

TOWN OF BETHLEHEM, NEW YORK
REGULATORY BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2016

TOWN OF BETHLEHEM, NEW YORK

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TOWN OF BETHLEHEM, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

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, 2016. This document should be read in conjunction with the Town's financial statements.

Financial Highlights

There were few individual transactions or events which materially impacted the financial results for 2016. In the General Fund, the Town began generating solar power at the new solar farm at the Town's clay mine parcel in South Bethlehem. In the Highway Fund, a lack of significant snowfall during the year reduced overtime to minimal levels and allowed the labor force to work on projects in house, such as sidewalk repair, and other Town maintenance; reducing operating costs in all four major funds. In the Water and Sewer Funds, a second consecutive dry summer combined with heavy industrial usage provided for strong water sales. As sewer usage fees are based on water usage, sewer fees were increased proportionally.

	<u>General</u>	<u>Highway</u>	<u>Water</u>	<u>Sewer</u>
Final Budgeted Operating Revenue	\$18,557,261	\$ 6,991,639	\$ 9,608,133	\$ 4,356,815
Final Budgeted Operating Expense	<u>18,844,735</u>	<u>7,060,609</u>	<u>9,939,183</u>	<u>4,542,435</u>
Budgeted Surplus (Shortfall)	<u>\$ (287,474)</u>	<u>\$ (68,970)</u>	<u>\$ (331,050)</u>	<u>\$ (185,620)</u>
Actual Revenue and Transfers In	\$18,685,361	\$ 6,866,089	\$10,456,195	\$ 4,578,994
Operating Expenses and Transfers Out	<u>18,112,602</u>	<u>6,370,663</u>	<u>8,943,915</u>	<u>3,619,967</u>
Operating Surplus	572,759	495,426	1,512,280	959,027
Capital Fund Transfer	<u>(960,844)</u>	<u>(126,350)</u>	<u>(491,141)</u>	<u>(217,475)</u>
Net Surplus (Deficit)	(388,085)	369,076	1,021,139	741,552
Total Fund Balance, December 31, 2015	<u>6,523,379</u>	<u>3,093,056</u>	<u>4,270,653</u>	<u>2,979,272</u>
Total Fund Balance, December 31, 2016	<u>\$ 6,135,294</u>	<u>\$ 3,462,132</u>	<u>\$ 5,291,792</u>	<u>\$ 3,720,824</u>
Nonspendable Fund Balance	\$ 554,926	\$ 664,343	\$ 75,900	\$ 46,552
Assigned Appropriated Fund Balance	432,388	86,862	321,185	118,670
Assigned for Retirement	672,197	307,780	126,088	-
Assigned for Capital	407,266	337,347	1,318,859	1,643,367
Assigned for Contingency	-	2,065,800	3,449,760	1,912,235
Unassigned for Contingency	<u>4,068,517</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>\$ 6,135,294</u>	<u>\$ 3,462,132</u>	<u>\$ 5,291,792</u>	<u>\$ 3,720,824</u>

Major program changes, enhancements and other areas of note implemented in 2016 include:

- In March 2016, the Town began receiving credits from National Grid for solar power generated at the Town's previously unused Clay Mine parcel. Issues with connectivity to National Grid as well as reporting data caused the Town to receive fewer credits than hoped. Still, the Town recorded \$126,000 in new revenue, and expect future revenues to exceed 2016.
- Began implementation of a tri-county regional consolidated Police 911/CAD (Computer Aided Dispatch) Records/Mobile system comprising Albany, Saratoga and Rensselaer Counties and three local municipalities within: Colonie, Bethlehem and Saratoga Springs. The system will provide numerous safety and record keeping efficiencies, system failover and redundancy, and greater data sharing among the agencies. In addition, there will be cost savings for each participating agency which for Bethlehem includes an annual savings in system maintenance costs of \$65,000 annually over the existing CAD/Records system in use, with those savings estimated to begin in 2018.

Financial Highlights (Continued)

- The Town continues to utilize the Local Government Performance and Efficiency Program (LGPEP) Award; the last payment was received in 2015. The Town has utilized \$524,000 of these funds for EMS Consolidation Transition Funding, Internal Efficiency/Productivity Programs, Town Hall Security, Town Sidewalks, Traffic Calming Initiatives, Park Services Master Plan, Street Tree and Open Space Programs as well as provided seed money for the first annual "Bethlehem First Night". The remaining \$252,000 has been allocated to continue to expand upon these and similar programs.
- Finalized negotiations for the Town's three labor unions, all public safety, covering the years 2015 through 2017.
- 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 \$89,000. The related expenditures were primarily recorded in 2012 and 2013. Matching revenues in those years were not recorded because, consistent with governmental accounting rules, the Town recorded revenues when they were both "available and measurable." 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 booking 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 total just over \$495,000. Because reimbursements have been inconsistent, these funds have not been recorded into revenue and remain on the balance sheet as a receivable and deferred income.

General Items of Note for All Funds

Fringe Benefits

The Town employed an average of 212 full-time employees in 2016, as well as a total of 255 part time and seasonal employees throughout the year.

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

<u>Fringe Benefits</u>	<u>2016 Actual</u>	<u>2015 Actual</u>
Social Security Taxes	\$ 1,129,118	\$ 1,102,439
Health and Dental Insurance	2,458,394	2,391,812
Retirement Systems	2,561,129	2,786,126
Workers' Compensation Insurance	937,977	857,748
Life and Short-Term Disability Insurance	23,394	29,022
Total	<u>\$ 7,110,012</u>	<u>\$ 7,167,147</u>

General Items of Note for All Funds (Continued)

Overall, fringe benefits for current employees decreased from the prior year by \$57,000, or 0.8%. This was due to a decrease in the retirement contribution payments of \$225,000. This decrease stemmed from a weighted average contribution rate change in the ERS and PFRS systems of roughly 2.8% and 0.2%, respectively. The primary offset to this were changes to the Town's workers' compensation expenditure which represented the largest increase in fringe costs; \$80,000, a 2.9% increase from the prior year. This change stemmed primarily from the Town's claims experience rate which climbed due to substantial police outages in 2015 (7,972 hours in 2016; 3,324 hours in 2015; 45 hours in 2014). The other large change came from health insurance which increased \$67,000 from the prior year. This was lower than the expected 5.3% increase, due to shifts in employee health coverages.

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 146 retirees (including spouses), by expensing the annual insurance premiums. The postretirement expense was approximately \$760,000 for 2016 and \$758,000 for 2015, resulting in a 0.3% increase.

GASB 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions," which has not been adopted by the Town, 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 2016 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	\$ 8,000	\$ 6,758	\$ (1,242)
Highway	4,000	3,777	(223)
Water	10,200	4,685	(5,515)
Sewer	4,100	2,464	(1,636)
Capital	-	393	393
Total	<u>\$ 26,300</u>	<u>\$ 18,077</u>	<u>\$ (8,223)</u>

The interest earnings for 2016 were equal to \$18,077, a 1.7% decrease from the 2015 earnings of \$18,388. This is generally consistent with an increase in the average rate earned on investments in 2016 which was 0.08%; the same average rate as 2015.

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 0.75%, in addition to the interest paid in cash. The Town utilized these credits to pay for services such as: "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; "positive pay", which matches checks written by the Town against an electronic file provided to the bank to prevent fraudulent

General Items of Note for All Funds (Continued)

Interest Income (Continued)

checks being drawn against the Town's checking accounts; reconciliation services, which provides for a verification process on current checks outstanding; debit blocks, which prevent unauthorized ACH activity unless expressly granted, free checks and deposit slips; and free credit card processing for Parks and Recreation activities. While it is difficult to assign a monetary value to the majority of the services provided, the lockbox services have contributed directly and indirectly to saving the Town more than \$500,000 over the past five years, through personnel and fringe savings. 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>2016</u>	<u>2015</u>
Serial Bonds	\$ 20,285,000	\$ 18,877,058
Compensated Absences	401,027	371,227
Landfill Closure and Post Closure	100,000	100,000
Judgments and Claims	<u>120,000</u>	<u>100,000</u>
Total Long-Term Debt	<u>\$ 20,906,027</u>	<u>\$ 19,448,285</u>

The Town converted short-term EFC notes into a single \$2.6 million EFC interest subsidized long-term bond. Additionally, the Town refinanced the 2009 Public Improvement Bond issue at a long term savings in interest cost of \$977,000. Due to the structure of the deal, there is an increase in principal cost of \$20,000 (offset by interest savings) over the next two years.

Items of Note for the General Fund

Total revenues increased \$23,000, or 0.1%, from \$18.66 million in 2015 to \$18.68 million in 2016. The primary changes in this fund included a continued increase in year over year sales tax revenues of \$98,000 from \$11.3 million to \$11.4 million; A decrease in safety inspections revenues of \$213,000, from \$417,000 to \$203,000, owing to a very strong 2015 as well as reduced commercial permits in 2016; an increase in composting sales of \$76,000, from \$54,000 to \$129,000; New revenues from the Town's solar power generation at the Town's Clay Mine parcel which generated \$126,000 in net credits in the current year; Insurance recoveries from long-term and numerous police sick time outages in 2015 and early 2016 which provided salary reimbursement in 2016 of \$114,000; and lastly, while mortgage taxes in 2016 were strong relative to most years, they were down \$219,000 year over year, \$1.45 million to \$1.23 million, due to two properties that obtained mortgages in 2015 which generated \$469,000 by themselves.

Total operating expenditures increased \$355,000, or 2.0%, from \$17.76 million in 2015 to \$18.1 million in 2016. The primary driver of this change was the hiring of 3 new police officers in advance of attrition, due to availability of diverse candidates. Additionally, due to the new police contracts that were finalized in 2016, the Town paid out changes to the contract, retroactively, including those earned in 2015. Total changes in personnel costs including fringe for the police department over the prior year were \$359,000.

Items of Note for the General Fund (Continued)

In 2015, the General Fund had \$953,000 of assigned fund balance in the operating fund for infrastructure and equipment costs identified through the Town's multi-year capital planning process. In 2016, the Town Board assigned an additional \$415,000 of General Fund fund balance for future capital needs, and as part of the Town's fund balance policy. Further, the Town transferred \$961,000 of the total balance to the General Fund and Parks Capital Reserve Funds to pay for projects committed to by Town Board action. The remainder of the fund balance \$407,000 will remain in the operating fund, separately identified, until additional projects are authorized by the Town Board.

In 2016, no new debt was incurred, however, the Town had an advanced refunding of the 2009 Public Improvement Bond, which provided a total savings to the Town of \$977,000 over the remaining life of the issue, 22 years. The General Fund which holds approximately 5.8% of this debt will save \$57,000 from the original debt service schedule.

Items of Note for the Highway Fund

The Highway Fund is funded almost entirely with property taxes. Given the desire to maintain stability in the property tax rates and to stay within the tax cap, 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 cap. The fund is in the midst of a workout plan to preserve structural balance due to the effect of having begun borrowing for the annual paving program in 2009, by gradually shifting the costs back to operations beginning in 2013. This has been accomplished through systematically reducing the dependence on debt by increased reliance on operational funding at \$100,000 increments. While these funds ceased to be financed through debt beginning in 2014, they will continue to be supplemented for one more year (through 2017) by capital reserve funds. Further, the growth in roads and sidewalks from new development continues to place service and cost pressures on the department.

Total revenues increased \$24,000, or 0.4%, from \$6.84 million in 2015 to \$6.86 million in 2016. This was primarily due to the increase in FEMA/SEMO related funding, of \$25,000, relating to reimbursement of prior year Hurricane Irene expenditures. There will be no more Hurricane Irene related reimbursements in this fund going forward as the Town has been reimbursed for all related expenditures.

Total expenditures increased \$91,000, or 1.4%, from \$6.3 million in 2015 to \$6.4 million in 2016. This was due primarily to both the rebuild of the Krumkill Road bridge, which cost the Town \$307,000; as well as the additional programmatic increase of \$100,000 in the asphalt operating budget (as noted above). Additionally, there was an increase in worker's comp rates for highway labor resulting in an increase of approximately \$60,000. These costs were offset by savings achieved through the reduction in overtime, related primarily to a lack of snowfall in 2016, a decrease in costs of \$63,000. The lack of snowfall also reduced the Town's need for salt, resulting in a savings of \$87,000. Lastly, the conversion of short term BANs in 2015, into long term bonds, saved \$146,000 in annual operating costs.

In 2015, the Highway Fund had \$114,000 of assigned fund balance in the operating fund for infrastructure and equipment costs identified through the Town's multi-year capital planning process. In 2016, the Town Board assigned an additional \$350,000 of Highway Fund fund balance for future capital needs, and as part of the Town's fund balance policy. Further, the Town transferred \$126,000 of the total balance to the Highway Fund Capital Reserve to pay for projects committed to by Town Board action. The remainder of the fund balance of \$337,000 will remain in the operating fund, separately identified, until additional projects are authorized by the Town Board.

Items of Note for the Highway Fund (Continued)

In 2016, the Town obtained Bond Anticipation Notes in the amount of \$750,000 for Highway Equipment. All related equipment expenditures including corresponding liabilities are accounted for in the Highway Fund Capital Project Fund.

Items of Note for the Water Fund

The Water Fund is largely funded with user charges and is somewhat easier, in comparison to 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 Water Fund's operating revenues increased \$599,000, or 6.0%, from \$9.9 million in 2015 to \$10.5 million in 2016. This change was primarily related to metered water sales, \$562,000, due to a shift in rates in an effort to become less dependent on industrial usage, because of the heavy swings in that industry which have occurred in recent years, and to ensure sales of water purchased from the City of Albany, under a "take or pay" contract, was sold for no less than the purchase price. While industrial usage remained at a consistent level year over year, the overall volume sold increased 2.2%. Additionally, \$258,000 in property tax levy was shifted from the Sewer Fund to the Water Fund due to expected swings in purchasing by industrial users as well as heavy near term capital needs identified in the Town's capital plan. These gains were offset in part due to a \$235,000 reduction in FEMA and SEMO reimbursements related to Hurricane Irene. The Town received its final expected reimbursement in this fund in 2015.

The Water Fund's operating expenditures decreased \$336,000, or 3.7%, from \$9.3 million in 2015 to \$9.0 million in 2016. This was due primarily to year over year savings from "contractual" (non-capital/non-personnel) costs totaling \$372,000. The Town had no purchases of City of Albany water, beyond the minimum contractually required, as it had in 2015, resulting in a year over year savings of \$105,000. Electricity costs decreased \$56,000 due to more favorable rates, and insurance costs decreased \$26,000 due to a one-time settlement in 2015. There were \$57,000 more P.O.'s in contractual costs than in 2015, meaning more recurring type costs were pushed into 2017. Lastly, water losses happen for a variety of reasons; for example, system flushing, usage of fire hydrants, and line breakages. Because of the extreme cold during the 2014/2015 winter, there were a number of significant water line breaks resulting in a loss of 18.9% of water produced in 2015. That loss was cut in half in 2016 to 9.3%. Because of this the Town produced 185 million fewer gallons of water in 2016 (1.98B vs 1.79B) yet sold 36 million gallons more (1.60B vs 1.63B).

In 2015, the Water Fund had \$910,000 of assigned fund balance in the operating fund for infrastructure and equipment costs identified through the multi-year capital planning process. In 2016, the Town Board assigned an additional \$900,000 of Water Fund fund balance for future capital needs, and as part of the Town's fund balance policy. Further, the Town transferred \$491,000 of the total balance to the Water Fund to pay for projects committed to by Town Board action. The remainder of the fund balance of \$1.32 million will remain in the operating fund, separately identified, until additional projects are authorized by the Town Board.

In 2016, the Town obtained Bond Anticipation Notes in the amount of \$795,000 for various DPW projects. All related expenditures, including corresponding liabilities are accounted for in the Water Fund Capital Project Fund. Further, the Town had an Advanced Refunding of the 2009 Public Improvement Bond, which provided a total savings to the Town of \$977,000 over the remaining life of the issue; 22 years. The Water Fund which holds approximately 20.7% of this debt, will save \$202,000 from the original debt service schedule.

Items of Note for the Sewer Fund

The Sewer Fund is largely funded with user charges and is somewhat easier, in comparison to 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 decreased by \$231,000, or 4.8%, from \$4.8 million in 2015 to \$4.6 million in 2016, relating to three primary factors: A reduction in property tax revenues of \$265,000. This was due to a budgeted reduction in the tax levy to offset a comparable increase in the Water Fund, as the Town expected reductions in industrial water purchase volume as well as near-term heavy infrastructure needs. Additionally, despite the fact that the Town is anticipating additional funding from FEMA and SEMO relating to the expenditures incurred in 2013 and 2015, there were no reimbursements into the Sewer Fund in 2016. In 2015, the Town received reimbursements from 2013, resulting in a year over year change of \$175,000. These decreases were offset in part due to an increase in sewer fees received of \$206,000. These fees are charged based on water usage, which was an increase in overall volume.

The Sewer Fund's operating expenditures decreased by \$1.13 million, or 23.9%, from \$4.8 million in 2015 to \$3.6 million in 2016. The primary driver of this decrease relates to timing of expenditures. The first of two significant variances was the final repair of damages relating to Hurricane Irene (Waste Water Treatment Plant bypass project) which cost \$426,000 (from which the Town is hoping to recover approximately \$265,000 from FEMA and SEMO). No similar spending on disaster related projects occurred in 2016. Additionally, because of the extremely cold winter in 2014, much of the annual relining of the Town's sewer pipes was pushed from 2014 into 2015, virtually doubling the expenditure in that year. The total change in the year over year spending on relining was \$500,000.

In 2015, the Sewer Fund had \$661,000 of assigned fund balance in the operating fund for infrastructure and equipment costs identified through the multi-year capital planning process. In 2016, the Town Board assigned an additional \$1.2 million of Sewer Fund fund balance for future capital needs, and as part of the Town's fund balance policy. Further, the Town transferred \$210,000 of the total balance to the Sewer Fund to pay for projects committed to by Town Board action. The remainder of the fund balance of \$1.64 million will remain in the operating fund, separately identified, until additional projects are authorized by the Town Board.

In 2016, the Town obtained Bond Anticipation Notes in the amount of \$140,000 for sewer improvements. All related expenditures, including corresponding liabilities, are accounted for in the Sewer Fund Capital Project Fund. Further, the Town had an Advanced Refunding of the 2009 Public Improvement Bond, which provided a total savings to the Town of \$977,000 over the remaining life of the issue; 22 years. The Sewer Fund which holds approximately 73.5% of this debt, will save \$718,000 from the original debt service schedule. Lastly, through the EFC, the Town converted \$2.3 million in short debt from 2015 into an interest subsidized 40 year bond for \$2.6 million that paid for the North Bethlehem Sewer and Forcemain Project. The overall cost of this project was \$5.6 million, however, the Town received the first \$3 million through a grant from the Dormitory Authority of the State of New York (DASNY).

Analysis of Fund Balances

In 2012, the Town passed a comprehensive fund balance policy that provides guidance for minimum (7%), maximum (20%) and optimal levels (15%) at which the operating fund reserves should be held.

TOWN OF BETHLEHEM, NEW YORK
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 DECEMBER 31, 2016

Analysis of Fund Balances (Continued)

The following chart summarizes the projected fund balance activity through the end of 2017, along with a calculation showing where the fund balances are as compared to this policy:

The projected 2017 levels for the operating funds indicate sufficient net assets to fund current budgetary requirements. Consistent with policy, balances held above the ceiling of 20% are identified in the infrastructure reserve and will be moved to the appropriate capital reserve accounts in 2017.

	<u>General</u>	<u>Highway</u>	<u>Water</u>	<u>Sewer</u>
Fund Balance, December 31, 2016	\$ 6,135,294	\$ 3,462,132	\$ 5,291,792	\$ 3,720,824
Less:				
Prior Year Encumbrances	432,388	86,862	321,185	118,670
Retirement Contribution	672,197	307,780	126,088	-
Capital	407,266	337,347	1,318,859	1,643,367
Nonspendable Fund Balance	554,926	664,343	75,900	46,552
Infrastructure	350,000	700,000	1,460,000	1,020,000
Projected Balance, December 31, 2017	<u>\$ 3,718,517</u>	<u>\$ 1,365,800</u>	<u>\$ 1,989,760</u>	<u>\$ 892,235</u>
2017 Budgeted Appropriations	<u>\$18,558,787</u>	<u>\$6,845,412</u>	<u>\$9,946,764</u>	<u>\$ 4,468,596</u>
Percent of Appropriations	20%	20%	20%	20%
Floor - 7.5% of Budgeted Appropriations	\$ 1,391,909	\$ 513,406	\$ 746,007	\$ 335,145
Optimal - 15% of Budgeted Appropriations	\$ 2,783,818	\$ 1,026,811	\$ 1,492,014	\$ 670,289
Ceiling - 20% of Budgeted Appropriations	\$ 3,718,517	\$ 1,365,800	\$ 1,989,760	\$ 892,235

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

Contacting the Town's Financial Management

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Regulatory Basis 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, 2016, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Regulatory Basis Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these regulatory basis financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the regulatory basis financial statements are free 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 for 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, 2016, 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 in accordance 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 accurate or auditable.

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, 2016, 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

Required 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 schedule of expenditures of federal awards is presented on page 46 for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the regulatory basis financial statements.

The schedule of expenditures of federal awards 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. Such 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 May 8, 2017 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
May 8, 2017

TOWN OF BETHLEHEM, NEW YORK

GENERAL FUND

REGULATORY BASIS BALANCE SHEET

DECEMBER 31, 2016

Assets

Cash	\$ 3,942,510
Other receivables	536,179
State and federal receivables	11,331
Due from other governments	3,593,580
Inventory	98,414
Prepaid expenses	<u>456,512</u>

Total Assets \$ 8,638,526

Liabilities

Accounts payable	\$ 273,873
Accrued liabilities	276,049
Due to other governments	507,003
Due to other funds	766,262
Unearned revenues	<u>399,993</u>

Total Liabilities 2,223,180

Deferred Inflows of Resources

280,052

Fund Balance

Nonspendable	554,926
Assigned	1,511,851
Unassigned	<u>4,068,517</u>

Total Fund Balance 6,135,294

Total Liabilities, Deferred Inflows of Resources
and Fund Balance

\$ 8,638,526

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, 2016

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 2,101,400	\$ 2,101,402	\$ -	\$ 2
Real property tax items	91,426	92,129	-	703
Non-property tax items	12,342,897	12,081,909	-	(260,988)
Departmental income	1,439,325	1,547,465	-	108,140
Intergovernmental charges	80,000	80,000	-	-
Use of money and property	93,000	87,103	-	(5,897)
Licenses and permits	43,480	52,413	-	8,933
Fines and forfeitures	365,500	381,302	-	15,802
Sales of property and compensation for loss	91,000	193,412	-	102,412
Miscellaneous local sources	5,000	125,688	-	120,688
State aid	1,187,130	1,484,718	-	297,588
Federal aid	-	64,015	-	64,015
Total Revenues	<u>17,840,158</u>	<u>18,291,556</u>	<u>-</u>	<u>451,398</u>
Expenditures				
General government support	3,800,565	3,645,054	49,336	106,175
Public safety	6,353,865	6,144,346	182,284	27,235
Transportation	660,310	537,459	33,099	89,752
Economic assistance and opportunity	476,190	542,275	1,873	(67,958)
Culture and recreation	1,397,856	1,351,528	15,796	30,532
Home and community services	1,259,790	1,107,727	150,000	2,063
Employee benefits	4,599,624	4,490,169	-	109,455
Debt service (principal and interest)	296,535	294,044	-	2,491
Total Expenditures	<u>18,844,735</u>	<u>18,112,602</u>	<u>432,388</u>	<u>299,745</u>
Other Financing Sources and Uses				
Operating transfers in	392,860	393,805	-	945
Operating transfers out	(960,844)	(960,844)	-	-
Total Other Financing Sources and Uses	<u>(567,984)</u>	<u>(567,039)</u>	<u>-</u>	<u>945</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources and Uses				
	<u>\$ (1,572,561)</u>	<u>(388,085)</u>	<u>\$ (432,388)</u>	<u>\$ 752,088</u>
Fund Balance - January 1, 2016		<u>6,523,379</u>		
Fund Balance - December 31, 2016		<u>\$ 6,135,294</u>		

TOWN OF BETHLEHEM, NEW YORK
HIGHWAY FUND

Regulatory Basis Balance Sheet
December 31, 2016

Assets	
Cash	\$ 3,048,751
Other receivables	6,462
Inventories	562,564
Prepaid expenses	101,779
Total Assets	<u>\$ 3,719,556</u>
Liabilities	
Accounts payable	\$ 169,518
Accrued liabilities	65,817
Unearned revenues	22,089
Total Liabilities	<u>257,424</u>
Fund Balance	
Nonspendable	664,343
Assigned	2,797,789
Total Fund Balance	<u>3,462,132</u>
Total Liabilities and Fund Balance	<u>\$ 3,719,556</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2016

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 6,120,535	\$ 6,120,536	\$ -	\$ 1
Real property tax items	231,104	233,511	-	2,407
Use of money and property	4,000	3,777	-	(223)
Intergovernmental charges	8,000	2,599	-	(5,401)
Sales of property and compensation for loss	29,000	8,831	-	(20,169)
Interfund revenues	32,000	19,708	-	(12,292)
State aid	317,000	410,595	-	93,595
Federal aid	-	66,532	-	66,532
Total Revenues	<u>6,741,639</u>	<u>6,866,089</u>	<u>-</u>	<u>124,450</u>
Expenditures				
Transportation	5,106,922	4,440,644	86,862	579,416
Employee benefits	1,768,904	1,745,237	-	23,667
Debt service	184,783	184,782	-	1
Total Expenditures	<u>7,060,609</u>	<u>6,370,663</u>	<u>86,862</u>	<u>603,084</u>
Other Financing Uses				
Operating transfers out	(126,350)	(126,350)	-	-
Total Other Financing Uses	<u>(126,350)</u>	<u>(126,350)</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Uses				
	<u>\$ (445,320)</u>	369,076	<u>\$ (86,862)</u>	<u>\$ 727,534</u>
Fund Balance - January 1, 2016		<u>3,093,056</u>		
Fund Balance - December 31, 2016		<u>\$ 3,462,132</u>		

TOWN OF BETHLEHEM, NEW YORK
WATER FUND

Regulatory Basis Balance Sheet
December 31, 2016

Assets	
Cash	\$ 3,775,415
Other receivables	2,063,653
Due from other governments	193,890
Inventories	9,701
Prepaid expenses	66,199
Total Assets	<u>\$ 6,108,858</u>
Liabilities	
Accounts payable	\$ 493,215
Accrued liabilities	46,683
Unearned revenues	4,154
Total Liabilities	<u>544,052</u>
Deferred Inflows of Resources	<u>273,014</u>
Fund Balance	
Nonspendable	75,900
Assigned	5,215,892
Total Fund Balance	<u>5,291,792</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 6,108,858</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 2,137,704	\$ 2,137,702	\$ -	\$ (2)
Departmental income	7,263,229	8,088,339	-	825,110
Use of money and property	160,200	200,065	-	39,865
Sale of property and compensation for loss	47,000	30,089	-	(16,911)
Total Revenues	<u>9,608,133</u>	<u>10,456,195</u>	<u>-</u>	<u>848,062</u>
Expenditures				
Home and community services	7,560,333	6,593,276	321,185	645,872
Employee benefits	1,073,431	1,057,460	-	15,971
Debt service (principal and interest)	1,073,231	1,064,164	-	9,067
Total Expenditures	<u>9,706,995</u>	<u>8,714,900</u>	<u>321,185</u>	<u>670,910</u>
Other Financing Uses				
Operating transfers out	(723,331)	(720,156)	-	3,175
Total Other Financing Uses	<u>(723,331)</u>	<u>(720,156)</u>	<u>-</u>	<u>3,175</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Uses	<u>\$ (822,193)</u>	1,021,139	<u>\$ (321,185)</u>	<u>\$ 1,522,147</u>
Fund Balance - January 1, 2016		<u>4,270,653</u>		
Fund Balance - December 31, 2016		<u>\$ 5,291,792</u>		

TOWN OF BETHLEHEM, NEW YORK
SEWER FUND

Regulatory Basis Balance Sheet
December 31, 2016

Assets		
Cash	\$	3,206,345
Other receivables		904,438
Due from other governments		618,908
Prepaid expenses		46,552
Total Assets	\$	<u>4,776,243</u>
Liabilities		
Accounts payable	\$	120,856
Accrued liabilities		36,690
Unearned revenues		195,098
Total Liabilities		<u>352,644</u>
Deferred Inflows of Resources		<u>702,775</u>
Fund Balance		
Nonspendable		46,552
Assigned		<u>3,674,272</u>
Total Fund Balance		<u>3,720,824</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$	<u>4,776,243</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2016

	Final Budget	Actual	Encumbrances	Variance
Revenues				
Real property tax	\$ 1,423,905	\$ 1,423,903	\$ -	\$ (2)
Departmental income	2,922,810	3,138,945	-	216,135
Use of money and property	4,100	2,464	-	(1,636)
Sale of property and compensation for loss	<u>6,000</u>	<u>13,682</u>	<u>-</u>	<u>7,682</u>
Total Revenue	<u>4,356,815</u>	<u>4,578,994</u>	<u>-</u>	<u>222,179</u>
Expenditures				
Home and community services	3,214,784	2,441,362	118,670	654,752
Employee benefits	654,358	564,434	-	89,924
Debt service (principal and interest)	<u>508,503</u>	<u>449,381</u>	<u>-</u>	<u>59,122</u>
Total Expenditures	<u>4,377,645</u>	<u>3,455,177</u>	<u>118,670</u>	<u>803,798</u>
Other Financing Uses				
Operating transfers out	<u>(382,266)</u>	<u>(382,265)</u>	<u>-</u>	<u>1</u>
Total Other Financing Uses	<u>(382,266)</u>	<u>(382,265)</u>	<u>-</u>	<u>1</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Uses				
	<u>\$ (403,096)</u>	741,552	<u>\$ (118,670)</u>	<u>\$ 1,025,978</u>
Fund Balance - January 1, 2016		<u>2,979,272</u>		
Fund Balance - December 31, 2016		<u>\$ 3,720,824</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, 2016

	<u>Actual</u>
Revenues	
Real property taxes and tax items	\$ 1,174,064
Total Revenues	<u>1,174,064</u>
Expenditures	
Health	<u>1,174,064</u>
Total Expenditures	<u>1,174,064</u>
Excess of Revenues Over Expenditures	-
Fund Balance - January 1, 2016	<u>-</u>
Fund Balance - December 31, 2016	<u><u>\$ -</u></u>

TOWN OF BETHLEHEM, NEW YORK
SPECIAL GRANT FUND

Regulatory Basis Balance Sheet
December 31, 2016

Assets	
Cash	\$ 44,953
Total Assets	<u>\$ 44,953</u>
Liabilities	
Accounts payable	\$ 11,278
Accrued liabilities	4,303
Other liabilities	28,974
Unearned revenues	<u>398</u>
Total Liabilities	<u>44,953</u>
Fund Balance	
Assigned	<u>-</u>
Total Fund Balance	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 44,953</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2016

	<u>Actual</u>
Revenues	
Federal aid	\$ 425,231
Total Revenues	<u>425,231</u>
Expenditures	
Home and community services	<u>425,231</u>
Total Expenditures	<u>425,231</u>
Excess of Revenues Over Expenditures	-
Fund Balance - January 1, 2016	<u>-</u>
Fund Balance - December 31, 2016	<u>\$ -</u>

TOWN OF BETHLEHEM, NEW YORK
MISCELLANEOUS FUND

Regulatory Basis Balance Sheet
December 31, 2016

Assets	
Due from other funds	\$ 766,262
Total Assets	<u>\$ 766,262</u>
Fund Balance	
Restricted	\$ 766,262
Total Fund Balance	<u>\$ 766,262</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2016

	<u>Actual</u>
Revenues	
Use of money and property	\$ 4
Miscellaneous	<u>152,275</u>
Total Revenues	<u>152,279</u>
Expenditures	
Culture and recreation	<u>49,725</u>
Total Expenditures	<u>49,725</u>
Excess of Revenues Over Expenditures	102,554
Fund Balance - January 1, 2016	<u>663,708</u>
Fund Balance - December 31, 2016	<u>\$ 766,262</u>

TOWN OF BETHLEHEM, NEW YORK
DEBT SERVICE FUND

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2016

	<u>Actual</u>
Expenditures	
Financing Costs	\$ 80,471
Debt Service	<u>6,315,000</u>
Total Expenditures	<u>6,395,471</u>
Other Financing Sources and Uses	
Premium on refunding bonds	496,502
Proceeds from refunding bonds	6,455,000
Payment to refunded bond escrow agent	<u>(556,031)</u>
	<u>6,395,471</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources and Uses	-
Fund Balance - January 1, 2016	<u>-</u>
Fund Balance - December 31, 2016	<u><u>\$ -</u></u>

TOWN OF BETHLEHEM, NEW YORK
CAPITAL PROJECTS FUND

Regulatory Basis Balance Sheet
December 31, 2016

Assets	
Cash	\$ 4,083,612
Other receivables	550
Due from other governments	<u>765,209</u>
Total Assets	<u>\$ 4,849,371</u>
Liabilities	
Accounts payable and retainage	\$ 296,930
BAN payable	<u>1,685,000</u>
Total Liabilities	<u>1,981,930</u>
Fund Balance	
Restricted	<u>2,867,441</u>
Total Fund Balance	<u>2,867,441</u>
Total Liabilities and Fund Balance	<u>\$ 4,849,371</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2016

	<u>Actual</u>
Revenues	
Use of money and property	\$ 393
State aid	115,370
Federal aid	820,695
Miscellaneous income	<u>199,715</u>
Total Revenues	<u>1,136,173</u>
Expenditures	
General government support	1,336,223
Transportation	97,934
Culture and recreation	208,941
Home and community services	<u>1,314,240</u>
Total Expenditures	<u>2,957,338</u>
Other Financing Sources and Uses	
Operating transfers in	1,795,810
Bond anticipation notes redeemed	<u>2,600,000</u>
Total Other Financing Sources	<u>4,395,810</u>
Excess of Revenues Over Expenditures and Other Financing Sources	2,574,645
Fund Deficit - January 1, 2016	<u>292,796</u>
Fund Balance - December 31, 2016	<u>\$ 2,867,441</u>

TOWN OF BETHLEHEM, NEW YORK
AGENCY FUND

Regulatory Basis Balance Sheet
December 31, 2016

Assets	
Cash	\$ 177,294
Accounts receivable	18,945
Total Assets	<u>\$ 196,239</u>
Liabilities	
Agency liabilities	\$ 196,239
Total Liabilities	<u>\$ 196,239</u>

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

Regulatory Basis Balance Sheet
December 31, 2016
(Unaudited)

Assets	
Land	\$ 1,970,316
Improvements other than buildings	11,392,108
Buildings	25,192,128
Machinery and equipment	23,247,411
Infrastructure	29,734,489
Deferred outflows of resources, pensions	11,245,161
	<u>\$ 102,781,613</u>
Investment in Non-Current Assets	<u>\$ 102,781,613</u>

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

Regulatory Basis Balance Sheet
December 31, 2016

Assets	
Provisions to be made in future budgets	\$ 32,628,552
Total Assets	<u>\$ 32,628,552</u>
Liabilities	
Landfill closure and post closure costs	\$ 100,000
Judgments and claims payable	120,000
Compensated absences	401,027
Pension liability, net	10,270,142
Deferred inflows of resources, pensions	1,452,383
Bonds payable	<u>20,285,000</u>
Total Liabilities	<u>\$ 32,628,552</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Bethlehem, New York (“the Town”) have been prepared in accordance 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 (Although not required for regulatory basis financial statements, this was provided by management in order to provide additional information to the readers of these financial statements)
- 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 twelve operating sewer districts used to account for the revenues and expenditures associated with providing sewage treatment services.
- 4) Ambulance District Fund - There is one ambulance district that covers the entire Town. The 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 and equipment.

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 and other non-current assets.

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.

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

- a. Expenditures for prepaid expenses are recognized and amortized over the period of expenditures. For expenditures for inventory-type items, the Town has chosen to recognize an inventory value for gasoline, fleet maintenance items, yard stock (such as pipes and manholes), and for computer related supplies. Inventory is valued at a cost using a weighted average.
- 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 as well as the fire districts 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 an accurate historical record 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 \$760,968 in 2016 for 146 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 Investments

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 \$18,261,240 (excluding \$2,350 in petty cash) and the bank balance was \$18,970,460. The insured and collateral status of the year-end bank balance was as follows:

Covered by federal deposit insurance	\$ 5,166,172
Collateralized with securities held by a third party custodian for the benefit of the Town pursuant to third-party custody agreement	<u>13,804,288</u>
Total	<u><u>\$ 18,970,460</u></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 \$631,357 as of December 31, 2016. The balance at December 31, 2016 consists of:

<u>Fund</u>	<u>Amount</u>
General	423,417
Highway	101,779
Water	62,472
Sewer	43,689
Total	<u><u>\$ 631,357</u></u>

TOWN OF BETHLEHEM, NEW YORK
 NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2016

4. NON-CURRENT ASSETS (UNAUDITED)

Non-current asset activity for the year ended December 31, 2016 was as follows:

	Balance <u>1/1/16</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/16</u>
Capital Assets:				
Land	\$ 1,970,316	\$ -	\$ -	\$ 1,970,316
Improvements	10,903,128	488,980	-	11,392,108
Buildings	25,192,128	-	-	25,192,128
Machinery and Equipment	22,291,907	1,262,355	(306,851)	23,247,411
Infrastructure	<u>27,695,899</u>	<u>2,038,590</u>	<u>-</u>	<u>29,734,489</u>
Total Capital Assets	88,053,378	3,789,925	(306,851)	91,536,452
Deferred Outflows of Resources, Pensions (Note 11)	<u>3,150,575</u>	<u>8,094,586</u>	<u>-</u>	<u>11,245,161</u>
Total Non-Current Assets	<u>\$ 91,203,953</u>	<u>\$ 11,884,511</u>	<u>\$ (306,851)</u>	<u>\$ 102,781,613</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.

The following is a summary of changes in BANs for the year ended December 31, 2016:

BANs Outstanding, January 1, 2016	\$ 2,303,175
BANs Redeemed	<u>(618,175)</u>
BANs Outstanding December 31, 2016	<u>\$ 1,685,000</u>

TOWN OF BETHLEHEM, NEW YORK
 NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2016

5. SHORT-TERM DEBT (CONTINUED)

BAN's outstanding at December 31, 2016 are as follows:

<u>Fund</u>	<u>Description</u>	<u>Interest Rate</u>	<u>Amount</u>
Capital Projects - Highway	Equipment	0.70%	\$ 750,000
Capital Projects - DPW	Miscellaneous Projects	0.70%	935,000
			<u>\$ 1,685,000</u>

6. NON-CURRENT GOVERNMENTAL LIABILITIES

The following is a summary of changes in long-term debt outstanding at December 31, 2016:

	<u>Payable</u> <u>1/1/16</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Other Net</u> <u>Increase</u> <u>(Decrease)</u>	<u>Payable</u> <u>12/31/16</u>
Serial Bonds (a)	\$ 18,877,058	\$ 9,055,000	\$ (7,647,058)	\$ -	\$ 20,285,000
Judgments and Claims (b)	100,000	-	-	20,000	120,000
Post Closure Landfill Monitoring (c)	100,000	-	-	-	100,000
Compensated Absences (d)	371,227	-	-	29,800	401,027
Pension Liability, Net (Note 11)	1,786,140	-	-	8,484,002	10,270,142
Deferred Inflows of Resources, Pensions (Note 11)	111,949	-	-	1,340,434	1,452,383
Total	<u>\$ 21,346,374</u>	<u>\$ 9,055,000</u>	<u>\$ (7,647,058)</u>	<u>\$ 9,874,236</u>	<u>\$ 32,628,552</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.

The following is a summary of serial bonds outstanding at December 31, 2016:

<u>Description</u> <u>by Fund(s)</u>	<u>Original Date</u> <u>Issued</u>	<u>Original</u> <u>Amount</u>	<u>Rate</u>	<u>Date Final</u> <u>Maturity</u>	<u>Outstanding</u> <u>12/31/16</u>
General	2008	\$ 1,880,000	5.0%	2018	\$ 450,000
General, Water and Sewer	2009	7,958,000	3.5%	2037	420,000
Water	2012	6,715,000	4.0%	2022	4,705,000
General, Highway, Water and Sewer	2015	5,912,058	2.0%	2034	5,730,000
General Water and Sewer	2016	6,455,000	2.0%	2037	6,380,000
Sewer	2016	<u>2,600,000</u>	0.55%	2046	<u>2,600,000</u>
Total		<u>\$ 31,520,058</u>			<u>\$ 20,285,000</u>

6. NON-CURRENT GOVERNMENTAL LIABILITIES (CONTINUED)

(a) Serial Bonds (Continued)

The following is a schedule of principal and interest payments for future debt service requirements as of December 31, 2016:

		<u>Principal</u>		<u>Interest</u>
2017	\$	1,465,000	\$	615,806
2018		1,510,000		566,569
2019		1,340,000		513,914
2020		1,390,000		459,705
2021		1,450,000		403,118
2022-2026		4,240,000		1,454,135
2027-2031		3,865,000		954,662
2032-2036		3,595,000		402,575
2037-2041		910,000		77,844
2042-2046		520,000		22,200
Total	\$	<u>20,285,000</u>	\$	<u>5,470,528</u>

On November 8, 2016, \$6,455,000 in private activity bonds with an average interest rate of 3.14% were issued to advance refund \$6,315,000 of outstanding bonds with an average interest rate of 4.30%. The net proceeds of \$6,873,660 (after payment of \$77,842 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments through December 2037 by over \$976,924 resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$780,835.

Serial bonds have been authorized in the amount of \$3,100,000 for the completion of the Delaware Avenue Enhancement Project. However, the Town has received a grant to cover \$1,200,000 of the cost of the project from the State of New York, and issuing \$100,000 from a previous efficiency award. Therefore, the Town anticipates borrowing only the remaining \$1,800,000. Borrowing has not yet occurred as of December 31, 2016.

Additionally, Serial Bonds have been authorized in the amount of \$4,200,000 for various water system modeling, various water storage tanks rehabilitation; Clapper Road water treatment plant improvements (design phase only); Clapper Road water treatment plant wellfield improvements; dam safety improvements; and water main replacements - Delaware Avenue; including all of the foregoing to include all necessary site work, equipment, apparatus and other improvements and costs incidental thereto. Of this amount, \$795,000 has been received through BANs.

6. NON-CURRENT GOVERNMENTAL LIABILITIES (CONTINUED)

(a) Serial Bonds (Continued)

At December 31, 2016 the total outstanding serial bonds and BANs aggregated \$21,970,000. Of this amount \$10,143,325 was subject to the constitutional debt limit and represented approximately 4.10% of the debt limit.

(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 up to \$120,000. 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.

7. UNEARNED REVENUES (CONTINUED)

Unearned revenues consist of the following:

General Fund:	
Customer Deposits	\$ 274,631
Restricted Gifts	77,578
Other	47,784
Total General Fund	<u>\$ 399,993</u>
Special Grant Fund:	
Federal Aid	<u>\$ 398</u>
Highway Fund:	
Customer Deposits	\$ 19,550
Other	2,539
Total Highway Fund	<u>\$ 22,089</u>
Water Fund:	
Customer Deposits	\$ 1,300
Other	2,854
Total Water Fund	<u>\$ 4,154</u>
Sewer Fund:	
Customer Deposits	\$ 194,744
Other	354
Total Sewer Fund	<u>\$ 195,098</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>\$ 280,052</u>
Water Fund:	
Departmental Income	<u>\$ 273,014</u>
Sewer Fund:	
Federal and State Grants	\$ 495,327
Department Income	207,448
	<u>\$ 702,775</u>

9. INTERFUND RECEIVABLES AND PAYABLES/INTERFUND TRANSFERS

During the course of operations, the Town has numerous transactions between funds, including expenditures and transfers of revenue to provide services and construct assets. For the year ended December 31, 2016 interfund revenues and expense arising from these transactions were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Operating Transfers-In</u>	<u>Operating Transfers-Out</u>
General	\$ -	\$ 766,262	\$ 393,805	\$ 960,844
Highway	-	-	-	126,350
Capital Projects	-	-	1,795,810	-
Sewer Districts	-	-	-	720,156
Water Districts	-	-	-	382,265
Miscellaneous	<u>766,262</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 766,262</u>	<u>\$ 766,262</u>	<u>\$ 2,189,615</u>	<u>\$ 2,189,615</u>

10. PENSION PLANS

General Information

The Town participates in the New York State and Local Employees' Retirement System ("ERS") and New York State and Local Police and Fire Retirement System ("PFRS"). The Systems are cost sharing multiple-employer, public employee retirement systems. The Systems 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 and Benefits Provided

The Systems provide retirement benefits as well as death and disability benefits. The net position of the Systems are held in the New York State Common Retirement Fund, which was established to hold all net assets and record changes in plan net position allocated to the Systems. The Comptroller of the State of New York (the "Comptroller") serves as sole trustee and administrative head of the Systems. System benefits are established under provisions of the New York State Retirement and Social Security Laws ("NYSRSSL"). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. 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, NY 12244.

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, 2010 and April 1, 2012, who 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.

10. PENSION PLANS (CONTINUED)

Plan Description and Benefits Provided (Continued)

Contributions for the current year and two preceding years were equal to 100% of the contributions required as follows:

	<u>ERS</u>	<u>PFRS</u>
2016	\$ 1,691,321	\$ 889,122
2015	\$ 1,911,712	\$ 855,829
2014	\$ 1,999,424	\$ 979,551

Chapter 260 of the laws of 2014 of the State of New York allowed local employers to bond or amortize a portion (limitations established by fiscal year) of their retirement bill up to 10 years for fiscal years ended March 31, 2005 through 2008. Chapter 57 of the laws of 2010 of the State of New York allowed local employers to amortize a portion (limitations established by fiscal year) of their retirement bill for 10 years for fiscal years ended March 31, 2011 and forward.

These laws require participating employers to make payments on a current basis, while bonding or amortizing existing unpaid amounts. The Town has not bonded or amortized any portion of their retirement obligations.

Pension Liabilities, Pension Expense, and Deferred Inflows and Outflows of Resources Related to Pensions

At December 31, 2016, the Town reported a liability of \$7,141,512 for ERS and \$3,128,630 for PFRS for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2016, the Town's proportion was 0.0444946% percent ERS and 0.1056688% PFRS.

10. PENSION PLANS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Inflows and Outflows of Resources Related to Pensions (Continued)

At December 31, 2016, the Town reported deferred outflows of resources related to pensions from the following sources:

	Total Deferred Outflows of Resources
Differences between expected and actual experience	\$ 64,149
Change of Assumptions	3,253,168
Net difference between projected and actual earnings on pension plan investments	5,990,081
Changes in proportion and differences between employer contributions and proportionate share of contributions	37,909
Contributions subsequent to the measurement date	<u>1,899,854</u> <u>\$11,245,161</u>

At December 31, 2016, the Town reported deferred inflows of resources related to pensions from the following sources:

	Total Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,319,518
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>132,865</u> <u>\$ 1,452,383</u>

The net amount of the Town's balances of deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

December 31, 2017	\$ 3,849,186
December 31, 2018	1,949,332
December 31, 2019	1,949,332
December 31, 2020	1,872,741
December 31, 2021	<u>172,187</u> <u>\$ 9,792,778</u>

10. PENSION PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability at March 31, 2016 was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to March 31, 2016. The actuarial valuation used the following actuarial assumptions.

	<u>ERS</u>	<u>PFRS</u>
Interest rate	7.0%	7.0%
Salary increase	3.8%	4.5%
Inflation rate	2.5%	2.5%
Cost of living adjustments	1.3%	1.3%

Annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 - March 31, 2015.

The long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2016 were as follows:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	7.30%
International equity	8.55%
Private equity	11.00%
Real estate	8.25%
Absolute return strategies	6.75%
Opportunistic portfolio	8.60%
Real assets	8.65%
Bonds and mortgages	4.00%
Cash	2.25%
Inflation-indexed bonds	4.00%

10. PENSION PLANS (CONTINUED)

Discount Rate

The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Assets/Liability to the Discount Rate Assumption

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the Town's proportionate share of the net pension asset/liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Assumption</u>	<u>1%</u> <u>Increase</u>
<u>ERS</u>			
Town's proportionate share of the net pension asset (liability)	\$ <u>(16,103,592)</u>	\$ <u>(7,141,512)</u>	\$ <u>431,062</u>
<u>PFRS</u>			
Town's proportionate share of the net pension asset (liability)	\$ <u>(6,988,124)</u>	\$ <u>(3,128,630)</u>	\$ <u>106,463</u>

Pension Plan Net Position of the Fiduciary of the Systems

The components of the net pension liability of the fiduciary of the systems as of March 31, 2016 was as follows (in thousands):

	<u>ERS</u>	<u>PFRS</u>
Fiduciary total pension liability	\$ (172,303,544)	\$ (30,347,727)
Fiduciary net position	<u>156,253,265</u>	<u>27,386,940</u>
Fiduciary net pension liability	<u>(16,050,279)</u>	<u>(2,960,787)</u>
Ratio of fiduciary net position to the fiduciary total pension liability	<u>90.7 %</u>	<u>90.2%</u>

11. FUND BALANCE

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, 2016.
- **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:

	General Fund	Highway Fund	Water Fund	Sewer Fund
Nonspendable				
Inventory	\$ 98,414	\$ 562,564	\$ 9,701	\$ -
Prepaid expenses	<u>456,512</u>	<u>101,779</u>	<u>66,199</u>	<u>46,552</u>
	<u>554,926</u>	<u>664,343</u>	<u>75,900</u>	<u>46,552</u>
Assigned				
Encumbrances	432,388	86,862	321,185	118,670
Capital	407,266	337,347	1,318,859	1,643,367
Retirement contribution	672,197	307,780	126,088	-
Highway Fund	-	2,065,800	-	-
Water Fund	-	-	3,449,760	-
Sewer Fund	-	-	-	1,912,235
	<u>1,511,851</u>	<u>2,797,789</u>	<u>5,215,892</u>	<u>3,674,272</u>
Unassigned	<u>4,068,517</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>\$ 6,135,294</u>	<u>\$ 3,462,132</u>	<u>\$ 5,291,792</u>	<u>\$ 3,720,824</u>

11. FUND BALANCE (CONTINUED)

Capital Projects - Restricted Fund Balance

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

Capital Projects Fund:

Improvements and equipment	\$ 613,674
Recreational facilities	189,704
Fire tower and additions and improvements	41,238
Highway equipment	716,364
Reconstruction of water facilities	1,651,557
Reconstruction of sewer facilities	<u>1,150,508</u>
Subtotal	4,363,045
Less BAN's outstanding as of December 31, 2016	<u>(1,685,000)</u>
Total GML Section 6-C	<u>\$ 2,678,045</u>

Established pursuant to GML, Section 6-O, to establish a solid waste management facility reserve fund for the purpose of paying for closure or post-closure care costs for the general fund - Town-wide. At December 31, 2016, the balance of the reserve was \$189,396.

Total Capital Reserves Under GML Sections 6-C and 6-O \$ 2,867,441

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, 2016, all funds were at maximum. To the extent that fund balances exceed the maximum, per policy, the balances are assigned as infrastructure 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. TAX ABATEMENT

The Town enters into Payment in Lieu of Taxes ("PILOT") agreements with some local businesses. PILOT are often included as part of an Industrial Development Agency ("IDA") agreement with a commercial or industrial development for the purpose of attracting or retaining businesses within their jurisdictions. PILOT agreements normally provide for payments of amounts lesser than would have been collateralized for real estate taxes for a number of years.

For the year ended December 31, 2016, PILOT revenue recognized by the Town, which includes portions of the Bethlehem School District, RCS School District and Albany County, was \$4,687,401. Due to the structure of one or more of the agreements, property taxes billed exceeded the net abated taxes by \$599,601 under the program.

13. 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 20 years lapsed as of December 31, 2016. The current estimated liability for post closure care costs of the landfill for the remaining 10 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.

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 2019, the contract’s minimum quantities increase from 450 million gallons per year (MGY) to 500 MGY, resulting in a significant increase in expense.

Union Contracts

Police department and general Town employees are each represented by a collective bargaining agent. Those agents which represent them and the dates of expiration of their agreements are as follows:

<u>Bargaining Unit</u>	<u>Contract Expiration Date</u>
Bethlehem Police Benevolent Association (Officers & Detectives)	December 31, 2017
AFSCME Council 66 (Dispatchers)	December 31, 2017
AFL-CIO Council 82 (Lieutenants & Sergeants)	December 31, 2017

14. 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 2016. There was no reduction in insurance coverage during 2016. An estimate of liability is recorded at December 31, 2016 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.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions as to any potential material impact on operations or financial position occurring through May 8, 2017, 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 THE UNIFORM GUIDANCE**

TOWN OF BETHLEHEM, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

<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	\$ 338,114
Passed Through State of New York:			
Community Development Block Grant	103ME11-14	14.228	<u>106,006</u>
			<u>444,120</u>
<u>U.S. Department of Transportation</u>			
Passed Through State of New York:			
State and Community Highway Safety	-	20.600	44,167
Highway Planning and Construction	-	20.205	<u>820,695</u>
			<u>864,862</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>66,532</u>
<u>U.S. Department of Justice</u>			
Direct:			
Equitable Sharing Program	-	16.922	<u>959</u>
Total Federal Awards			<u>\$ 1,376,473</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 the Uniform Guidance.

Relationship to Financial Statements

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

General Fund	\$ 64,015
Highway Fund	66,532
Capital Projects Fund	820,695
Special Grant	<u>425,231</u>
Federal Awards Per Schedule of Expenditures of Federal Awards	<u>\$ 1,376,473</u>

2. SCOPE OF AUDIT PURSUANT TO THE UNIFORM GUIDANCE

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.

3. INDIRECT COST RATE

The Town of Bethlehem, New York did not elect to use the 10% de minimus indirect cost rate.

**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, 2016, and the related notes to the regulatory basis financial statements, and have issued our report thereon dated May 8, 2017.

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.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
May 8, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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 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, 2016. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 a 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 that we consider 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
May 8, 2017

TOWN OF BETHLEHEM, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2016

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:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	_____ yes	<u> x </u> no

Identification of major programs.

<u>CFDA NUMBER(S)</u>	<u>NAME OF FEDERAL PROGRAM OR CLUSTER</u>
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	_____ yes <u> x </u> no

SECTION II - FINANCIAL STATEMENT FINDINGS

See SAS 114 letter for current year recommendations.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings for the year ended December 31, 2016.

SECTION IV - RESOLUTION OF PRIOR YEAR FINDINGS

There were no findings for the year ended December 31, 2015.