

TOWN OF BETHLEHEM, NEW YORK
REGULATORY BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2014

TOWN OF BETHLEHEM, NEW YORK

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TOWN OF BETHLEHEM, NEW YORK
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 DECEMBER 31, 2014

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, 2014. This document should be read in conjunction with the Town's financial statements.

Financial Highlights

Relative to recent years passed, the Town experienced very little in the way of change in 2014. The most noteworthy was the expiration in September of the 20 year old Selkirk Cogen water purchase agreement which guaranteed a minimum annual water purchase at a reduced rate. This single sale represented between 25%-33% of the total volume sold by the Town. While the expiration was originally projected to be beneficial to the Town, based on a conversation to the industrial rate table, it has not, due to a recent change in the Selkirk Cogen business model, as well as the timing of their temporary plant shutdowns at the end of the year. Despite this setback with the Water Fund, the Town experienced a net surplus in all four major operating funds: General, Highway, Water and Sewer Funds.

	<u>General</u>	<u>Highway</u>	<u>Water</u>	<u>Sewer</u>
Final Budgeted Revenues and Transfers	\$18,332,839	\$ 6,401,372	\$ 9,550,449	\$ 4,447,288
Final Budgeted Expenses and Transfers	<u>18,572,666</u>	<u>6,445,723</u>	<u>9,923,318</u>	<u>5,078,502</u>
Budgeted Surplus (Shortfall)	<u>\$ (239,827)</u>	<u>\$ (44,351)</u>	<u>\$ (372,869)</u>	<u>\$ (631,214)</u>
Actual Revenues and Transfers	\$18,132,082	\$ 6,723,496	\$ 9,277,540	\$ 4,877,873
Actual Expenses and Transfers	<u>17,783,369</u>	<u>6,216,357</u>	<u>9,055,954</u>	<u>3,690,301</u>
Operating Surplus	348,713	507,139	221,586	1,187,572
Capital Fund Transfer	<u>(15,900)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Surplus (Deficit)	332,813	507,139	221,586	1,187,572
Total Fund Balance, December 31, 2013	<u>5,592,527</u>	<u>2,385,249</u>	<u>3,471,508</u>	<u>1,970,383</u>
Total Fund Balance, December 31, 2014	<u>\$ 5,925,340</u>	<u>\$ 2,892,388</u>	<u>\$ 3,693,094</u>	<u>\$ 3,157,955</u>
Nonspendable Fund Balance	\$ 616,447	\$ 644,534	\$ 93,194	\$ 57,434
Assigned Appropriated Fund Balance	245,980	147,029	436,425	944,226
Assigned Appropriated for Retirement	672,197	307,780	126,088	-
Assigned Appropriated for Capital	1,260,000	475,000	910,000	895,983
Assigned Appropriated for Contingency	-	1,318,045	2,127,387	1,260,312
Unassigned for Contingency	<u>3,130,716</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>\$ 5,925,340</u>	<u>\$ 2,892,388</u>	<u>\$ 3,693,094</u>	<u>\$ 3,157,955</u>

Major program changes, enhancements and other areas of note implemented in 2014 include:

- The Town transferred the responsibility for collection of Bethlehem Central and Ravena Coeyman Selkirk school taxes to the individual taxing districts. This provides a dual benefit:
 - Opportunity to reduce the number of employees required to staff the tax receiving function;
 - Provide an opportunity for the school districts to consolidate their tax receiving through BOCES, allowing them to obtain reimbursement for some portion of the cost, which cannot occur when collections are made through the offices of the multiple towns they occupy;
- Physically and functionally combined the offices of the Tax Receiver and Town Clerk to create administrative efficiencies and sharing of services;

Financial Highlights (Continued)

- Received the first two payments of the Local Government Performance and Efficiency Program (LGPEP) Award, totaling \$517,000. The town utilized and/or allocated these funds, as well as a third \$258,000 payment to be received in 2015, for EMS Consolidation Transaction Funding, Internal Efficiency/Productivity Programs, Town Hall Security, Town Sidewalks, Traffic Calming Initiatives, Park Services Master Plan, Street Tree and Open Space Programs;
- Exercised provisions of the Town's 2012 fund balance policy to supplement balances in the Town's General and Highway Capital Project Reserve Funds for the first time since 2006/2007, providing funding alternatives for infrastructure repair and replacement needs, and reducing our reliance on borrowing.
- Completed and implemented a town-wide reassessment project to ensure equitable and defensible assessments, particularly for the commercial sector where there were known problems. The result was a lower share of property taxes paid by the residential sector and lower tax bills, than would have been calculated without the project, for nearly three quarters of residential properties.
- 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 \$1.1 million. The related expenditures were primarily booked in 2012 and 2013. Matching revenues in those years were not booked because, consistent with governmental accounting rules, the Town recorded revenues when they were both "measurements and available." While the revenue was generally "measurable", the Town did not receive the funds within 60 days of the 2013 year end, and therefore, could not consider it to be "available" in a prior year.
- In 2014, the Town modified its revenue recognition policy to allow for bookkeeping of grant revenues when all eligibility requirements for the funding has been satisfied; provided there is a reasonable expectation of receipt of that grant funding. As of year-end, the cumulative remaining nonguaranteed reimbursements of previously expended funds total \$1.1 million. Because there are numerous expenditures which continue to be in dispute, and the Town cannot get representatives of FEMA or SEMO to qualify a future reimbursement figure, the full \$1.1 million remains in deferred revenue on the balance sheet.

General Items of Note for All Funds

Fringe Benefits

The Town employed an average of 214 full time employees in 2014, as well as total of 262 part time and seasonal employees throughout the year.

The following schedule provides comparative detail on aggregated fringe benefit costs for current employees (excluding other postemployment benefit costs):

<u>Fringe Benefits</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
Social Security	\$ 1,103,616	\$ 1,086,441
Health and Dental Insurance	2,310,812	2,253,951
Retirement Systems	2,978,975	2,814,426
Workers' Compensation Insurance	744,824	596,197
Life and Short-Term Disability Insurance	49,355	47,419
Total	<u>\$ 7,187,582</u>	<u>\$ 6,798,434</u>

General Items of Note for All Funds (Continued)

Fringe Benefits (Continued)

Overall, fringe benefits for current employees increased by \$389,000, or 5.72%, of which NYS retirement system expenditures represented an increase of \$165,000, or 5.85%, from the prior year. This difference stems primarily from prior year billings and modifications in both the current and prior years. The 2013 billing period included prior period adjustments, which decreased the state billing by (\$357,000), based on Town attrition from 2011, 2012 and 2013; while 2014 billing period included prior adjustments which increased billing by \$34,000, based on corrections to the state estimates. Beyond retirement, workers compensation costs increased by \$149,000, or 24.9% from the prior year. This was primarily due to increases in our claims experience (i.e. incurred losses) which cover the years 2008 through 2012. The positive news is that the 2014 claims experience was one of our lowest ever (19 times lower than 2009 and 23 times lower than 2010), which will factor into calculations for 5 years beginning 2016. Lastly, health and dental insurance costs increased \$57,000, or 2.52% from the prior year. This was due mostly to a net rate increase of 3.80%, but shifts slightly lower due to changes in employee elections.

Post Retirement Benefits

Retired employees that have met certain eligibility requirements are entitled to receive certain health care benefits for themselves and their spouses. Those benefits are provided through payments to an insurance company. The Town recognizes the cost of providing these benefits for 141 retirees (including spouses), by expensing the annual insurance premiums. The postretirement expense was \$640,000 for 2014 and \$604,000 for 2013 resulting in a 6.0% comparative increase.

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.

Interest Income

A summary of the budgeted interest income compared to actual for 2014 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	\$ 7,000	\$ 7,799	\$ 799
Highway	8,000	4,432	(3,568)
Water	8,000	1,393	(6,607)
Sewer	4,000	1,936	(2,064)
Capital	-	1,355	1,355
Total	<u>\$ 27,000</u>	<u>\$ 16,915</u>	<u>\$ (10,085)</u>

The interest earnings for 2014 were equal to \$16,915, a 46% decrease from the 2013 earnings of \$31,497. This is consistent with the decrease in the average rate earned on investments in 2014 which was 0.05% compared to an average rate of 0.12% for 2013.

General Items of Note for All Funds (Continued)

Interest Income (Continued)

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”). The Town received, from Key Bank, an average compensating balance rate of .75% (down from 1.0% in 2013), in addition to the interest paid in cash. The Town utilized these credits to pay for services such as: 1) “lockbox”, which receives, deposits, processes and provides an electronic upload to our billing system for water and sewer usage and tax payments; free return envelopes for lockbox payments; 2) “positive pay”, which matches checks written by the Town against an electronic file provided to the bank to prevent fraudulent checks from being drawn against the Town’s checking accounts; reconciliation services, which provides for a verification process on current checks outstanding; 3) debt blocks, which prevent unauthorized ACH activity (unless expressly granted), free checks and deposit slips; and 4) free credit card processing for Parks and Recreation activities. While it is difficult to assign a monetary value to the majority of the services provided, the lockbox services, which were implemented in 2012, have allowed the Town to absorb the attrition from one full time receiving position, saving approximately \$185,000 over the past 3 years. In addition, the bank provides return envelopes free of charge resulting in approximately \$6,000 in annual savings.

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>2014</u>	<u>2013</u>
Serial Bonds	\$ 14,005,000	\$ 15,000,000
Compensated Absences	311,833	238,491
Landfill Closure and Post Closure	100,000	100,000
Judgments and Claims	110,000	131,000
Total Long-Term Debt	<u>\$ 14,526,833</u>	<u>\$ 15,469,491</u>

Items of Note for the General Fund

Total revenues decreased \$581,000, or 3.1%, from \$18.7 million in 2013 to \$18.1 in 2014. The primary driver of this change was the reduction of (\$388,000) in FEMA and SEMO funds received in 2013 for Hurricane Irene expenditures in prior years [the nature of these transactions are described above under Financial Highlights]. Another major driver of the change in revenue was the removal of an annual (\$275,000) tax levy, previously layered onto the Ambulance Fund and transferred to the General Fund. This was replaced in 2014 by \$175,000 in Local Government Performance and Efficiency Program (“LGPEP”) Funds from New York State, and will be removed completely in 2015 through consolidation efficiencies and outside revenues billed directly by the ambulance company. The net decrease to Grant Fund revenues relating to ambulance restructuring is (\$100,000). Other significant revenue issues which affected the overall change include Mortgage Tax Revenue which decreased by (\$311,000), or (23.8%), due primarily to a rising mortgage interest rates, and Sales Tax Revenues, which increased \$458,000, or 4.3%, due primarily to a weak 4th quarter in 2013, and strong 4th quarter in 2014. Tax Collection Fees were down (\$103,000), or (81.9%) due primarily to a loss of late fee charges from school taxing. This will be offset annually by a reduction in personnel in the receiving department beginning 2015. Lastly, Safety Inspection fees were down (\$86,000), or (26.3%), due to higher than usual revenues in 2013, as well as the reduction of one full time Building Inspector.

Items of Note for the General Fund (Continued)

Total operating expenditures decreased \$62,000, or .4%, from \$17.84 million in 2013 to \$17.78 million in 2014. Major changes include a decrease of (\$239,000), or (61.7%), in the Assessor's department relating to the expenditure of the majority of costs for the town wide reassessment in 2013. The expenditure of \$84,000 in 2014 for Kronos, a timekeeping system which is expected to enhance efficiencies. A reduction shifting of personnel in Public Works administrative staffing totaling (\$115,000), or (16.2%), and Building Department staffing totaling (\$172,000), or (41%), of prior year costs. The dispatching office purchased a replacement radio system totaling \$160,000 in 2014. Lastly, Police Department benefits increased \$169,000 primarily due to a 2013 New York State PFRS credit for \$200,000 representing prior year attrition in the department. In 2014, the state determined it overcorrected the 2013 bill and added an additional \$62,000 to the 2014 invoice. Further, affecting benefits in Police, as well as Salaries, relate to a long term 207c employee who retired at the end of 2013. This change represented a shift of approximately \$225,000 in salary and benefits.

From 2006 through 2013, the Town has not transferred any operating fund balance into the General Fund Capital Project Reserve Funds. However, in 2014, in accordance with the Fund Balance Policy adopted in 2012, the Town transferred \$1.1 million from the General Fund unassigned fund balance to the General Capital Reserve, and \$170,000 to the General Fund Parks Reserve, to help cover infrastructure and equipment costs identified through the multi-year capital planning process. These funds remain in the operating fund, however, they will be held separately within the fund balance until they are expended.

In 2014, the Town obtained Bond Anticipation Notes in the amount of \$219,000 for a Compost Loader for the Town's transfer station. Additionally, the Town refinanced Bond Anticipation Notes from 2011 relating to a Town Hall Improvement Project in the amount of \$305,000. All related equipment expenditures including corresponding liabilities are accounted for in the General Capital Reserve Project Fund.

Items of Note for the Highway Fund

Total revenue increased \$81,000, or 1.23%, from \$6.6 million in 2013 to \$6.7 million in 2014. This was primarily due to the Town allocating the entire property tax levy of \$203,000 to this fund, which was done to aid in its recovery and correction of a 2009 decision to shift some annual operating expenses to borrowing. This process is ongoing, and is expected to be completely reversed by 2018. Additionally, Interfund revenues decreased (\$481,000), or (97.1%), as the Town shifted away from charging the Highway Fund for employee time and benefits, and then interfund billing other Town funds through revenues, by requiring employees to charge time directly to the department in which they performed services. Lastly, the Town received \$266,000 in FEMA funds in 2014 relating to prior years Hurricane Irene expenditures. The Town received no FEMA or SEMO revenues in 2013.

Total expenditures decreased (\$417,000), or (6.3%), from to \$6.6 million in 2013 to \$6.2 million in 2014. This was due primarily to a decrease in charging to the Highway Fund relating to employee salaries and benefits of (\$282,000) and (\$5,000), respectively. As noted above in the Revenue discussion, the Highway Fund previously charged their own Fund for employee time, and then generated revenue by sharing employees and billing for their time. Additionally, in 2013 there was \$370,000 in spending on projects relating to Hurricane Irene, however, in 2014, the spending was less than \$3,000; a net decrease of (\$367,000). Lastly, there was increased spending on asphalt and concrete costs relating to paving projects, by \$281,000.

Items of Note for the Highway Fund (Continued)

From 2007 through 2013, the Town had not transferred any operating fund balance into the Highway Fund Capital Project Reserve Funds. However, in 2014, in accordance with the Fund Balance Policy adopted in 2012, the Town transferred \$475,000 from the Highway Fund assigned/unappropriated fund balance to the General Capital Reserve, to help cover infrastructure and equipment costs identified through the multi-year capital planning process. These funds remain in the operating fund, however, they will be held separately within the fund balance until they are expended.

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 borrowings 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 2014, the Town obtained Bond Anticipation Notes in the amount of \$306,000 for highway vehicles. Further, the Town refinanced Bond Anticipation Notes (short term bonds) for asphalt purchases from 2010 through 2013 in the amount of \$2 million, while committing to fund these costs in the future through operating fund revenues and capital reserve. Additional refinancing for miscellaneous equipment and vehicles totaled \$801,000 for purchases beginning in 2011.

All related paving and equipment expenditures including corresponding liabilities are accounted for in the Highway Capital Reserve Fund.

Items of Note for the Water Fund

The Water Fund is largely funded with user charges and is 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.

The Water Fund's operating revenue decreased (\$205,000), or (2.2%), from \$9.5 million to \$9.3 million in 2014. This change was due to primarily to two factors, water sales and FEMA revenues. Water sales were off dramatically; a reduction of (\$475,000), or (6.9%), from 2013 due predominately to the September 2014 expiration of the Selkirk Cogen "take or pay" agreement which had required the Company to pay for a minimum amount of water; whether they used it or not. Overall sales to Selkirk Cogen, as a standalone, was down (\$508,000) from 2013. Their usage is based on their ability to sell energy to "the market", which differs from prior years when they were under contract to sell directly to specific utility companies, also the Town has no history outside of the minimum purchase agreement, and therefore we can't predict their future ongoing usage. The second factor, which partially offsets the decrease is water sales, was an increase in FEMA and SEMO reimbursements of prior years' Hurricane Irene expenditures totaling \$266,000.

The Water Fund's operating expenditures increased \$853,000 due primarily to the Town's contract with the City of Albany. The Town's annual cost went up \$27,000 per month and the Town paid \$197,000 in water usage charges from prior years. The total annual change from this expenditure was \$519,000.

From 2008 through 2012, the Town had not transferred any operating fund balance into the Water Capital Project Reserve Fund. However, in 2014, in accordance with the Fund Balance Policy adopted in 2012, the Town transferred \$910,000 from the water fund operating fund balance to help cover infrastructure and equipment costs identified through the multi-year capital planning process. This transfer follows a transfer in 2013 of \$1.75 million, for a two year total of \$2.7 million. These funds remain in the operating fund, however, they will be held separately within the fund balance until they are expended.

Items of Note for the Water Fund (Continued)

In 2014, the Town did not require additional financing for projects relating to the Water Fund. However, the Town refinanced two Bond Anticipation Notes totaling \$1.1 million for a combination of equipment purchased in 2010 and a transmission main project which had begun in 2013. All related equipment expenditures including corresponding liabilities are accounted for in the Water Capital Reserve Project Fund.

Items of Note for the Sewer Fund

The Sewer Fund is largely funded with user charges and is somewhat easier, than the General and Highway Funds, to bring to a self-sustaining financial position, even considering the longer-term and sizeable infrastructure construction and maintenance costs for these funds.

The Sewer Fund's operating revenue increased by \$561,000, or 13.0%, from \$4.3 million to \$4.9 million, relating to FEMA and SEMO reimbursements of prior years Hurricane Irene expenditures. FEMA reimbursements totaled \$380,000 in 2014, while SEMO reimbursements totaled \$126,000. Although, sewer usage charges are typically calculated based on water usage, and water usage is down, sewer usage charges are flat because Selkirk Cogen, the source of our water revenue decrease is not on the Town's sewer system.

The Sewer Fund's operating expenditures decreased by \$655,000, or 15.1%, from \$4.3 million in 2013 to \$3.7 million in 2014. This relates primarily to projects in 2013 related to Hurricane Irene. Total 2013 spending on Hurricane Irene related projects totaled \$469,000, while 2014 expenditures totaled less than \$200.

From 2008 through 2012, the Town had not transferred any operating fund balance into the Sewer Capital Project Reserve Fund. However, in 2014, in accordance with the Fund Balance Policy adopted in 2012, the Town transferred \$896,000 from the sewer fund operating fund balance to help cover infrastructure and equipment costs identified through the multi-year capital planning process. This transfer follows a transfer in 2013 of \$165,000, for a two year total of \$1.1 million. These funds remain in the operating fund, however, they will be held separately within the fund balance until they are expended.

In 2014, the Town obtained Bond Anticipation Notes in the amount of \$1.3 million for a Sewer Pump Station projects which began in 2013. The Town borrowed \$150,000 to begin the project in 2013, and refinanced \$145,000 in the current year. Additionally, the Town refinanced Bond Anticipation Notes from 2010 in the amount of \$290,000 relating to equipment acquisition in that year. All related equipment expenditures including corresponding liabilities are accounted for in the Sewer Capital Reserve Project 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 2014, along with a calculation showing where the fund balances are as compared to this policy:

TOWN OF BETHLEHEM, NEW YORK
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 DECEMBER 31, 2014

Analysis of Fund Balances (Continued)

The projected 2014 levels for the operating funds indicate sufficient net assets to fund currently budgetary requirements. Consistent with policy, balances held above the ceiling of 20% will be moved to the appropriate capital reserve accounts.

	<u>General</u>	<u>Highway</u>	<u>Water</u>	<u>Sewer</u>
Fund Balance, December 31, 2014	\$ 5,925,340	\$ 2,892,388	\$ 3,693,094	\$ 3,157,955
Less: 2015 Use of Fund Balance				
Prior Year Encumbrances	245,980	147,029	436,425	944,226
Retirement Contribution Reserve	672,197	307,780	126,088	-
Capital Reserve Appropriation	1,260,000	475,000	910,000	895,983
Nonspendable Fund Balance	616,447	644,534	93,194	57,434
Infrastructure Reserve	-	-	229,161	354,882
Projected Balance, December 31, 2015	<u>\$ 3,130,716</u>	<u>\$ 1,318,045</u>	<u>\$ 1,898,226</u>	<u>\$ 905,430</u>
2015 Budgeted Appropriations	<u>\$17,812,794</u>	<u>\$6,726,323</u>	<u>\$9,491,129</u>	<u>\$ 4,527,144</u>
Percent of Appropriations	18%	20%	20%	20%
Floor - 7% of Budgeted Appropriations	\$ 1,246,896	\$ 470,843	\$ 664,379	\$ 316,900
Optimal - 15% of Budgeted Appropriations	\$ 2,671,919	\$ 1,008,948	\$ 1,423,669	\$ 679,072
Ceiling - 20% of Budgeted Appropriations	\$ 3,562,559	\$ 1,345,265	\$ 1,898,226	\$ 905,430

Contacting the Town's Financial Management

This financial report is designed to provide a general overview of the Town's finances 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, 2014, 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 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 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 from 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 for Adverse Opinion

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

In our opinion, because of the significance of the matter discussed in the "Basis of Adverse Opinion" paragraph, the financial statements referred to above do not present fairly the financial position of the Town of Bethlehem, New York, as of December 31, 2014, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for 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.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effect of the matter described in the "Basis for Qualified Opinion" paragraph, 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, 2014, 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.

Other Matters

Other Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-8 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 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 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Bethlehem, New York's regulatory basis financial statements. The accompanying schedule of expenditures of federal awards on page 41 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 expenditures of federal awards is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2015 on our consideration of the Town of Bethlehem, New York'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 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 Town of Bethlehem, New York's internal control over financial reporting and compliance.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
April 14, 2015

TOWN OF BETHLEHEM, NEW YORK

GENERAL FUND

REGULATORY BASIS BALANCE SHEET

DECEMBER 31, 2014

Assets

Cash	\$ 3,723,319
Other receivables	200,924
State and federal receivables	19,465
Due from other governments	4,164,270
Inventory	86,984
Prepaid expenses	<u>529,463</u>

Total Assets \$ 8,724,425

Liabilities

Accounts payable	\$ 315,386
Accrued liabilities	502,784
Due to other governments	426,583
Due to other funds	491,909
Unearned revenues	<u>311,545</u>

Total Liabilities 2,048,207

Deferred Inflows of Resources

750,878

Fund Balance

Nonspendable	616,447
Assigned	2,178,177
Unassigned	<u>3,130,716</u>

Total Fund Balance 5,925,340

Total Liabilities, Deferred Inflows of Resources
and Fund Balance

\$ 8,724,425

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, 2014

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 2,078,649	\$ 2,087,183	\$ -	\$ 8,534
Real property tax items	102,643	96,206	-	(6,437)
Non-property tax items	11,429,560	11,749,150	-	319,590
Departmental income	1,532,362	1,426,972	-	(105,390)
Intergovernmental charges	123,450	80,000	-	(43,450)
Use of money and property	92,000	92,814	-	814
Licenses and permits	36,315	41,583	-	5,268
Fines and forfeitures	385,000	426,268	-	41,268
Sales of property and compensation for loss	179,550	114,181	-	(65,369)
Miscellaneous local sources	398,622	59,642	-	(338,980)
State aid	1,950,088	1,486,423	-	(463,665)
Federal aid	24,600	72,344	-	47,744
Total Revenues	<u>18,332,839</u>	<u>17,732,766</u>	<u>-</u>	<u>(600,073)</u>
Expenditures				
General government support	3,936,821	3,687,158	102,494	147,169
Public safety	5,962,899	5,825,481	36,716	100,702
Health	1,530	1,477	-	53
Transportation	607,636	588,318	4,078	15,240
Economic assistance and opportunity	453,999	428,437	641	24,921
Culture and recreation	1,299,437	1,281,870	17,563	4
Home and community services	1,252,546	1,089,076	84,488	78,982
Employee benefits	4,679,289	4,571,046	-	108,243
Debt service (principal and interest)	310,512	310,506	-	6
Total Expenditures	<u>18,504,669</u>	<u>17,783,369</u>	<u>245,980</u>	<u>475,320</u>
Other Financing Sources and Uses				
Operating transfers in	-	399,316	-	399,316
Operating transfers out	(67,997)	(15,900)	-	52,097
Total Other Financing Sources and Uses	<u>(67,997)</u>	<u>383,416</u>	<u>-</u>	<u>451,413</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources and Uses				
	<u>\$ (239,827)</u>	332,813	<u>\$ (245,980)</u>	<u>\$ 326,660</u>
Fund Balance - January 1, 2014		<u>5,592,527</u>		
Fund Balance - December 31, 2014		<u>\$ 5,925,340</u>		

TOWN OF BETHLEHEM, NEW YORK
HIGHWAY FUND

Regulatory Basis Balance Sheet
December 31, 2014

Assets	
Cash	\$ 2,762,042
Other receivables	29,365
Due from other governments	191,966
Inventories	517,024
Prepaid expenses	127,510
Total Assets	<u>\$ 3,627,907</u>
Liabilities	
Accounts payable	\$ 434,251
Accrued liabilities	136,804
Unearned revenue	73
Total Liabilities	<u>571,128</u>
Deferred Inflows of Resources	<u>164,391</u>
Fund Balance	
Nonspendable	644,534
Assigned	<u>2,247,854</u>
Total Fund Balance	<u>2,892,388</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 3,627,907</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2014

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 5,720,620	\$ 5,743,807	\$ -	\$ 23,187
Real property tax items	239,550	232,061	-	(7,489)
Use of money and property	8,000	4,432	-	(3,568)
Intergovernmental charges	6,000	8,065	-	2,065
Sales of property and compensation for loss	25,200	57,348	-	32,148
Miscellaneous local sources	-	29,021	-	29,021
Interfund revenues	32,000	14,400	-	(17,600)
State aid	327,000	434,767	-	107,767
Federal aid	-	199,595	-	199,595
Total Revenues	<u>6,358,370</u>	<u>6,723,496</u>	<u>-</u>	<u>365,126</u>
Expenditures				
Transportation	4,406,862	4,213,792	147,029	46,041
Employee benefits	1,721,243	1,689,394	-	31,849
Debt service	313,225	313,171	-	54
Total Expenditures	<u>6,441,330</u>	<u>6,216,357</u>	<u>147,029</u>	<u>77,944</u>
Other Financing Sources and Uses				
Operating transfers in	43,002	-	-	(43,002)
Operating transfers out	(4,393)	-	-	4,393
Total Other Financing Sources and Uses	<u>38,609</u>	<u>-</u>	<u>-</u>	<u>(38,609)</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Uses				
	<u>\$ (44,351)</u>	507,139	<u>\$ (147,029)</u>	<u>\$ 404,461</u>
Fund Balance - January 1, 2014		<u>2,385,249</u>		
Fund Balance - December 31, 2014		<u>\$ 2,892,388</u>		

TOWN OF BETHLEHEM, NEW YORK
WATER FUND

Regulatory Basis Balance Sheet
December 31, 2014

Assets	
Cash	\$ 2,581,601
Other receivables	1,647,843
Due from other governments	498,216
Inventories	11,415
Prepaid expenses	81,779
Total Assets	<u>\$ 4,820,854</u>
Liabilities	
Accounts payable	\$ 453,084
Accrued liabilities	106,914
Unearned revenues	650
Total Liabilities	<u>560,648</u>
Deferred Inflows of Resources	<u>567,112</u>
Fund Balance	
Nonspendable	93,194
Assigned	<u>3,599,900</u>
Total Fund Balance	<u>3,693,094</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 4,820,854</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2014

	<u>Final</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 2,012,748	\$ 2,012,736	\$ -	\$ (12)
Departmental income	7,212,600	6,776,044	-	(436,556)
Use of money and property	183,000	220,695	-	37,695
Sale of property and compensation for loss	21,000	17,850	-	(3,150)
State aid	-	62,554	-	62,554
Federal aid	-	187,661	-	187,661
Total Revenues	<u>9,429,348</u>	<u>9,277,540</u>	<u>-</u>	<u>(151,808)</u>
Expenditures				
Home and community services	7,641,961	6,841,284	436,425	364,252
Employee benefits	987,970	937,814	-	50,156
Debt service (principal and interest)	1,064,877	1,048,346	-	16,531
Total Expenditures	<u>9,694,808</u>	<u>8,827,444</u>	<u>436,425</u>	<u>430,939</u>
Other Financing Sources and Uses				
Operating transfers in	121,101	-	-	(121,101)
Operating transfers out	<u>(228,510)</u>	<u>(228,510)</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>(107,409)</u>	<u>(228,510)</u>	<u>-</u>	<u>(121,101)</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Uses				
	<u>\$ (372,869)</u>	221,586	<u>\$ (436,425)</u>	<u>\$ 158,030</u>
Fund Balance - January 1, 2014		<u>3,471,508</u>		
Fund Balance - December 31, 2014		<u>\$ 3,693,094</u>		

TOWN OF BETHLEHEM, NEW YORK
SEWER FUND

Regulatory Basis Balance Sheet
December 31, 2014

Assets	
Cash	\$ 2,741,961
Other receivables	799,852
Due from other governments	314,836
Prepaid expenses	<u>57,434</u>
Total Assets	<u>\$ 3,914,083</u>
Liabilities	
Accounts payable	\$ 129,505
Accrued liabilities	68,730
Unearned revenues	<u>189,743</u>
Total Liabilities	<u>387,978</u>
Deferred Inflows of Resources	<u>368,150</u>
Fund Balance	
Nonspendable	57,434
Assigned	<u>3,100,521</u>
Total Fund Balance	<u>3,157,955</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 3,914,083</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2014

	Final Budget	Actual	Encumbrances	Variance
Revenues				
Real property tax	\$ 1,627,234	\$ 1,627,150	\$ -	\$ (84)
Departmental income	2,781,000	2,736,153	-	(44,847)
Use of money and property	4,000	1,936	-	(2,064)
Sale of property and compensation for loss	5,000	6,629	-	1,629
State aid	-	126,501	-	126,501
Federal aid	-	<u>379,504</u>	-	<u>379,504</u>
Total Revenue	<u>4,417,234</u>	<u>4,877,873</u>	<u>-</u>	<u>460,639</u>
Expenditures				
Home and community services	3,846,383	2,522,781	944,226	379,376
Employee benefits	631,304	610,360	-	20,944
Debt service (principal and interest)	<u>428,030</u>	<u>386,354</u>	-	<u>41,676</u>
Total Expenditures	<u>4,905,717</u>	<u>3,519,495</u>	<u>944,226</u>	<u>441,996</u>
Other Financing Sources and Uses				
Operating transfers in	15,027	-	-	(15,027)
Operating transfers out	<u>(172,785)</u>	<u>(170,806)</u>	-	<u>1,979</u>
Total Other Financing Sources and Uses	<u>(157,758)</u>	<u>(170,806)</u>	<u>-</u>	<u>(13,048)</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Uses				
	<u>\$ (646,241)</u>	1,187,572	<u>\$ (944,226)</u>	<u>\$ 889,587</u>
Fund Balance - January 1, 2014		<u>1,970,383</u>		
Fund Balance - December 31, 2014		<u>\$ 3,157,955</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, 2014

	<u>Actual</u>
Revenues	
Real property taxes and tax items	\$ 1,205,676
Total Revenues	<u>1,205,676</u>
Expenditures	
Health	<u>1,205,676</u>
Total Expenditures	<u>1,205,676</u>
Excess of Revenues Over Expenditures	-
Fund Balance - January 1, 2014	<u>-</u>
Fund Balance - December 31, 2014	<u><u>\$ -</u></u>

TOWN OF BETHLEHEM, NEW YORK
SPECIAL GRANT FUND

Regulatory Basis Balance Sheet
December 31, 2014

Assets	
Cash	\$ 10,596
Total Assets	<u>\$ 10,596</u>
Liabilities	
Accounts payable	\$ 2
Other liabilities	6,162
Deferred revenues	<u>4,432</u>
Total Liabilities	<u>10,596</u>
Fund Balance	
Assigned	<u>-</u>
Total Fund Balance	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 10,596</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2014

	<u>Actual</u>
Revenues	
Use of money and property	\$ 3
Federal aid	<u>300,121</u>
Total Revenues	<u>300,124</u>
Expenditures	
Home and community services	<u>300,124</u>
Total Expenditures	<u>300,124</u>
Excess of Revenues Over Expenditures	-
Fund Balance - January 1, 2014	<u>-</u>
Fund Balance - December 31, 2014	<u>\$ -</u>

TOWN OF BETHLEHEM, NEW YORK
CAPITAL PROJECTS FUND

Regulatory Basis Balance Sheet
December 31, 2014

Assets	
Cash	\$ 4,982,337
Due from other governments	1,202,236
Total Assets	<u>\$ 6,184,573</u>
Liabilities	
Accounts payable and retainage	\$ 1,288,452
Notes payable	6,393,193
Total Liabilities	<u>7,681,645</u>
Fund Deficit	
Unassigned	<u>(1,497,072)</u>
Total Fund Deficit	<u>(1,497,072)</u>
Total Liabilities and Fund Balance	<u>\$ 6,184,573</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit)
For the Year Ended December 31, 2014

	<u>Actual</u>
Revenues	
Use of money and property	\$ 1,355
State aid	818,660
Federal aid	447,315
Miscellaneous income	23,113
Total Revenues	<u>1,290,443</u>
Expenditures	
General government support	567,961
Transportation	1,345,109
Culture and recreation	66,410
Home and community services	2,908,789
Total Expenditures	<u>4,888,269</u>
Other Financing Sources	
Operating transfers in	15,900
Bond anticipation notes redeemed	404,337
Total Other Financing Sources	<u>420,237</u>
Deficiency of Revenues Over Expenditures and Other Financing Sources	(3,177,589)
Fund Balance - January 1, 2014	<u>1,680,517</u>
Fund Deficit - December 31, 2014	<u>\$ (1,497,072)</u>

TOWN OF BETHLEHEM, NEW YORK
AGENCY FUND

Regulatory Basis Balance Sheet
December 31, 2014

Assets	
Cash	\$ 113,265
Accounts receivable	9,383
Due from other funds	<u>491,909</u>
Total Assets	<u><u>\$ 614,557</u></u>
Liabilities	
Agency liabilities	<u>\$ 614,557</u>
Total Liabilities	<u><u>\$ 614,557</u></u>

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

Regulatory Basis Balance Sheet
December 31, 2014
(Unaudited)

Assets	
Land	\$ 1,965,316
Improvements other than buildings	10,255,081
Buildings	25,192,128
Machinery and equipment	21,749,578
Infrastructure	<u>21,710,742</u>
	<u>\$ 80,872,845</u>
Investment in Fixed Assets	<u>\$ 80,872,845</u>

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

Regulatory Basis Balance Sheet
December 31, 2014

Assets	
Provisions to be made in future budgets	\$ 14,526,833
Total Assets	<u>\$ 14,526,833</u>
Liabilities	
Landfill closure and post closure costs	\$ 100,000
Judgments and claims payable	110,000
Compensated absences	311,833
Bonds payable	<u>14,005,000</u>
Total Liabilities	<u>\$ 14,526,833</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)

e. Accounts Groups (Continued)

- 2) The Non-Current Governmental Liabilities Account Group - used to account for all long-term debt and other long-term liabilities 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 to be used to pay liabilities of the current period. The Town uses 60 days to measure availability.

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, unless it has not been received within 60 days after the fiscal year has ended.

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.

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 non-current governmental liabilities 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 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 current practice which recognizes expense on a pay-as-you-go basis. The Town has not adopted GASB 45.

OPEB costs recognized as incurred was \$639,976 in 2014 for 132 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. A separate independent audit is performed on these funds annually.

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 \$16,912,871 (excluding \$2,250 in petty cash) and the bank balance was \$17,528,882. The insured and collateral status of the year-end bank balance was as follows:

Covered by federal deposit insurance	\$ 4,549,424
Collateralized with securities held by a third party custodian for the benefit of the Town pursuant to three-party custody agreement	<u>12,979,458</u>
Total	<u>\$ 17,528,882</u>

3. PREPAID RETIREMENT SYSTEMS

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 \$753,316 as of December 31, 2014. The balance at December 31, 2014 consists of:

<u>Fund</u>	<u>Amount</u>
General	492,806
Highway	127,510
Water	78,266
Sewer	54,734
Total	<u>\$ 753,316</u>

4. CAPITAL ASSETS (UNAUDITED)

Capital asset activity for the year ended December 31, 2014 was as follows:

	<u>Balance</u> <u>1/1/14</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/14</u>
Land	\$ 1,874,465	\$ 94,351	\$ (3,500)	\$ 1,965,316
Improvements	10,148,713	106,368	-	10,255,081
Buildings	25,192,128	-	-	25,192,128
Machinery and Equipment	20,740,565	1,734,000	(724,987)	21,749,578
Infrastructure	19,748,825	1,961,917	-	21,710,742
Total	<u>\$ 77,704,696</u>	<u>\$ 3,896,636</u>	<u>\$ (728,487)</u>	<u>\$ 80,872,845</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, 2014 are as follows:

<u>Fund</u>	<u>Description</u>	<u>Interest Rate</u>	<u>Amount</u>
Highway/Water/Sewer	Road Paving and Equipment	0.66%	\$ 919,665
General/Highway	Town Hall Improvements, Road Paving and Equipment	0.60%	1,137,500
Highway	Road Paving and Equipment	0.66%	756,634
Highway/Water/Sewer	Road Paving and Equipment	0.60%	1,800,377
General/Highway/Sewer	Equipment	0.60%	1,779,017
			<u>\$ 6,393,193</u>

6. NON-CURRENT GOVERNMENTAL LIABILITIES

The following is a summary of changes in long-term debt outstanding at December 31, 2014:

	<u>Payable</u> <u>1/1/14</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Other Net</u> <u>Increase</u> <u>(Decrease)</u>	<u>Payable</u> <u>12/31/14</u>
Serial Bonds (a)	\$ 15,000,000	\$ -	\$ (995,000)	\$ -	\$ 14,005,000
Judgments and Claims (b)	131,000	-	-	(21,000)	110,000
Post Closure Landfill Monitoring (c)	100,000	-	-	-	100,000
Compensated Absences (d)	238,491	-	-	73,342	311,833
Total	<u>\$ 15,469,491</u>	<u>\$ -</u>	<u>\$ (995,000)</u>	<u>\$ 52,342</u>	<u>\$ 14,526,833</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.

6. NON-CURRENT GOVERNMENTAL LIABILITIES (CONTINUED)

(a) Serial Bonds (Continued)

The following is a summary of serial bonds outstanding at December 31, 2014:

<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, 2014</u>
General	2008	\$ 1,880,000	4.50%	2018	\$ 860,000
General, Water and Sewer	2009	7,958,000	3.25%	2037	7,120,000
Water	2012	<u>6,715,000</u>	4.20%	2022	<u>6,025,000</u>
Total Outstanding		<u>\$ 16,553,000</u>			<u>\$ 14,005,000</u>

The following is a schedule of principal and interest payments for future debt service requirements as of December 31, 2014:

	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,040,000	\$ 591,950
2016	1,075,000	549,638
2017	1,125,000	504,925
2018	1,170,000	458,000
2019	985,000	411,225
2020-2024	3,785,000	1,382,525
2025-2029	1,560,000	925,725
2030-2034	1,910,000	565,587
2035-2037	<u>1,355,000</u>	<u>123,525</u>
Total	<u>\$ 14,005,000</u>	<u>\$ 5,513,100</u>

Serial bonds have been authorized in the amount of \$2,600,000 for the completion of the \$5,600,000 interceptor sewer project, \$170,000 for various highway improvements to Meads Lane and Van Dyke Road, and \$100,000 for sidewalk improvements on Fuera Bush Road, but have not been issued as of December 31, 2014.

At December 31, 2014 the total outstanding serial bonds and BANs aggregated \$20,398,196. Of this amount \$9,972,938 was subject to the constitutional debt limit and represented approximately 4.4% 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 \$1,000 to \$110,000. 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.

7. UNEARNED REVENUES

Unearned revenue arises when resources are received before the Town has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, or when the Town has legal claim to the resources, the liability is removed and revenue is recognized.

Unearned revenues consist of the following:

7. UNEARNED REVENUES (CONTINUED)

General Fund:	
Customer Deposits	\$ 50,862
Other	<u>260,683</u>
Total General Fund	<u><u>\$ 311,545</u></u>
Special Grant Fund:	
Federal Aid	<u>\$ 4,432</u>
Highway Fund:	
Customer Deposits	<u>\$ 73</u>
Water Fund:	
Customer Deposits	<u>\$ 650</u>
Sewer Fund:	
Customer Deposits	<u>\$ 189,743</u>

8. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both recognition criteria are met, the deferred inflows of resources is reduced and revenue is recognized.

Deferred inflows of resources consists of the following:

General Fund:	
Federal and State Grants	<u>\$ 750,878</u>
Highway Fund:	
Federal and State Grants	<u>\$ 164,391</u>
Water Fund:	
Federal and State Grants	\$ 308,285
Departmental Income	<u>258,827</u>
	<u><u>\$ 567,112</u></u>
Sewer Fund:	
Federal and State Grants	\$ 189,843
Department Income	<u>178,307</u>
	<u><u>\$ 368,150</u></u>

9. INTERFUND RECEIVABLES AND PAYABLES/INTERFUND TRANSFERS

Interfund receivables, payables and transfers at December 31, 2014 were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Operating Transfer-In</u>	<u>Operating Transfers-Out</u>
General	\$ -	\$ 491,909	\$ 399,316	\$ 15,900
Capital Projects	-	-	15,900	-
Sewer Districts	-	-	-	170,806
Water Districts	-	-	-	228,510
Agency	491,909	-	-	-
Total	<u>\$ 491,909</u>	<u>\$ 491,909</u>	<u>\$ 415,216</u>	<u>\$ 415,216</u>

10. PENSION PLANS

The Town of Bethlehem participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS), 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

ERS and PFRS provide 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

ERS and PFRS are 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.

10. PENSION PLANS (CONTINUED)

Funding Policies (Continued)

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 2015 would be based on the pension value as of March 31, 2014).

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.

The pension expense due in February 2015 was prepaid in December 2014, 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, 2014. 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>
2014	\$ 1,999,424	\$ 979,551
2013	\$ 2,003,731	\$ 810,693
2012	\$ 1,963,971	\$ 975,970

11. 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, 2014.

11. FUND EQUITY (CONTINUED)

- **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.

Fund balances are detailed as follows:

	<u>General Fund</u>	<u>Highway Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Nonspendable				
Inventory	\$ 86,984	\$ 517,024	\$ 11,415	\$ -
Prepaid expenses	<u>529,463</u>	<u>127,510</u>	<u>81,779</u>	<u>57,434</u>
	<u>616,447</u>	<u>644,534</u>	<u>93,194</u>	<u>57,434</u>
Assigned				
Encumbrances	245,980	147,029	436,425	944,226
Capital Reserve	1,260,000	475,000	910,000	895,983
Retirement contribution	672,197	307,780	126,088	-
Highway Fund	-	1,318,045	-	-
Water Fund	-	-	2,127,387	-
Sewer Fund	-	-	-	1,260,312
	<u>2,178,177</u>	<u>2,247,854</u>	<u>3,599,900</u>	<u>3,100,521</u>
Unassigned				
	<u>3,130,716</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>\$ 5,925,340</u>	<u>\$ 2,892,388</u>	<u>\$ 3,693,094</u>	<u>\$ 3,157,955</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	\$ 126,730
Recreational facilities	134,501
Fire tower and additions and improvements	54,598
Highway equipment	370,086
Reconstruction of water facilities	2,579,480
Reconstruction of sewer facilities	<u>1,335,570</u>
Subtotal	4,600,963
Less BAN’s outstanding as of December 31, 2014	<u>(6,393,193)</u>
Total GML Section 6-C	<u>\$ (1,792,230)</u>

11. FUND EQUITY (CONTINUED)

Capital Reserves (Continued)

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, 2014, the balance of the reserve was \$189,196.

Total Capital Reserves Under GML Sections 6-C and 6-O \$ (1,603,034)

The Town has 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, 2014, all funds were at maximum. 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.

12. 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 17 years lapsed as of December 31, 2014. The current estimated liability for post closure care costs of the landfill for the remaining 13 years is \$38,000. 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 June 30, 2014. 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.

13. 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 2014. There was no reduction in insurance coverage during 2014. An estimate of liability is recorded at December 31, 2014 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.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions as to any potential material impact on operations or financial position occurring through April 14, 2015, the date the financial statements were available to be issued. No such events or transactions were identified.

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

TOWN OF BETHLEHEM, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title Expenditures</u>	<u>Project Number</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	\$ <u>300,121</u>
<u>U.S. Department of Transportation</u>			
Passed Through State of New York:			
State and Community Highway Safety	-	20.600	37,679
Metropolitan Transportation Planning	-	20.505	<u>447,315</u>
			<u>484,994</u>
<u>U.S. Department of Homeland Security</u>			
Passed Through NYS Division of Homeland Security and Emergency Services:			
Disaster Grants - Public Assistance	001-06354-000	97.036	<u>776,760</u>
<u>U.S. Department of Justice</u>			
Direct:			
Equitable Sharing Program	-	16.922	<u>24,665</u>
Total Federal Awards			<u>\$ 1,586,540</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	\$ 72,344
Highway Fund	199,595
Water Fund	187,661
Sewer Fund	379,504
Special Grant	300,121
Capital Projects	<u>447,315</u>
Federal Awards Per Schedule of Expenditures of Federal Awards	<u>\$ 1,586,540</u>

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

Town of Bethlehem, New York, 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 the 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, 2014, and the related notes to the regulatory basis financial statements, and have issued our report thereon dated April 14, 2015.

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 a 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 material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 14, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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, 2014. 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, 2014.

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 14, 2015

TOWN OF BETHLEHEM, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:	Modified	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	___ <u>x</u> ___ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ yes	___ <u>x</u> ___ none reported
Noncompliance material to financial statements noted?	_____ yes	___ <u>x</u> ___ no

FEDERAL AWARDS

Internal control over major programs:		
Material weakness(es) identified?	_____ yes	___ <u>x</u> ___ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ yes	___ <u>x</u> ___ 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	___ <u>x</u> ___ no

Identification of major programs.

<u>CFDA NUMBER(S)</u>	<u>NAME OF FEDERAL PROGRAM OR CLUSTER</u>
97.036	Disaster Grants - Public Assistance
14.871	Section 8 Housing Choice Vouchers
20.505	Metropolitan Transportation Planning

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

There were no findings for the year ended December 31, 2014.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings for the year ended December 31, 2014.

SECTION IV - RESOLUTION OF PRIOR YEAR FINDINGS

There were no findings for the year ended December 31, 2013.