

TOWN OF BETHLEHEM, NEW YORK
REGULATORY BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2012

TOWN OF BETHLEHEM, NEW YORK

TABLE OF CONTENTS

DECEMBER 31, 2012

	<u>Page</u>
Management’s Discussion and Analysis	1-6
Independent Auditor’s Report	7-9
Regulatory Basis Financial Statements	
General Fund	10-11
Special Revenue Funds	
Highway Fund	12
Water Fund	13
Sewer Fund	14
Ambulance Fund	15
Special Grant Fund	16
Capital Projects Fund	17
Agency Fund	18
Non-Current Governmental Assets Account Group	19
Non-Current Governmental Liabilities Account Group	20
Notes to Regulatory Basis Financial Statements	21-38
Additional Reports Required by Government Auditing Standards and OMB Circular A-133	
Schedule of Expenditures of Federal Awards	39
Notes to Schedule of Expenditures of Federal Awards	40
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Regulatory Basis Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41-42
Independent Auditor’s Report on Compliance for Each Major Program and Report on Internal Control Over Compliance	43-44
Schedule of Findings and Questioned Costs	45

TOWN OF BETHLEHEM, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

The following discussion and analysis of the Town of Bethlehem's financial performance provides an overview of the Town's financial activities for the year ended December 31, 2012. This document should be read in conjunction with the Town's financial statements.

Financial Highlights

Summarized below are the operating results for the Town of Bethlehem:

In 2012, the Town began taking steps to minimize the 2013 annual loss of the \$1.7 million Selkirk Cogen PILOT ("payment in lieu of taxes"). As a result of the efforts of our town staff and the hard work put forth by our "Budget Advisory Team" (made up of Bethlehem town residents), the Town ended the year with an operating surplus in each of the four major funds: General, Highway, Water and Sewer. Among the more notable steps which had a significant impact in 2012, as well as ongoing:

- The Town began utilization of a payment processing center to collect mailed water/sewer user fees. This provided an opportunity to reduce the number of employees required to staff the Tax Receiver's office; and
- The parks and highway programs formalized a shared services plan, providing five parks maintenance workers to seasonally assist the highway program and allow for the reduction of staffing levels in both programs through attrition.

The effects on these and other efficiencies realized during the year reduced the overall workforce to 217 employees at the end of 2012 from 227 at the end of 2011 (which was down from 232 employees in 2010). Other financially impactful events which marked 2012 included the implementation of a series of financial reforms, including:

- The passage of a formalized fund balance policy;
- A multiyear capital planning policy; and
- A multiyear operating budget planning policy.

The following chart compares the budgeted revenue and expenditures with actual figures for 2012:

	<u>General</u>	<u>Highway</u>	<u>Water</u>	<u>Sewer</u>
Final Budgeted Revenue	\$18,115,846	\$ 6,270,142	\$ 8,988,924	\$ 4,244,118
Final Budgeted Expenses	<u>18,648,643</u>	<u>6,570,644</u>	<u>10,315,183</u>	<u>4,785,196</u>
Budgeted Shortfall	<u>\$ (532,797)</u>	<u>\$ (300,502)</u>	<u>\$(1,326,259)</u>	<u>\$ (541,078)</u>
Actual Revenue	\$19,192,274	\$ 6,522,983	\$ 9,461,471	\$ 4,679,283
Operating Expenses	<u>18,019,442</u>	<u>6,157,532</u>	<u>8,682,117</u>	<u>3,933,766</u>
Operating Surplus	1,172,832	365,451	779,354	745,517
Total Fund Balance, December 31, 2011	<u>3,551,878</u>	<u>2,011,648</u>	<u>3,118,884</u>	<u>1,253,842</u>
Total Fund Balance, December 31, 2012	<u>\$ 4,724,710</u>	<u>\$ 2,377,099</u>	<u>\$ 3,898,238</u>	<u>\$ 1,999,359</u>
Nonspendable Fund Balance	\$ 586,673	\$ 629,550	\$ 97,921	\$ 56,648
Assigned Appropriated Fund Balance	249,014	279,640	343,719	675,302
Assigned Appropriated for Retirement	-	1,160,129	3,330,510	1,267,409
Assigned Appropriated for Contingency	672,197	307,780	126,088	-
Unassigned for Contingency	<u>3,216,826</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>\$ 4,274,710</u>	<u>\$ 2,377,099</u>	<u>\$ 3,898,238</u>	<u>\$ 1,999,359</u>

Financial Highlights (Continued)

The Town received funds from the Federal Emergency Management Agency (FEMA) and State Emergency Management Office (SEMO) relating to damage from Hurricane Irene in the amount of \$1.15 million. The related expenditures were recorded in 2011, without offsetting revenues in that year because, consistent with government accounting rules, the Town records revenue when it is "available and measurable". While the revenue was generally "measurable", the Town did not receive the funds within 60 days of the 2011 year end, and therefore, could not consider them to be "available". In 2012, the Town expended \$1.85 million more for damage restoration, which is believed to be mostly reimbursable. Because the receipt of any or all of this funding is not guaranteed, and because the funding was not received within 60 days, consistent with prior year, the matching revenue was not recorded into the current year.

General Items of Note for All Funds

Fringe Benefits

The Town employed approximately 232 full time employees, 29 part time employees and 248 seasonal employees during the year.

The following schedule provides comparative detail on aggregated fringe benefit costs:

<u>Fringe Benefits</u>	<u>2012 Actual</u>	<u>2011 Actual</u>
FICA and Medicare Taxes	\$ 1,092,182	\$ 1,141,672
Health and Dental Insurance - Current Employees	1,539,224	1,758,186
Health and Dental Insurance - Retirees	621,842	626,000
Retirement Systems	2,939,941	2,426,167
Workers' Compensation Insurance	645,096	537,662
Life and Short-Term Disability Insurance	<u>42,635</u>	<u>44,867</u>
Total	<u>\$ 6,880,920</u>	<u>\$ 6,534,554</u>

Overall, fringe benefits increased by \$0.3 million or 5.3%, and retirement system costs represent \$0.5 million of this variance. The annual charges from the state system are anticipated to continue to rise over the next 3 years; however, this growth is expected to slow down, as the economic downturn that occurred in 2008 and 2009 is removed from the actuarial tables used to calculate pension rates. It is believed that once these years are excluded, pension costs will slowly reverse. In 2012, the Town Board voted to assign \$1.1 million of savings that occurred in 2012 to a "Retirement Contribution Reserve" to offset expected increases.

Post Retirement Benefits

In addition to providing pension benefits, the Town provides certain health care benefits for retired employees and their spouses. Those benefits are provided through payments to an insurance company. The Town recognizes the cost of providing these benefits for 133 retirees (including spouses) by expensing the annual insurance premiums. The post retirement expense was approximately \$626,000 for 2011 and \$622,000 for 2012 resulting in a 0.74% decrease in the expense.

GASB 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" requires the employer to recognize the future value of retiree benefits as a liability in the period in which the benefits are earned, which would significantly increase the reported obligations for the Town.

TOWN OF BETHLEHEM, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2012

Interest Income

A summary of the budgeted interest income compared to actual for 2012 is presented in the table below (note that the Town only budgets for interest income in the operating funds and not in the reserve funds):

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
General	\$ 16,543	\$ 8,853	\$ (7,690)
Highway	8,500	13,548	5,048
Water	9,615	8,449	(1,166)
Sewer	11,380	9,391	(1,989)
Capital	-	14,697	14,697
Total	<u>\$ 46,038</u>	<u>\$ 54,938</u>	<u>\$ 8,900</u>

The interest earnings for 2012 were equal to \$54,938, a 4% increase from the 2011 earnings of \$52,862. This contrasts with the decrease in the average rate earned on investments in 2012 which was 0.23% compared to an average rate of 0.25% for 2011. The net return on investments increased primarily because of the Town's steadily increasing fund balance and mix of institutional investments.

In addition to the interest earnings received in cash, the Town receives a number of services from our financial banking institutions at no additional cost, utilizing accumulated non cash credits (also known as "compensating balances"). Among those services received are "positive pay", which matches checks written by the Town against an electronic file provided to the bank to prevent fraudulent checks being drawn against the Town's checking accounts; reconciliation services, which provide for a verification process on current checks outstanding; debit blocks, which prevent unauthorized ACH activity unless expressly granted; free checks and deposit slips; and free credit card processing for parks activities. In addition to these services, which have been regularly provided to the Town in the past, the Town transferred the collection of mailed water/sewer payments, in May 2012, from the Tax Receiver's office to a payment processing center at Key Bank using compensating balances. The Town was able to save over \$25,000 from attrition by moving one employee of the Tax office to the Comptroller's office to fill a vacancy due to a retirement. Further, Key Bank also provided the Town with return payment envelopes, with generated additional savings of approximately \$2,000.

Summary of Long-term Liabilities

The following table presents a comparative overview of long-term obligations, which are reported in the Non-Current Government Liabilities Account Group, and are more fully described within the footnotes to the financial statements.

	<u>2012</u>	<u>2011</u>
Serial Bonds	\$ 16,040,000	\$ 17,640,000
Compensated Absences	237,532	253,845
Workers' Compensation	75,756	499,528
Landfill Closure and Post Closure	100,000	100,000
Judgments and Claims	<u>81,000</u>	<u>60,000</u>
Total Long-Term Debt	<u>\$ 16,534,288</u>	<u>\$ 18,553,373</u>

Items of Note for the General Fund

Total revenues increased \$576,000, or 3.1%, from \$18.6 million in 2011 to \$19.2 million in 2012. Of those revenues, sales tax was up 3.2% from \$10.2 million in 2011 to \$10.5 million in 2012. Sales tax also was \$688,000 more than the \$9.85 million the Town budgeted, due to the change in the County's calculation subsequent to the adoption of the 2012 budget. Mortgage Tax collections increased by \$166,000 from \$1.13 million to \$1.3 million due primarily to general growth in the Town and safety inspections increased by 29.9%, from \$267,000 in 2011 to \$347,000 in 2012 due primarily to commercial growth. Lastly, in 2012, the Industrial Development Agency (IDA) reimbursed the Town \$75,000 for support services for both the current and prior years. There were no reimbursements received in 2011.

While employee and police retirement system expenditures, which make up over 10% of the General Fund budget, increased by \$326,000 or 20.7%, from prior year, the overall operating expenditures increased by only 0.66% from \$17.9 million in 2011 to \$18.0 million in 2012.

In planning the 2012 budget, the Town approved the appropriation of \$112,000 of fund balance to use in operations. However, due to factors such as attrition and better than expected sales taxes, the Town's actual results added \$1.2 million to the overall fund balance.

Items of Note for the Highway Fund

Total revenue increased \$298,000, or 4.8%, from \$6.23 million in 2011 to \$6.52 million in 2012. This was due in part to an effort to reduce the Town's dependence on borrowing in this fund, whereby the Town increased property tax rates for 2012 in this fund only. The property tax levy, which includes payments in lieu of taxes (PILOTs) was up \$161,000. Additionally, the highway fund was reimbursed through FEMA and SEMO for \$204,000 in expenditures relating to 2011. There was no funding received in 2011.

While employee retirement system expenditures, which make up over 8% of the Highway Fund budget, increased \$91,000, or 21.9%, from prior year, the overall operating expenditures decreased \$260,000, or 4.1%, from \$6.4 million in 2011 to \$6.2 million in 2012.

The Highway Fund is largely funded with property taxes. Given the desire to maintain stability in the tax rates, the fund is at a greater risk for imbalance due to the trend for operating costs to rise at a faster rate than the tax base. The fund is in the midst of a workout plan to preserve structural balance by managing the size of the workforce relative to the seasonal operating needs of the department as well as reduction of annual borrowing for annual roadway paving purchases. However, the growth in roads and sidewalks from new development continues to place service and cost pressures on the department. In 2012, the Town refinanced Bond Anticipation Notes (short term bonds) from 2010 and 2011 in the amount of \$1.7 million, while committing to additional funding through BANs for \$826,000. All related paving and equipment expenditures including corresponding liabilities are accounted for in the Highway Capital Reserve Fund.

Items of Note for the Water and Sewer Funds

The Water and Sewer Funds are largely funded with user charges and are somewhat easier to bring to a self-sustaining financial position, even considering the longer-term and sizeable infrastructure construction and maintenance costs for these funds. Surpluses will be kept in the fund to the extent they are needed to maintain sufficient cash flow.

The Water Fund's operating revenue increased by \$712,000, or 0.08%, in 2012, primarily due to two factors.

TOWN OF BETHLEHEM, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2012

Items of Note for the Water and Sewer Funds (Continued)

The first factor relates to an increase in residential and commercial water usage due to a dry summer which resulted in year over year increases of \$282,000. The second factor relates to FEMA and SEMO collections of 2011 expenditures of \$430,000 in 2012 as compared to no collections in 2011.

While employee retirement system expenditures, which make up almost 3.7% of the Water Fund budget, increased \$60,000, or 23.5%, for prior year, the overall operating expenditures decreased \$172,000, or 1.9%, from \$8.9 million in 2011 to \$8.7 million in 2012.

In 2012, the Town refinanced Bond Anticipation Notes from 2010 in the amount of \$130,000 with no additional refinancing or borrowings for 2011 or 2012. All related equipment expenditures including corresponding liabilities are accounted for in the Water Capital Reserve Fund.

The Sewer Fund's operating revenue increased by \$669,000, or 17.2%, in 2012 for similar reasons to the Water Fund. Sewer charges increased \$178,000, and relate to increased volume of water sales (on which sewer charges are based). Additionally, \$477,000 relates to FEMA and SEMO reimbursements in 2012 for 2011 expenditures. There were no reimbursements in 2011.

While employee retirement system expenditures, which make up over 5.5% of the Sewer Fund budget, increased \$37,000, or 20.2%, from prior year, the overall operating expenditures decreased \$945,000, or 19.4%, from \$4.9 million in 2011 to \$3.9 million in 2012. This was primarily related to a decrease in debt service costs of \$218,000 and fleet purchases of \$420,000.

In 2012, the Town refinanced Bond Anticipation Notes from 2010 in the amount of \$342,000 with no additional refinancing or borrowings for 2011 or 2012. All related equipment expenditures including corresponding liabilities are accounted for in the Sewer Capital Reserve Fund.

Analysis of Fund Balances

In 2012, the Town passed a fund balance policy that provides guidance for minimum (7%), maximum (20%) and optimal levels (15%) at which the operating fund reserves should be held. The following chart summarizes the projected fund balance activity through the end of 2013, along with a calculation showing where the fund balances are as compared to this policy:

	<u>General</u>	<u>Highway</u>	<u>Water</u>	<u>Sewer</u>
Fund Balance, December 31, 2012	\$ 4,724,710	\$2,377,099	\$ 3,898,238	\$ 1,999,359
2013 Appropriated Fund Balance	-	192,990	-	-
Prior Year Encumbrances	249,014	86,650	343,719	675,302
Retirement Contribution Reserve	672,197	307,780	126,088	-
Nonspendable Fund Balance	586,673	629,550	97,921	56,648
Infrastructure Reserve	-	-	<u>1,485,000</u>	<u>412,500</u>
Projected Balance, December 31, 2013	<u>\$ 3,216,826</u>	<u>\$1,160,129</u>	<u>\$1,845,510</u>	<u>\$ 854,909</u>
2013 Budgeted Appropriations	<u>\$17,672,658</u>	<u>\$6,698,939</u>	<u>\$9,230,783</u>	<u>\$4,274,615</u>
Percent of Appropriations	18%	17%	20%	20%
Floor - 7% of Budgeted Appropriations	\$ 1,237,086	\$ 468,926	\$ 646,155	\$ 299,223
Optimal - 15% of Budgeted Appropriations	\$ 2,650,899	\$1,004,841	\$1,384,617	\$ 641,192
Ceiling - 20% of Budgeted Appropriations	\$ 3,534,532	\$1,339,788	\$1,846,157	\$ 854,923

The projected 2013 levels for the operating funds indicate sufficient net assets to fund currently budgetary requirements. Balances held above the ceiling will be moved to the Capital Reserves.

TOWN OF BETHLEHEM, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2012

Capital Reserves

The following chart lists the activity within the major Capital Reserve Funds:

	<u>General</u>	<u>Highway</u>	<u>Water</u>	<u>Sewer</u>	<u>Recreation</u>
Fund Balance, December 31, 2011	\$ 106,975	\$ (1,216,897)	\$ 1,811,315	\$ 117,827	\$ 504,232
Increases	106,116	181,227	18,847	27,934	522
Decreases	<u>(158,129)</u>	<u>(709,213)</u>	<u>(63,603)</u>	<u>(60,689)</u>	<u>(192,042)</u>
Fund Balance, December 31, 2012	<u>\$ 54,962</u>	<u>\$ (1,744,883)</u>	<u>\$ 1,766,559</u>	<u>\$ 85,072</u>	<u>\$ 312,712</u>

These reserves provide a supplemental funding source for major capital expenditures.

Contacting the Town's Financial Management

This financial report is designed to provide a general overview of the Town's finances for all those having an interest, and should be considered along with the annual audit report, including the related footnotes. Questions concerning any of the information provided in this report may be addressed to John Clarkson, Supervisor, or to Michael Cohen, CPA, Comptroller, at 445 Delaware Avenue, Delmar, NY 12054.

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INDEPENDENT AUDITOR'S REPORT

To the Supervisor and Members of
the Town Board of the Town
of Bethlehem, New York

Report on the Financial Statements

We have audited the accompanying regulatory basis financial statements of the Town of Bethlehem, New York (the "Town") as of and for the year ended December 31, 2012, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these regulatory basis financial statements in accordance with accounting principles prescribed by the New York State Office of the State Comptroller; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of regulatory basis financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these regulatory basis financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the regulatory basis financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the regulatory basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the regulatory basis 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 regulatory basis 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 regulatory basis financial statements.

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

Basis of Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the Town prepared these financial statements using accounting principles prescribed by the New York State Office of the State Comptroller to demonstrate compliance with the State's regulatory basis of accounting, which practices differ from accounting principles generally accepted in the United States of America. The differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America are described in Note 1 to the financial statements. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Town of Bethlehem, New York, as of December 31, 2012, and the changes in its financial position for the year then ended.

Basis of Qualified Opinion

As described in Note 1, the Town has not recorded other postemployment benefits in accordance with the regulatory basis accounting principles. The amounts that would have been recorded as a liability, had other postemployment benefits been recorded in accordance with the regulatory basis accounting principles, is not known. Additionally, as described in Note 1, the Town does not maintain historical general fixed asset records which should be included to conform with accounting principles prescribed by the New York State Office of the State Comptroller. The amounts that should be recorded in the general fixed asset account group are not known.

Opinion on Regulatory Basis of Accounting

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the items mentioned above, the regulatory basis financial statements referred to above present fairly, in all material respects, the financial position of the Town of Bethlehem, New York as of December 31, 2012, and the results of its operations for the year then ended in accordance with accounting principles prescribed by the New York State Office of the State Comptroller.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Town of Bethlehem, New York as of and for the year ended December 31, 2012, and have issued our report thereon dated April 24, 2013, which contained a qualified opinion on those regulatory basis financial statements. Our audit was conducted for the purpose of forming an opinion on the regulatory basis financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the regulatory basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the regulatory basis financial statements as a whole.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-6 be presented to supplement the regulatory basis financial statements. Such information, although not a part of the regulatory basis financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the regulatory basis 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 consist 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 regulatory basis financial statements, and other knowledge we obtained during our audit of the regulatory basis financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2013 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
April 24, 2013

TOWN OF BETHLEHEM, NEW YORK
GENERAL FUND
REGULATORY BASIS BALANCE SHEET
DECEMBER 31, 2012

Assets

Cash	\$ 2,578,299
Other receivables	228,913
State and federal receivables	5,012
Due from other governments	4,449,121
Inventory	89,116
Prepaid expenses	<u>497,557</u>

Total Assets \$ 7,848,018

Liabilities

Accounts payable	\$ 219,426
Accrued liabilities	722,292
Due to other governments	579,988
Due to other funds	338,929
Deferred revenues	<u>1,262,673</u>

Total Liabilities 3,123,308

Fund Balance

Reserved:	
Nonspendable	586,673
Assigned	921,211
Unassigned	<u>3,216,826</u>

Total Fund Balance 4,724,710

Total Liabilities and Fund Balance \$ 7,848,018

TOWN OF BETHLEHEM, NEW YORK
GENERAL FUND (CONTINUED)

REGULATORY BASIS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 2,078,649	\$ 2,078,649	\$ -	\$ -
Real property tax items	701,337	700,530	-	(807)
Non-property tax items	10,458,846	11,137,003	-	678,157
Departmental income	1,644,037	1,759,484	-	115,447
Intergovernmental charges	84,500	75,000	-	(9,500)
Use of money and property	95,543	99,335	-	3,792
Licenses and permits	36,450	35,271	-	(1,179)
Fines and forfeitures	510,000	431,863	-	(78,137)
Sales of property and compensation for loss	119,500	189,575	-	70,075
Miscellaneous local sources	32,970	14,988	-	(17,982)
State aid	1,376,500	1,435,673	-	59,173
Federal aid	24,600	326,887	-	302,287
Total Revenues	<u>17,162,932</u>	<u>18,284,258</u>	<u>-</u>	<u>1,121,326</u>
Expenditures				
General government support	3,510,911	3,329,381	38,159	143,371
Education	11,640	11,640	-	-
Public safety	5,951,391	5,719,074	67,131	165,186
Health	1,500	1,466	-	34
Transportation	573,467	555,781	4,542	13,144
Economic assistance and opportunity	470,661	470,254	405	2
Culture and recreation	1,673,198	1,605,141	63,712	4,345
Home and community services	1,686,366	1,604,601	75,064	6,701
Employee benefits	4,376,155	4,328,754	-	47,401
Debt service (principal and interest)	373,559	373,555	-	4
Total Expenditures	<u>18,628,848</u>	<u>17,999,647</u>	<u>249,013</u>	<u>380,188</u>
Other Financing Sources and Uses				
Operating transfer in	952,914	908,016	-	(44,898)
Operating transfers out	(19,795)	(19,795)	-	-
Total Other Financing Sources and Uses	<u>933,119</u>	<u>888,221</u>	<u>-</u>	<u>(44,898)</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources and Uses				
	<u>\$ (532,797)</u>	1,172,832	<u>\$ (249,013)</u>	<u>\$ 1,456,616</u>
Fund Balance - January 1, 2012		<u>3,551,878</u>		
Fund Balance - December 31, 2012		<u>\$ 4,724,710</u>		

TOWN OF BETHLEHEM, NEW YORK
HIGHWAY FUND

Regulatory Basis Balance Sheet
December 31, 2012

Assets	
Cash	\$ 2,029,565
Other receivables	195
Due from other governments	58,478
Inventories	499,661
Prepaid Expenses	129,889
Total Assets	<u>\$ 2,717,788</u>
Liabilities	
Accounts payable	\$ 119,763
Accrued liabilities	162,448
Deferred revenue	58,478
Total Liabilities	<u>340,689</u>
Fund Balance	
Nonspendable:	629,550
Assigned	<u>1,747,549</u>
Total Fund Balance	<u>2,377,099</u>
Total Liabilities and Fund Balance	<u>\$ 2,717,788</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2012

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 4,094,633	\$ 4,094,633	\$ -	\$ -
Real property tax items	1,362,009	1,358,141	-	(3,868)
Use of money and property	8,500	13,548	-	5,048
Intergovernmental charges	14,000	4,978	-	(9,022)
Sales of property and compensation for loss	21,000	24,087	-	3,087
Interfund revenues	520,000	574,941	-	54,941
State aid	250,000	299,808	-	49,808
Federal aid	-	152,847	-	152,847
Total Revenues	<u>6,270,142</u>	<u>6,522,983</u>	<u>-</u>	<u>252,841</u>
Expenditures				
Transportation	4,221,105	3,997,743	86,650	136,712
Employee benefits	1,880,046	1,702,108	-	177,938
Debt service	193,929	193,929	-	-
Total Expenditures	<u>6,295,080</u>	<u>5,893,780</u>	<u>86,650</u>	<u>314,650</u>
Other Financing Sources and Uses				
Operating transfers out	<u>(275,564)</u>	<u>(263,752)</u>	<u>-</u>	<u>11,812</u>
Total Other Financing Sources and Uses	<u>(275,564)</u>	<u>(263,752)</u>	<u>-</u>	<u>11,812</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources and Uses				
	<u>\$ (300,502)</u>	365,451	<u>\$ (86,650)</u>	<u>\$ 579,303</u>
Fund Balance - January 1, 2012		<u>2,011,648</u>		
Fund Balance - December 31, 2012		<u>\$ 2,377,099</u>		

TOWN OF BETHLEHEM, NEW YORK
WATER FUND

Regulatory Basis Balance Sheet
December 31, 2012

Assets	
Cash	\$ 2,821,684
Other receivables	1,705,524
Due from other governments	802,647
Due from other funds	37,560
Inventories	16,979
Prepaid expenses	<u>80,942</u>
Total Assets	<u><u>\$ 5,465,336</u></u>
Liabilities	
Accounts payable	\$ 653,239
Accrued liabilities	111,815
Deferred revenues	<u>802,044</u>
Total Liabilities	<u>1,567,098</u>
Fund Balance	
Nonspendable	97,921
Assigned	<u>3,800,317</u>
Total Fund Balance	<u>3,898,238</u>
Total Liabilities and Fund Balance	<u><u>\$ 5,465,336</u></u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2012

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 1,945,194	\$ 1,943,459	\$ -	\$ (1,735)
Departmental income	6,881,020	6,897,065	-	16,045
Use of money and property	134,615	151,375	-	16,760
Sale of property and compensation for loss	21,495	35,819	-	14,324
Miscellaneous local sources	6,600	3,800	-	(2,800)
State aid	-	107,488	-	107,488
Federal aid	-	<u>322,465</u>	-	<u>322,465</u>
Total Revenues	<u>8,988,924</u>	<u>9,461,471</u>	<u>-</u>	<u>472,547</u>
Expenditures				
Home and community services	7,926,929	6,444,664	343,719	1,138,546
Employee benefits	918,482	883,102	-	35,380
Debt service (principal and interest)	<u>1,249,101</u>	<u>1,147,700</u>	<u>-</u>	<u>101,401</u>
Total Expenditures	<u>10,094,512</u>	<u>8,475,466</u>	<u>343,719</u>	<u>1,275,327</u>
Other Financing Uses				
Operating transfers out	<u>(220,671)</u>	<u>(206,651)</u>	<u>-</u>	<u>14,020</u>
Excess (Deficiency) of Revenues Over				
Expenditures and Other Financing Uses	<u>\$ (1,326,259)</u>	779,354	<u>\$ (343,719)</u>	<u>\$ 1,761,894</u>
Fund Balance - January 1, 2012		<u>3,118,884</u>		
Fund Balance - December 31, 2012		<u><u>\$ 3,898,238</u></u>		

TOWN OF BETHLEHEM, NEW YORK
SEWER FUND

Regulatory Basis Balance Sheet
December 31, 2012

Assets	
Cash	\$ 1,910,447
Other receivables	670,382
Due from other governments	351,562
Prepaid expenses	<u>56,648</u>
Total Assets	<u>\$ 2,989,039</u>
Liabilities	
Accounts payable	\$ 349,798
Accrued liabilities	74,432
Deferred revenues	<u>565,450</u>
Total Liabilities	<u>989,680</u>
Fund Balance	
Unspendable	
Assigned	56,648
Total Fund Balance	<u>1,942,711</u>
Total Liabilities and Fund Balance	<u>1,999,359</u>
	<u>\$ 2,989,039</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2012

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 1,527,334	\$ 1,526,317	\$ -	\$ (1,017)
Departmental income	2,698,069	2,639,057	-	(59,012)
Use of money and property	11,380	9,391	-	(1,989)
Sale of property and compensation for loss	2,955	23,681	-	20,726
Miscellaneous local sources	-	3,100	-	3,100
Interfund revenues	4,380	277	-	(4,103)
State aid	-	118,915	-	118,915
Federal aid	-	<u>358,545</u>	-	<u>358,545</u>
Total Revenue	<u>4,244,118</u>	<u>4,679,283</u>	<u>-</u>	<u>435,165</u>
Expenditures				
Home and community services	3,621,481	2,803,642	675,302	142,537
Employee benefits	599,050	588,798	-	10,252
Debt service (principal and interest)	<u>382,986</u>	<u>378,713</u>	-	<u>4,273</u>
Total Expenditures	<u>4,603,517</u>	<u>3,771,153</u>	<u>675,302</u>	<u>157,062</u>
Other Financing Uses				
Operating transfers out	<u>(181,679)</u>	<u>(162,613)</u>	<u>-</u>	<u>19,066</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Uses				
	<u>\$ (541,078)</u>	745,517	<u>\$ (675,302)</u>	<u>\$ 611,293</u>
Fund Balance - January 1, 2012		<u>1,253,842</u>		
Fund Balance - December 31, 2012		<u>\$ 1,999,359</u>		

TOWN OF BETHLEHEM, NEW YORK
AMBULANCE FUND

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2012

	<u>Actual</u>
Revenues	
Real property taxes and tax items	\$ 1,574,222
Total Revenues	<u>1,574,222</u>
Expenditures	
Health	<u>1,299,222</u>
Total Expenditures	<u>1,299,222</u>
Other Financing Uses	
Operating transfer out	<u>(275,000)</u>
Excess of Revenues Over Expenditures	-
Fund Balance - January 1, 2012	<u>-</u>
Fund Balance - December 31, 2012	<u><u>\$ -</u></u>

TOWN OF BETHLEHEM, NEW YORK
SPECIAL GRANT FUND

Regulatory Basis Balance Sheet
December 31, 2012

Assets	
Cash	\$ 48,927
Other receivables	375
Total Assets	<u>\$ 49,302</u>
Liabilities	
Other liabilities	\$ 22,527
Deferred revenues	26,775
Total Liabilities	<u>49,302</u>
Fund Balance	
Unreserved:	
Unassigned	-
Total Fund Balance	-
Total Liabilities and Fund Balance	<u>\$ 49,302</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2012

	<u>Actual</u>
Revenues	
Use of money and property	\$ 31
Sale of property and compensation for loss	346
Federal aid	817,266
Total Revenues	<u>817,643</u>
Expenditures	
Home and community services	817,643
Total Expenditures	<u>817,643</u>
Excess of Revenues Over Expenditures	-
Fund Balance - January 1, 2012	-
Fund Balance - December 31, 2012	<u>\$ -</u>

TOWN OF BETHLEHEM, NEW YORK
CAPITAL PROJECTS FUND

Regulatory Basis Balance Sheet
December 31, 2012

Assets	
Cash	\$ 3,639,365
Cash - restricted	51,377
Due from other governments	<u>1,666,078</u>
Total Assets	<u><u>\$ 5,356,820</u></u>
Liabilities	
Accounts payable and retainage	\$ 71,747
Notes payable	3,475,500
Due to other funds	<u>37,560</u>
Total Liabilities	<u><u>3,584,807</u></u>
Fund Balance	
Reserved	1,666,078
Assigned	<u>105,935</u>
Total Fund Balance	<u><u>1,772,013</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 5,356,820</u></u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit)
For the Year Ended December 31, 2012

	<u>Actual</u>
Revenues	
Use of money and property	\$ 14,696
State aid	<u>137,800</u>
	152,496
Other Financing Sources	
Operating transfers	19,795
Bond anticipation notes redeemed	<u>320,500</u>
Total Revenues and Other Financing Sources	<u><u>492,791</u></u>
Expenditures	
General government support	158,129
Transportation	709,213
Culture and recreation	192,042
Home and community services	<u>299,652</u>
Total Expenditures	<u><u>1,359,036</u></u>
Excess of Expenditures Over Revenues and Other Financing Sources	(866,245)
Fund Balance - January 1, 2012	<u>2,638,258</u>
Fund Balance - December 31, 2012	<u><u>\$ 1,772,013</u></u>

TOWN OF BETHLEHEM, NEW YORK
AGENCY FUND

Regulatory Basis Balance Sheet
December 31, 2012

Assets	
Cash	\$ 133,001
Due from other funds	<u>338,929</u>
Total Assets	<u><u>\$ 471,930</u></u>
Liabilities	
Agency liabilities	<u>\$ 471,930</u>
Total Liabilities	<u><u>\$ 471,930</u></u>

TOWN OF BETHLEHEM, NEW YORK
NON-CURRENT GOVERNMENTAL ASSETS ACCOUNT GROUP

Regulatory Basis Balance Sheet
December 31, 2012

Assets	
Land	\$ 1,874,465
Improvements other than buildings	8,875,730
Buildings	25,192,128
Machinery and equipment	19,959,863
Infrastructure	<u>18,367,123</u>
	<u>\$ 74,269,309</u>
Investment in Fixed Assets	<u>\$ 74,269,309</u>

TOWN OF BETHLEHEM, NEW YORK
NON-CURRENT GOVERNMENTAL LIABILITIES ACCOUNT GROUP

Regulatory Basis Balance Sheet
December 31, 2012

Assets	
Provisions to be made in future budgets	\$ 16,534,288
Total Assets	<u>\$ 16,534,288</u>
Liabilities	
Landfill closure and post closure costs	\$ 100,000
Judgments and claims payable	81,000
Compensated absences	237,532
Workers' Compensation	75,756
Bonds payable	<u>16,040,000</u>
Total Liabilities	<u>\$ 16,534,288</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Bethlehem, New York (“the Town”) have been prepared in conformity with accounting principles prescribed by the New York State Office of the State Comptroller for complying with Article 3, Section 30 of General Municipal Law in which every municipal corporation is required to make an annual financial report (Annual Update Document or “AUD”). The most significant difference between this regulatory basis of accounting and generally accepted accounting principles (“GAAP”) is that Government Accounting Standards Board (“GASB”) Statement 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments” need not be implemented to meet the requirements of General Municipal Law. GASB 34 requires significant changes including:

- Government-Wide Reporting
- Focus on Major Funds
- Changes in Budgetary Reporting
- Full Accrual Accounting Including Depreciation
- Management’s Discussion and Analysis
- Capitalization of Infrastructure Assets

Management has considered the costs and benefits of adopting GASB 34 and determined that preparing the financial statements utilizing another comprehensive basis of accounting as opposed to GAAP makes fiscal sense for the Town.

Although the AUD does not require the reporting of modified budget information, a budget to actual comparison has been included in these financial statements for each applicable fund.

The following is a summary of significant accounting policies:

A. *Financial Reporting Entity*

The Town of Bethlehem, New York, primary government, was incorporated in 1793, and is governed by the Charter of the Town of Bethlehem, the Town law and other general laws of the State of New York and various local laws and ordinances. The Town Board is the legislative body responsible for the overall operation of the Town and consists of the Supervisor and four council members. The Supervisor serves as chief executive officer and chief fiscal officer of the Town.

The Town provides the following basic services: public safety, police protection, parks and recreation, sewer, water, lighting and highway maintenance.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

The financial reporting entity includes all funds, account groups, functions and organizations over which the Town Officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, and ability to significantly influence operations and accountability for fiscal matters.

The reporting entity of the Town is based upon criteria set forth by GASB Statement No. 61. As required by OSC guidelines, the AUD of the reporting entity includes the Town (the primary government) and its blended component units. The Town has determined it has no blended component units based on the criteria set forth in GASB Statement 61.

B. Basis of Presentation

The accounts of the Town are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The following fund types and account groups are used.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the Town are financed. The acquisition, use and balances of the Town's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is upon determination of financial position and changes in financial position. The following are the Town's governmental fund types:

- a. General Fund - To account for all unrestricted resources except for those required to be accounted for in another fund. It operates within the financial limits of an annual budget adopted by the Town Board.
- b. Special Revenue Funds - To account for the proceeds of special revenue resources other than major capital projects or to finance specified activities as required by law or administrative regulations. Funds operate within the financial limits of an annual budget adopted by the Town Board and consist of the following:
 - 1) Highway Fund - Used to account for the revenues and expenditures for repairs and improvements to town highways; purchase, repair, maintenance and storage of highway machinery; tools and equipment, pursuant to Section 133 of the Highway Law; controlling weeds and brush along highway and snow removal for highways.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Governmental Fund Types (Continued)

- b. Special Revenue Funds (Continued)
 - 2) Water District Fund - The Town has water a district used to account for the revenues and expenditures associated with providing water treatment and transportation.
 - 3) Sewer District Fund - The Town has three operating sewer districts used to account for the revenues and expenditures associated with providing sewage treatment services.
 - 4) Ambulance District Funds - There are three ambulance districts throughout the Town. Each district levies taxes on property owners within the District. Expenditures are made for providing ambulance service and advanced life support.
 - 5) Special Grant Fund - Used to account for funds received from the federal government to operate a public housing program for eligible low-income families and the elderly through an authorized public housing agency and other grant funds.
- c. Capital Projects Fund - used to account for financial resources to be used for the acquisition or construction of major capital facilities.
- d. Fiduciary Funds
 - 1) Agency Fund - Agency funds are used to account for money (and/or property) received and held in the capacity of trustee, custodian or agent.
- e. Accounts Groups

Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The two account groups are not “funds.” They are concerned with measurement of financial position and not results of operations.

 - 1) The Non-Current Governmental Assets Account Group - used to account for land, buildings, improvements other than buildings, and equipment utilized for general government purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Governmental Fund Types (Continued)

- 2) The Non-Current Governmental Liabilities Account Group - used to account for all long-term debt except for short-term obligations. Also included are the estimated compensated absences liability of the Town.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenditures/expenses and the related assets and liabilities are recognized in various funds and account groups. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus. Measurement focus is the determination of what should be measured, i.e. expenditures or expenses.

1. Governmental Funds - The modified accrual basis of accounting is followed by the governmental funds. Under this basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter, within 60 days, to be used to pay liabilities of the current period.

Material revenue sources considered susceptible to accrual include real property taxes, State and Federal aid, sales tax and certain use charges in the special revenue funds. For those types of revenue sources, such as grants, where expenditures are the prime factors for determining eligibility, revenues are recognized when the expenditure is made.

Expenditures are recorded when the fund liability is incurred except that:

- a. Expenditures for prepaid expenses or inventory-type items are recognized at the time of the disbursement.
- b. Principal and interest on indebtedness are recognized as an expenditure when due.
- c. Compensated absences, such as vacation and sick leave which vest or accumulate, are charged as an expenditure when paid.
- d. Pension costs are recognized as an expenditure for the period billed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Property Taxes and Collections

Town real property taxes and special district charges are levied together with Albany County property taxes annually no later than January 1 and become a lien on January 1. The Town is responsible for collecting Town and County real property taxes assessed and billed in January until May 1, at which time settlement proceedings take place wherein the Town receives full credit for its entire tax levy and the County becomes the collecting and enforcement agent for unpaid taxes.

E. General Budget Policies

1. The Town employs the following budgetary procedures:
 - a. No later than September 30, the Budget Officer submits a tentative budget for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing for all funds of the Town except for the Special Grant Fund. Capital projects are budgeted for the start of each project.
 - b. After public hearings are conducted to obtain taxpayer comments, but no later than November 20, the Town Board adopts the budget.
 - c. All revisions that alter an appropriation of any department or fund must be approved by the Town Board.
2. Budget Basis of Accounting - Budgets are adopted annually on a basis generally consistent with OSC guidelines. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.
3. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed as a control in preventing overexpenditure of established appropriations. Open encumbrances are reported as reservations of fund balance since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property, Plant and Equipment - General

Fixed assets purchased for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost in the Non-Current Governmental Assets Accounts Group. Contributed fixed assets are recorded at fair market value at the date received.

Fixed assets consisting of certain infrastructure type improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the Town. Therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

No depreciation has been provided on non-current governmental assets, nor has interest been capitalized.

The Town does not maintain historical records of general fixed assets; therefore, fixed assets are not accounted for at cost or an estimate of cost as required by OSC.

G. Vacation and Compensatory Time

Town employees are granted vacation and compensatory time in varying amounts. In the event of termination or upon retirement, certain employees are entitled to payment for accumulated vacation and compensatory time at various rates subject to certain maximum limitations.

Payment of vacation and compensatory time recorded in the general long-term debt account group is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payment of vacation and compensatory time.

Estimated vacation and compensatory time accumulated by governmental fund type employees and additional salary related payments have been recorded in the general long-term debt account group.

H. Other Postemployment Benefits (“OPEB”)

In addition to providing pension benefits, the Town also provides certain health care benefits for retired employees and their dependents. Substantially all of the Town employees may become eligible for those benefits if they reach normal retirement age while working for the Town.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Other Postemployment Benefits ("OPEB") (Continued)

Effective for the year ended December 31, 2008, Governmental Accounting Standards Board Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" ("GASB 45") requires the Town to recognize the cost of pension benefits to be reflected in the financial statements in the periods in which the exchange occurs rather than in the periods when the benefits are paid. GASB 45 requires the services of an actuary to calculate current OPEB costs and to amortize prior service costs over a period not to exceed thirty years. The expense recognized under this policy would be significantly larger than prior practice which recognized expense on a pay-as-you-go basis. The Town has not adopted GASB 45.

OPEB costs recognized as incurred was \$621,842 in 2012 for 133 retirees.

I. Retirement Plans

The Town provides retirement benefits for its employees through contributions to the New York State and Local Police and Fire Retirement System, the New York State and Local Employees' Retirement System and the Public Employees' Group Life Insurance Plan. These systems provide various plans and options, some of which require employee contributions.

J. Deferred Compensation Plan

Employees of the Town may elect to participate in the Town's Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years, usually after retirement. Under the terms of the amended Plan agreement, these monies are not subject to the claims of the Town's general creditors after they are paid to the Plan's Trustee.

K. Self-Insurance

Workers' Compensation Section 207-C

The Town has retained a portion of the liability to cover losses under Section 207-C of the General Municipal Law for police officers. Certain employees are entitled to their full pay when out on leave. The Town is required to cover any amount of losses not reimbursed by Workers' Compensation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Estimates

The preparation of the regulatory basis financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from these estimates.

2. CASH, CASH RESTRICTED AND RESERVED FUND BALANCE

Cash and Investment

The Town's investment policies are governed by State statutes. In addition, the Town has its own written investment policy. Town monies must be deposited in FDIC-insured commercial banks or trust companies located within New York State. The Comptroller is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, certificates of participation, and obligations of New York State, or its localities.

Collateral is required for demand deposits and certificates of deposit not covered by federal deposit insurance. Obligations that may be pledged as collateral include obligations of the United States and its agencies and obligations of the State of New York, its municipalities and school districts.

At year-end, the book amount of the Town's (the primary government) deposits was \$14,825,116 (excluding \$2,250 in petty cash) and the bank balance was \$14,820,864. The insured and collateral status of the year-end bank balance was as follows:

Covered by federal deposit insurance	\$ 2,458,428
Collateralized with securities held by a third party custodian for the benefit of the Town pursuant to three-party custody agreement	<u>12,362,436</u>
Total	<u>\$ 14,820,864</u>

Investments at December 31, 2012 consist of money market accounts and bank certificates of deposit.

3. PREPAID EXPENSES

The Town elected to prepay its required contributions to the New York State and Local Employees' Retirement System, the New York State Local Police and Fire Retirement Systems, and the Public Employees' Group Life Insurance Plan. The prepayment is equal to \$765,036 as of December 31, 2012. The balance at December 31, 2012 consists of:

<u>Fund</u>	<u>Amount</u>
General	\$ 497,557
Highway	129,889
Water	80,942
Sewer	56,648
Total	<u>\$ 765,036</u>

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Balance</u> <u>1/1/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/12</u>
Land	\$ 1,874,465	\$ -	\$ -	\$ 1,874,465
Improvements	8,599,827	275,903	-	8,875,730
Buildings	24,985,055	207,073	-	25,192,128
Machinery and Equipment	19,656,911	644,060	(341,108)	19,959,863
Infrastructure	<u>10,520,530</u>	<u>7,846,593</u>	<u>-</u>	<u>18,367,123</u>
Total	<u>\$ 65,636,788</u>	<u>\$ 8,973,629</u>	<u>\$ (341,108)</u>	<u>\$ 74,269,309</u>

5. SHORT-TERM DEBT

Liabilities for bond anticipation notes ("BANs") for construction are accounted for in the capital projects fund. Principal payments on any outstanding BANs that the Town has must be made annually. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for period's equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

5. SHORT-TERM DEBT (CONTINUED)

BAN's outstanding at December 31, 2012 are as follows:

<u>Fund</u>	<u>Description</u>	<u>Rate</u>	<u>Interest Amount</u>
General	Police Vehicle	0.600%	\$ 26,667
Highway	Road Paving	0.600%	650,000
Water/Sewer	Equipment	0.600%	472,333
General	Town Hall Improvements	0.625%	393,000
Highway	Road Paving	0.625%	715,000
Highway	Equipment	0.625%	322,500
Highway	Road Paving	0.740%	597,000
Highway	Equipment	0.740%	299,000
			<u>\$ 3,475,500</u>

6. NON-CURRENT GOVERNMENTAL LIABILITIES

The following is a summary of changes in long-term debt outstanding at December 31, 2012:

	<u>Payable 1/1/12</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Other Net Increase (Decrease)</u>	<u>Payable 12/31/12</u>
Serial Bonds (a)	\$ 17,640,000	\$ 6,715,000	\$ (8,315,000)	\$ -	\$ 16,040,000
Judgments and Claims (b)	60,000	-	-	21,000	81,000
Post Closure Landfill Monitoring (c)	100,000	-	-	-	100,000
Compensated Absences (d)	253,845	-	-	(16,313)	237,532
Workers' Compensation (e)	499,528	-	-	(423,772)	75,756
Total	<u>\$ 18,553,373</u>	<u>\$ 6,715,000</u>	<u>\$ (8,315,000)</u>	<u>\$ (1,089,085)</u>	<u>\$ 16,534,288</u>

(a) Serial Bonds

The Town borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. The provision to be made in future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities.

On December 20, 2012, \$6,715,000 in private activity bonds with an average interest rate of 4.20% were issued to advance refund \$7,385,000 of outstanding bonds with an average interest rate of 5.40%. The net proceeds of \$7,582,541 (after payment of \$84,945 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments through March 2022 by over \$1,305,830 resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,197,812.

6. NON-CURRENT GOVERNMENTAL LIABILITIES (CONTINUED)

(a) Serial Bonds (Continued)

The following is a summary of serial bonds outstanding at December 31, 2012:

<u>Description by Fund(s)</u>	<u>Original Date Issued</u>	<u>Original Amount</u>	<u>Rate</u>	<u>Date Final Maturity</u>	<u>Outstanding at December 31, 2012</u>
Water	2004	\$ 12,105,000	5.00%	2013	\$ 620,000
General	2008	1,880,000	4.50%	2018	1,230,000
General, Water and Sewer	2009	7,985,000	3.25%	2037	7,475,000
Water	2012	<u>6,715,000</u>	4.20%	2022	<u>6,715,000</u>
Total Outstanding		<u>\$ 28,685,000</u>			<u>\$ 16,040,000</u>

The following is a schedule of principal and interest payments for future debt service requirements as of December 31, 2012:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,040,000	\$ 582,144
2014	995,000	629,438
2015	1,040,000	591,950
2016	1,075,000	549,638
2017	1,125,000	504,925
2018-2022	5,400,000	1,805,900
2023-2027	1,435,000	1,042,925
2028-2032	1,760,000	716,938
2033-2037	<u>2,170,000</u>	<u>300,825</u>
Total	<u>\$ 16,040,000</u>	<u>\$ 6,724,683</u>

Serial bonds have been authorized in the amount of \$1,500,000 for sanitary pump station rehabilitation and \$1,700,000 for installation of water transmission main at the New Salem Water Treatment Plant, but have not been issued as of December 31, 2012. Further, the Town has secured a \$1,000,000 five year interest free loan from the Environmental Facilities Corporation (EFC) to help fund Water and Sewer District projects related to Hurricane Irene that should ultimately be reimbursed through FEMA/SEMO.

At December 31, 2012 the total outstanding serial bonds and BANs aggregated \$19,515,500. Of this amount \$10,502,523 was subject to the constitutional debt limit and represented approximately 4.47% of the debt limit.

6. NON-CURRENT GOVERNMENTAL LIABILITIES (CONTINUED)

(b) Judgment and Claims

The Town has been named defendant in various actions. A review of these actions with the Town's Attorney indicates that the risk of loss to the Town is reasonably possible for certain cases. The estimated range of loss for the cases that have a reasonably possible risk of loss is \$10,000 to \$81,000. Provisions for losses for those cases that have a reasonably possible risk of loss for which a range of loss has been estimated is recorded in the non-current governmental liability group of accounts.

(c) Post Closure Landfill Monitoring

The Town operated the Rupert Road landfill which accepted construction and demolition waste. The Town became subject to a consent order for this site on April 3, 2009. The anticipated total closure costs are between \$450,000 and \$500,000. To date, over \$400,000 has been expended in labor, equipment, and consulting costs. The liability has been partially funded in a capital reserve fund. The current estimated unfunded liability is \$100,000.

(d) Compensated Absences

Compensated absences represents the estimated value of the earned and unused leave credits, based on current salary rates.

(e) Workers' Compensation Section 207-C

The Town establishes a liability for reported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Town:

Unpaid claims and claim adjustment expenses at January 1, 2012	\$ 499,528
Decrease in provision for incurred events of prior years	(200,902)
Payments made of claims	<u>(222,870)</u>
Unpaid Claims and Claim Adjustment Expenses at December 31, 2012	<u>\$ 75,756</u>
Unpaid claims and claim adjustment expenses at January 1, 2011	\$ 1,499,740
Decrease in provision for incurred events of prior years	(706,910)
Payments made of claims	<u>(293,302)</u>
Unpaid Claims and Claim Expenses at December 31, 2011	<u>\$ 499,528</u>

7. DEFERRED REVENUE

Deferred revenues are reported on the balance sheet. Deferred revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the Town before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the Town has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenue consists of the following:

General Fund:	
Federal and State Grants	\$ 1,008,786
Customer Deposits	129,723
Other	<u>124,164</u>
Total General Fund	<u>\$ 1,262,673</u>
Special Grant Fund:	
Federal Aid	<u>\$ 26,775</u>
Highway Fund:	
Federal and State Grants	<u>\$ 58,478</u>
Water Fund:	
Federal and State Grants	\$ 558,389
Departmental Income	<u>243,655</u>
	<u>\$ 802,044</u>
Sewer Fund:	
Federal and State Grants	\$ 228,693
Department Income	167,638
Customer Deposits	<u>169,119</u>
	<u>\$ 565,450</u>

8. INTERFUND RECEIVABLES AND PAYABLES/INTERFUND TRANSFERS

Interfund receivables, payables and transfers at December 31, 2012 were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Operating Transfer-In</u>	<u>Operating Interfund Transfers-Out</u>
General	\$ 37,560	\$ 338,929	\$ 908,016	\$ 19,795
Highway	-	-	-	263,752
Capital Projects	-	37,560	19,795	-
Sewer Districts	-	-	-	162,613
Water Districts	-	-	-	206,651
Ambulance	-	-	-	275,000
Agency	<u>338,929</u>	-	-	-
Total	<u>\$ 376,489</u>	<u>\$ 376,489</u>	<u>\$ 927,811</u>	<u>\$ 927,811</u>

9. PENSION PLANS

The Town of Bethlehem participates in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance. The Plans are a cost sharing multiple-employer and public employee retirement system. The System offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

Plan Description

The New York State and Local Employees' Retirement System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of its funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany.

Funding Policies

The ERS is noncontributory except for employees who joined the System after July 27, 1976 who contribute 3% of their salary, until such time as they obtain ten years of service credit, employees who joined between January 1, 2011 and April 1, 2012, who generally contribute 3% of their salary for the entire length of service, and employees who joined after April 1, 2012 who contribute between 3% and 6% of their earned wages for the entire length of their career. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems:

- Requires minimum contributions by employers of 4.5% of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes the cycle of annual billing such that the contributions for a given fiscal year will be based on the value of the pension fund on the prior April 1st (billing due February 2012 would be based on the pension value as of March 31, 2011).

Chapter 260 of the Laws of New York State changed the annual payment due date for employers who participate in the Systems. The December 15 payment due date changed to February 1. The covered salary period (April 1 - March 31) will not change for the calculation.

9. PENSION PLANS (CONTINUED)

Funding Policies (Continued)

The pension expense due in February 2013 was prepaid in December 2012, in order to receive the discount offered by the State Retirement System and resulted in a savings to the Town of \$27,739 as of December 31, 2012. The Town’s contributions made to the Systems were equal to 100 percent of the contributions required for each year. The contributions in the current and two preceding years were:

	<u>ERS</u>	<u>PFRS</u>
2012	\$ 1,963,971	\$ 975,970
2011	\$ 1,763,202	\$ 857,536
2010	\$ 1,254,182	\$ 606,334

10. FUND EQUITY

The Town has implemented GASB 54 “Fund Balance Reporting and Governmental Fund Type Definitions.” GASB 54 defines five categories of fund balance as follows:

- **Nonspendable** fund balance includes amounts that cannot be spent because they are either not in spendable form or contractually required to be maintained intact.
- **Restricted** fund balance includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- **Committed** fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town Board. The Town had no committed fund balances at December 31, 2012.
- **Assigned** fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include funds that are legally mandated to be accounted for separately as well as amounts that have been contractually obligated by the Town or designated by the Town for ensuing year’s budget.
- **Unassigned** fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the fund.

TOWN OF BETHLEHEM, NEW YORK
 NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2012

10. FUND EQUITY (CONTINUED)

Fund balances are detailed as follows:

	<u>General Fund</u>	<u>Highway Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Nonspendable				
Inventory	\$ 89,116	\$ 499,661	\$ 16,979	\$ -
Prepaid Expenses	<u>497,557</u>	<u>129,889</u>	<u>80,942</u>	<u>56,648</u>
	<u>586,673</u>	<u>629,550</u>	<u>97,921</u>	<u>56,648</u>
Assigned				
Encumbrances	249,014	86,650	343,719	675,302
Subsequent Years Budget	-	192,990	-	-
Retirement Contribution	672,197	307,780	126,088	-
Highway Fund	-	1,160,129	-	-
Water Fund	-	-	3,330,510	-
Sewer Fund	-	-	-	1,267,409
	<u>921,211</u>	<u>1,747,549</u>	<u>3,800,317</u>	<u>1,942,711</u>
Unassigned	<u>3,216,826</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>\$ 4,724,710</u>	<u>\$ 2,377,099</u>	<u>\$ 3,898,238</u>	<u>\$ 1,999,359</u>

Capital Reserves

Established pursuant to General Municipal Law (GML), Section 6-C, to establish a capital reserve fund for:

Capital Projects Fund:

Improvements and equipment	\$ 474,627
Recreational facilities	312,712
Fire tower and additions and improvements	52,313
Highway equipment	838,617
Reconstruction of water facilities	1,896,559
Reconstruction of sewer facilities	427,406
Pump station	<u>988,187</u>
Subtotal	4,990,421
Less BAN's outstanding as of December 31, 2012	<u>(3,475,500)</u>
Total GML Section 6-C	<u>\$ 1,514,921</u>

Established pursuant to GML, Section 6-O, to establish a solid waste management facility reserve fund for the purpose of paying for closure or post-closure care costs for the general fund - Town-wide. At December 31, 2012, the balance of the reserve was \$151,157.

Total Capital Reserves Under GML Sections 6-C and 6-O	<u>\$ 1,666,078</u>
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10. FUND EQUITY (CONTINUED)

In 2012, the Town passed a fund balance policy that provides guidance for minimum, maximum and optimal levels at which the operating fund reserves should be held. These percentages of fund balance to appropriations are set at 7%, 20% and 15%, respectively. As of December 31, 2012, all funds exceeded optimal levels. To the extent that fund balances exceed the maximum, per policy, the balances are classified as capital reserve funds.

The Town's budget provides for programs with multiple revenue sources. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Comptroller has the authority to deviate from this policy if it is in the best interest of the Town.

11. COMMITMENTS AND CONTINGENCIES

The Town of Bethlehem has completed closure of the North Street landfill, in accordance with an Order of Consent issued by the Department of Environmental Conservation (DEC) on November 18, 1993. The Town is required to monitor the site for 30 years, with 16 years lapsed as of December 31, 2012. The current estimated liability for post closure care costs of the landfill for the remaining 14 years is \$33,250. However, the actual cost of post closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The liability has been funded in a capital reserve fund.

The Town has an Order on Consent issued by the New York State Department of Environmental Conservation (DEC), which requires completion of reconstruction and repairs to the wastewater collection system for an area in South Bethlehem. The sand filter treatment system has exhibited an inability to effectively treat the waste to the new permit standards. DEC will not close out the consent order until the sand filter has been replaced and, in accordance with the Order on Consent, this replacement must be completed by December 31, 2013. The Town received a grant through NYS CDBG-R in the amount of \$467,383 which fully supports the project costs.

In 2004, the Town entered into a 20-year contract with the City of Albany for the purchase of finished water. The contract calls for the purchase of specified minimum quantities, at rates that are subject to the same percentage increases paid by other customers within the City. In 2014, the contract's minimum quantities increased from 365 million gallons per year (MGY) to 450 MGY, resulting in a significant increase in expense.

In 2008, a petition for reduction of assessment was filed by Bronco Development Group, based on their attempt to change the status of their free standing buildings to a classification of condominium. The Town's position is that the property owner did not obtain proper authorizations prior to the Town's assessment date. The Courts, however, have denied all motions filed by both the Town and by Bronco Development, leaving open the question of the validity of the condominium.

11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Debt Defeasance

In 2012, an outstanding bond was defeased by placing proceeds of a new bond in an irrevocable trust to provide for all future debt service payments on the old bond. Accordingly, the trust accounts and the defeased bond are not included in the financial statements. The balance of the defeased bond, originally maturing in 2022, was \$7,385,000 at December 31, 2012.

12. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has purchased commercial insurance for all risk above minimal deductible amounts except for Workers' Compensation and environmental hazards. Settled claims have not exceeded the commercial coverage, or the amounts provided for in non-current governmental liability group of accounts by any material amounts during 2012. There was no reduction in insurance coverage during 2012. An estimate of liability is recorded at December 31, 2012 for outstanding claims or for any potential claims incurred but not reported as of that date in the non-current government liability group of accounts.

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions as to any potential material impact on operations or financial position occurring through April 24, 2013, the date the financial statements were available to be issued.

**ADDITIONAL REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133**

TOWN OF BETHLEHEM, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 DECEMBER 31, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title Expenditures</u>	<u>CFDA Federal Number</u>	<u>Awards</u>
<u>U.S. Department of Housing and Urban Development</u>		
Direct:		
Section 8 Housing Choice Vouchers	14.871	\$ 317,266
Passed Through State of New York:		
Community Development Block Grant	14.228	<u>500,000</u>
		<u>817,266</u>
<u>U.S. Department of Transportation</u>		
Passed Through State of New York:		
State and Community Highway Fund	20.600	<u>10,233</u>
<u>U.S. Department of Energy</u>		
Passed Through State of New York (NYSERDA):		
ARRA - Energy Efficiency and Renewable Energy Technology Development, Demonstration and Commercialization	81.129	1,862
ARRA - State Energy Program	81.041	<u>284,400</u>
		<u>286,262</u>
<u>U.S. Department of Homeland Security</u>		
Direct:		
Disaster Grants - Public Assistance	97.036	<u>864,249</u>
Total Federal Assistance		<u>\$ 1,978,010</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards was prepared on the modified accrual basis of accounting. Grant awards are recorded as revenue when the criteria for earning the revenue is met and are available, generally when the expenditure of grant funds is made. Grant expenditures are recorded when the liability is incurred. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Relationship to Financial Statements

Federal awards revenue is reported in the Town of Bethlehem, New York's financial statements as follows:

General Fund	\$ 326,887
Highway Fund	152,847
Water Fund	322,465
Sewer Fund	358,545
Special Grant	<u>817,266</u>
Federal Aid Per Schedule of Expenditures of Federal Awards	<u>\$ 1,978,010</u>

2. SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133

Town of Bethlehem, the primary government, is an independent municipal corporation. All federal grant operations of the primary government are included in the scope of the single audit.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF REGULATORY BASIS FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Supervisor and
Members of the Town Board
Town of Bethlehem, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the regulatory basis financial statements of the Town of Bethlehem, New York, as of and for the year ended December 31, 2012, and the related notes to the regulatory basis financial statements, and have issued our report thereon dated April 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the regulatory basis financial statements, we considered the Town of Bethlehem, New York's internal control over regulatory basis financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Bethlehem, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Bethlehem, New York's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town of Bethlehem, New York's regulatory basis financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Bethlehem, New York's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cusack & Company, CPA's LLC". The signature is written in a cursive, flowing style.

CUSACK & COMPANY, CPA'S LLC

Latham, New York
April 24, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE**

To the Supervisor and
Members of the Town Board
Town of Bethlehem, New York

Report on Compliance for Each Major Federal Program

We have audited the Town of Bethlehem, New York's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Bethlehem, New York's major federal programs for the year ended December 31, 2012. The Town of Bethlehem, New York's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Bethlehem, New York's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Bethlehem, New York's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Bethlehem, New York's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Bethlehem, New York complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

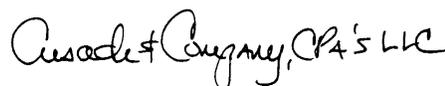
Report on Internal Control Over Compliance

Management of the Town of Bethlehem, New York is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Bethlehem, New York's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Bethlehem, New York's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of the control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance to be material weaknesses. However, material weaknesses may exist that have not been identified.

The propose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
April 24, 2013

TOWN OF BETHLEHEM, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported

Noncompliance material to financial statements noted? _____ yes x no

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes x no

Identification of major programs.

<u>CFDA NUMBER(S)</u>	<u>NAME OF FEDERAL PROGRAM OR CLUSTER</u>
14.228	Community Development Block Grant
81.041	State Energy Program
97.036	Disaster Grants - Public Assistance

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes x no

SECTION II - FINANCIAL STATEMENT FINDINGS

See SAS 114 Letter.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings for the year ended December 31, 2012.

SECTION IV - RESOLUTION OF PRIOR YEAR FINDINGS

See SAS 114 Letter