DEFERRED COMPENSATION PLAN FOR EMPLOYEES OF THE TOWN OF BETHLEHEM

FINANCIAL STATEMENTS

DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Trustees and Management of
Deferred Compensation Plan for Employees
of the Town of Bethlehem
Delmar, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Deferred Compensation Plan for Employees of the Town of Bethlehem (the "Plan"), which comprise the statement of net assets available for benefits as of December 31, 2016, and the related statement of changes in net assets available for benefits for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Deferred Compensation Plan for Employees of the Town of Bethlehem as of December 31, 2016, and the changes in its net assets for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Cusack & Company, CPA's LLC

CUSACK & COMPANY, CPA'S LLC

Latham, New York
June 6, 2017

Investments:	
Pooled separate accounts	$ 6,700,276
Guaranteed interest account	3,043,116
Total investments	9,743,392
Receivables:	
Notes receivable from participants	170,567
Net assets available for benefits	$ 9,913,959

Additions:	
Additions to net assets attributed to:	
Investment income:	
Net investment income	$ 586,136
Interest income on notes receivable from participants	8,202
Contributions:	
Participants	652,772
Total additions	1,247,110
Deductions:	
Deductions from net assets attributed to:	
Benefits paid to participants	117,973
Administrative expenses	850
Total deductions	118,823
Net increase in net assets available for benefits	1,128,287
Net assets available for benefits, beginning of year	8,785,672
Net assets available for benefits, end of year	$ 9,913,959

1. DESCRIPTION OF PLAN

The following description of the Deferred Compensation Plan for Employees of the Town of Bethlehem (the "Plan") provides only general information. Participants should refer to the summary plan description for a more complete description of the Plan's provisions.

General

The Plan is a voluntary deferred compensation plan covering substantially all employees of the Town of Bethlehem (the "Town") who elect to participate in the Plan. It is subject to Section 457 of the Internal Revenue Code (the "Code").

Notes Receivable from Participants

The Plan allows each participant to borrow monies up to 50% of the participant's account balance, not to exceed $50,000. Loan repayments must be made over a 5 year period except for those to purchase a principal residence which may be repaid up to 15 years. The loans are secured by the balance in the participant's account and bear interest at the prime rate plus 1.7%. Loan principal and interest payments are made via ACH withdrawals from the participants' bank account to Nationwide.

Notes receivable from participants are reported at their unpaid principal balances plus any accrued but unpaid interest. Interest income is recorded on the accrual basis. Related fees are charged directly to the borrowing participant's account and are included in administrative expenses when incurred. As of December 31, 2016, no allowance for credit losses has been recorded. If a participant does not make loan repayments and the plan administrator considers the participant loan to be in default, the loan balance is reduced, and the delinquent participant note receivable is recorded as a benefit payment based on the terms of the Plan document. There were 5 defaulted loans totaling $16,976 at December 31, 2016.

Contributions

The Participants may elect to defer pre-tax compensation under the Plan by authorizing on their participation agreement regular payroll deductions that do not exceed the lessor of (a) the maximum limit pursuant to Section 457(e)(15) of the Code ($18,000 for the plan year ended December 31, 2016) and (b) 100% of the Participant's includible compensation for the Plan year. The Plan additionally provides for catch-up provisions for those participants who have attained age 50 before the close of the Plan year. Participants direct the investment of their contributions into various investment options offered by the Plan.

1. DESCRIPTION OF PLAN (CONTINUED)

Participant Accounts

Each participant's account is credited with the participant's contribution and an allocation of Plan earnings (losses) and charged with an allocation of any administrative expenses paid by the Plan. Allocations are based on participant earnings or account balances, as defined by the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting

Participants are 100% vested in the Plan.

Payment of Benefits

At normal retirement or upon separation of service other than retirement, a participant may elect to receive either a lump-sum amount equal to the value of his or her account, or annual installments over a certain period of time. Benefits are recorded when paid.

Administrative Expenses

Administrative expenses include overnight, scheduled managed account and loan fees. Overnight fees and managed account fees are only assessed on a participant's account if they elect to use those services. Loan fees are fees associated with the initiation and maintenance of participant loans. Participants pay a $50 initial setup fee and a $50 annual maintenance fee for each outstanding loan. There is also a $50 loan default fee and a $25 insufficient fund fee.

Operating Expenses

Substantially all expenses of maintaining the Plan are paid by the Town.

2. SUMMARY OF ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting.

Investment Valuation and Income Recognition

Investments in pooled separate accounts are presented at fair value based on published market prices. Investments in the guaranteed interest account are presented at contract value, which approximates fair value. See note 3 for discussion of fair value measurements.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Investment Valuation and Income Recognition (Continued)

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment income includes both the Plan's realized and unrealized gains and losses on investments bought and sold as well as held during the year.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Value

The Accounting Standards Codification requires expanded disclosures about fair value measurements and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that the Plan would receive upon selling an asset or pay to transfer a liability in an orderly transaction between market participants. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements) (see note 3).

Subsequent Events

Management has evaluated subsequent events or transactions as to any potential material impact on operations or financial position occurring through June 6, 2017, the date the financial statements were available to be issued. No such items were identified.

3. INVESTMENTS

Nationwide, a full service broker investment company, is the custodian. Investments are 100% participant directed. Nationwide provides the Plan participants with direct investment choices through Nationwide Retirement Services in a wide array of mutual funds. The Plan's investments at December 31, 2016 are valued using various valuation methodologies as follows:

3. INVESTMENTS (CONTINUED)

- Pooled separate accounts - Valued at the net asset value of accumulation units held by the Plan at year-end. The pooled separate accounts invest in various mutual funds. The mutual funds are open-end mutual funds that are registered with the Securities and Exchange Commission. The current day's accumulation unit value (AUV) is determined by multiplying the previous day's AUV by a net investment factor. The mutual funds in the pooled separate accounts are deemed to be actively traded.

- Guaranteed interest account - Valued at contract value (which approximates fair value) by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer (note 4).

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2016:

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Pooled separate accounts:				
Equity:				
Allocated	$ -	$ 2,134,230	$ -	$ 2,134,230
International	-	321,071	-	321,071
Large cap	-	2,419,051	-	2,419,051
Mid cap	-	650,995	-	650,995
Small cap	-	555,139	-	555,139
Fixed income	-	615,641	-	615,641
Money market	4,149	-	-	4,149
Guaranteed interest account	-	-	3,043,116	3,043,116
Total investments at fair value	$ 4,149	$ 6,696,127	$ 3,043,116	$ 9,743,392

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2016:

Balance at beginning of year	$ 2,652,817
Contributions	154,335
Withdrawals	(49,152)
Investment income	97,462
Transfers in, net	187,947
Administrative expenses	(293)
Balance at end of year	$ 3,043,116

3. INVESTMENTS (CONTINUED)

Management evaluated the significance of the transfers between fair value levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for Plan benefits. The Plan's policy is to recognize transfers as of the actual date of the event or change in circumstances that caused the transfer.

The fair value of individual investments that represent 5% or more of the Plan's net assets at December 31, 2016 as follows:

Nationwide Guaranteed Interest Account (Note 4)	$ 3,043,116
Nationwide Investment Destination Moderate Aggressive Fund	701,718
Fidelity Contrafund	710,745
Other (Less than 5%)	5,287,813
	$ 9,743,392

4. GUARANTEED INTEREST ACCOUNT

The Plan maintains a guaranteed interest account with Nationwide that provides a stable rate of return by investing in a pool of government securities backed by the full faith and credit of the U.S. government and/or its agencies. In advance of each calendar quarter, Nationwide establishes a rate of return for that quarter for the investment. The rate in effect for 2016 was 3.5%.

5. PLAN TERMINATION

Although it has not expressed any intent to do so, the Town has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of the Code. In the event of Plan termination, all benefits will be payable as provided in the Plan.

6. RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.