connect to the Sadsbury Township system to have their sewage conveyed to the facility owned by the Pennsylvania-American Water Company. For this service, the third development agrees to pay to the Township the prevailing connection fees at the time of connection per equivalent dwelling unit. The current connection fee is \$2,938 per equivalent dwelling. In addition, the Township will charge for sewage conveyance on a quarterly basis based on a formula contained in the agreement. Also, Pennsylvania-American Water Company agreed to a proportionate share of future capital costs of the commonly used wastewater facilities and the developer agreed to pay the total capital costs for the upgrades and/or expansion of the pump station as necessary to correct any overload conditions caused by treatment of sewage from this development. Finally, the third developments and Pennsylvania-American Water Company agreed to reimburse the Township for all expenses incurred relating to this agreement.

**SADSBURY SEWER CORPORATION**

Under an agreement dated July 7, 1997, the Sadsbury Sewer Corporation (SSC), a private third-party, constructed the sewage facilities needed to connect the Sadsbury Township system to the Pennsylvania-American Water Company (the interconnector) and a portion of the conveyance system in the SSC development. The Township is obligated to construct all other conveyance systems to be located in the Township. For building the interconnector, Sadsbury Sewer Corporation is entitled to 270,000 gallons per day of the Township's 410,750 gallons per day to be provided by the Pennsylvania-American Water Company. In addition, the Township has agreed to reimburse the Sadsbury Sewer Corporation for any connection to the SSC system by a property owner within the Township (but not in the SSC development) during the ten-year period commencing on the date of dedication of the SSC facilities, subject to extensions agreed upon by both parties. This rebate will be an amount equal to the collection component of the tapping fee (subject to a five-percent administrative fee).

During the same ten-year period, SSC shall also be entitled to reimbursement of a pro rata share of its capital costs incurred in the construction of its facilities when any connection to the system is made from outside the Township.

**9. COMMITMENTS AND CONTINGENCIES**

**LEGAL PROCEEDINGS**

The Township was named, along with other municipalities (Municipal Group) and industrial companies (Industrial Group), as a potentially responsible party by the United States Environmental Protection Agency (EPA) for serious environmental contamination to a landfill operation previously used to dispose of trash under a contract with the Township. EPA has given indications of preliminary approval of an alternative cap remedy proposed by the Industrial Group that would cost several million dollars. In negotiation, EPA is now giving indications that they would accept a proposal from the Municipal Group in which this group agrees to assume discrete tasks in effectuating the cleanup, for example the cost of inspection and maintenance of the remediation area for the next thirty years. The total costs to the Municipal Group is estimated to be approximately \$78,000 annually for years one through five and \$58,500 annually for years six through thirty. The Township will be responsible for a fraction of these total amounts depending on the final number of contributing municipalities. In any event, both the EPA and Municipal Group are concerned that the Industrial Group might challenge the Municipal

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Group settlement based on the theory that the proposed contribution by the Municipal Group is disproportionately small compared to their contribution. At this time, the settlement discussions with both EPA and the Industrial Group continue. The potential liability of the Township could substantially exceed its share of the cost for inspection and maintenance if the Industrial Group were to pursue contribution claims against the Municipal Group or the Municipal Group settlement is not accepted by EPA. The potential liability to the Township cannot be reasonably estimated at this time.

**SELF-INSURANCE**

The Township is a member of the Pennsylvania Intergovernmental Risk Management Association (PIRMA), a public entity self-insurance pool. PIRMA is comprised of various townships, boroughs, cities, counties, and authorities in the Commonwealth of Pennsylvania. The Township pays an annual premium to PIRMA for its general liability, automobile, police professional liability, and public officials' errors and omissions insurance coverage. The agreement for formation of PIRMA provides that PIRMA will be self-sustaining through member premiums and will return the first \$250,000 of loss, will reinsure through the American Public Entity Excess Pool losses in an amount not to exceed \$1.75 million per claim and \$5 million in the aggregate per year, and will purchase \$5,000,000 annual aggregate excess coverage through a commercial reinsurance company.

If the Township were to withdraw from PIRMA, it would receive its vested interest in the cumulative reserve fund and become responsible for the Township's claims. At December 31, 2016, the vested interest is \$43,243.

**UNION CONTRACT**

The police union contract was negotiated for a two-year term beginning January 1, 2014, through December 31, 2016, and covers two full time employees and several part-time employees.

The highway department union contract was negotiated for a two-year term beginning January 1, 2016, through December 31, 2018, and covers two full-time employees.

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**10. CURRENT YEAR REAL ESTATE TAXES**

Assessed valuation, adjusted by authorized revisions	\$ 213,632,935
Approved tax rate in mills	<u>0.0013</u>
Gross levy	277,723
Plus penalties applied	<u>746</u>
	278,469
Deductions: Discounts	(5,026)
Abatements	(576)
Taxes lienied with county	<u>(6,318)</u>
Net current year real estate taxes collected	<u>\$ 266,549</u>

**11. RETIREMENT PLAN**

The Township established a defined contribution plan (SIMPLE IRA) effective February 2006. The plan is available to all eligible employees. For purposes of Township's matching and other discretionary contributions, all employees are eligible who are reasonably expected to receive \$5,000 in compensation in the calendar year and who have received at least \$5,000 in compensation during any two calendar years preceding the calendar year. The Township's contribution consists of a matching contribution equal to up to 3% of each employee's salary.

Retirement plan expense for the year ended December 31, 2016, was \$9,431.

**12. SUBSEQUENT EVENTS**

The Township has evaluated all events subsequent to the financial statement date of December 31, 2016, through September 26, 2017, which is the date these financial statements were available to be issued, and has determined that except for the following item there are no subsequent events that require recognition or disclosure.

During 2017, the Township lost a court ruling in regards to the calculation of the sewer billing for one of its customers. This resulted in a loss of 2016 revenues of \$102,000, which is reflected in the financial statement.

On September 5, 2017, the Township entered into an agreement of sale of the Township sewer system with Pennsylvania American Water Company. The purchase price set forth in the agreement is \$9,500,000. Closing is subject to the approval of the Pennsylvania Public Utility Commission. As of the report date, the impact of the potential sale cannot be determined.

**SUPPLEMENTAL INFORMATION**

**SADSBURY TOWNSHIP**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**For the Year Ended December 31, 2016**

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Taxes - real estate	\$ 263,000	\$ 263,000	\$ 274,604	\$ 11,604
Act 511 taxes	870,100	870,100	890,999	20,899
Licenses and permits	77,600	77,600	83,731	6,131
Fees and fines	16,850	16,850	12,967	(3,883)
Interest income	840	840	2,043	1,203
Rental income	23,800	23,800	23,805	5
Intergovernmental revenues	464,800	464,800	592,925	128,125
Charges for services	402,950	402,950	382,654	(20,296)
Contributions from private sector	111,620	111,620	93,783	(17,837)
Miscellaneous revenue	49,900	49,900	16,727	(33,173)
<b>Total revenues</b>	<u>2,281,460</u>	<u>2,281,460</u>	<u>2,374,238</u>	<u>92,778</u>
<b>Expenditures</b>				
General government	626,850	571,850	534,724	37,126
Public safety	603,990	643,990	608,427	35,563
Public works, solid waste collection	255,800	270,800	268,472	2,328
Public works, highways and streets	462,310	462,310	320,731	141,579
Culture and recreation	64,900	64,900	8,567	56,333
Special Project	522,800	522,800	598,670	(75,870)
Miscellaneous	130,850	130,850	104,977	25,873
<b>Total expenditures</b>	<u>2,667,500</u>	<u>2,667,500</u>	<u>2,444,568</u>	<u>222,932</u>
Excess (deficiency) of revenues over expenditures	<u>(386,040)</u>	<u>(386,040)</u>	<u>(70,330)</u>	<u>315,710</u>
<b>Other financing sources (uses)</b>				
Transfers in			44,567	44,567
Proceeds from sale of fixed assets			1,500	1,500
<b>Total other financing sources (uses)</b>			<u>46,067</u>	<u>46,067</u>
<b>Net change in fund balances</b>	<u>\$ (386,040)</u>	<u>\$ (386,040)</u>	<u>\$ (24,263)</u>	<u>\$ 361,777</u>
Fund balance -- January 1, 2016			<u>1,256,027</u>	
Fund balance -- December 31, 2016			<u>\$ 1,231,764</u>	

**SADSBURY TOWNSHIP**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - Capital Projects Fund**  
**For the Year Ended December 31, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
<b>Revenues</b>				
Interest income	\$ 700	\$ 700	\$ 1,703	\$ 1,003
Net change in fund balances	<u>\$ 700</u>	<u>\$ 700</u>	<u>\$ 1,703</u>	<u>\$ 1,003</u>
Fund balance -- January 1, 2016			<u>689,751</u>	
Fund balance -- December 31, 2016			<u>\$ 691,454</u>	

**SADSBURY TOWNSHIP**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - Act 209 Fund**  
**For the Year Ended December 31, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
<b>Revenues</b>				
Interest income	\$ 440	\$ 440	\$ 833	\$ 393
Charges for services	<u>4,200</u>	<u>4,200</u>	<u>19,170</u>	<u>14,970</u>
Total revenues	<u>4,640</u>	<u>4,640</u>	<u>20,003</u>	<u>15,363</u>
Net change in fund balances	<u>\$ 4,640</u>	<u>\$ 4,640</u>	<u>\$ 20,003</u>	<u>\$ 15,363</u>
Fund balance --January 1, 2016			<u>338,664</u>	
Fund balance -- December 31, 2016			<u>\$ 358,667</u>	

**SADSBURY TOWNSHIP****Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Budget and Actual - Liquid Fuels Fund  
For the Year Ended December 31, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
<b>Revenues</b>				
Interest Income	\$ 280	\$ 280	\$ 377	\$ 97
Intergovernmental revenues	<u>123,700</u>	<u>123,700</u>	<u>126,547</u>	<u>2,847</u>
Total revenues	<u>123,980</u>	<u>123,980</u>	<u>126,924</u>	<u>2,944</u>
<b>Expenditures</b>				
Public works, highways and streets	<u>139,550</u>	<u>139,550</u>	<u>94,503</u>	<u>45,047</u>
Net change in fund balances	<u>\$ (15,570)</u>	<u>\$ (15,570)</u>	<u>\$ 32,421</u>	<u>\$ 47,991</u>
Fund balance -- January 1, 2016			<u>138,524</u>	
Fund balance -- December 31, 2016			<u>\$ 170,945</u>	

