



Deferred Compensation Plan for Employees of the Town of Bethlehem

Financial Report

December 31, 2020 and 2019

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Independent Auditor's Report

Deferred Compensation Committee 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 (Plan), which comprise the statements of net position available for benefits as of December 31, 2020 and 2019, the related statements of changes in net position available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2020 and 2019, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BST+Co.CPAs, LLP

Albany, New York
February 9, 2022



Deferred Compensation Plan for Employees of the Town of Bethlehem

Management's Discussion and Analysis December 31, 2020 and 2019

Description

The Deferred Compensation Plan for Employees of the Town of Bethlehem (Plan) is a voluntary retirement savings plan offered to employees of the Town of Bethlehem, New York (Town). The purpose of the Plan is to allow eligible employees of the Town to defer a portion of their salary for their retirement. The Plan is governed by Section 457 of the Internal Revenue Code and administered by the Deferred Compensation Committee appointed annually by the Town Board.

As of December 31, 2020, the Plan had approximately 117 total contributing participants and assets totaling approximately \$15,168,000. Assets increased approximately \$2,124,000 from December 31, 2019, primarily due to unrealized appreciation on investments during the 2020 plan year. Participant assets are accumulated through voluntary payroll deferrals, rollovers from other public deferred compensation plans and qualified retirement plans, and earnings on investments. Salary deferrals and rollover assets are invested at the direction of participants.

Overview of Financial Statements

This Management's Discussion and Analysis (MD&A) of the Plan provides an introduction to the Plan's basic financial statements, which are comprised of the following three components: (1) statements of net position available for benefits; (2) statements of changes in net position available for benefits, and; (3) notes to financial statements. Collectively, this information presents the net position held in trust for participants.

Summary of Financial Statements

A summary of the financial statements for the years ended December 31, 2020, 2019, and 2018 has been prepared under the accrual method of accounting. These summary financial statements reflect the resources available to pay benefits to participants, as well as changes in those resources during the year.

Net Position Available for Benefits

	December 31,			2020-2019		2019-2018	
	2020	2019	2018	\$ Change	% Change	\$ Change	% Change
Assets / Net position available for benefits	<u>\$ 15,168,160</u>	<u>\$ 13,043,873</u>	<u>\$ 10,740,447</u>	<u>\$ 2,124,287</u>	16.29%	<u>\$ 2,303,426</u>	21.45%

Changes in Net Position Available for Benefits

	December 31,			2020-2019		2019-2018	
	2020	2019	2018	\$ Change	% Change	\$ Change	% Change
Investment income/(loss), net	\$ 1,799,875	\$ 1,941,714	\$ (464,569)	\$ (141,839)	7.30%	\$ 2,406,283	-517.96%
Participant contributions	718,006	690,487	613,986	27,519	3.99%	76,501	12.46%
Benefits paid	(392,897)	(327,901)	(941,123)	(64,996)	-19.82%	613,222	65.16%
Administrative expenses	(697)	(877)	(880)	180	20.52%	(3)	0.34%
Net increase (decrease)	<u>2,124,287</u>	<u>2,303,423</u>	<u>(792,586)</u>	<u>(179,136)</u>		<u>3,096,003</u>	-390.62%
Net position available for benefits, <i>beginning of year</i>	<u>13,043,873</u>	<u>10,740,450</u>	<u>11,533,033</u>	<u>2,303,423</u>	21.45%	<u>(792,583)</u>	-6.87%
Net position available for benefits, <i>end of year</i>	<u>\$ 15,168,160</u>	<u>\$ 13,043,873</u>	<u>\$ 10,740,447</u>	<u>\$ 2,124,287</u>	16.29%	<u>\$ 2,303,426</u>	21.45%

Deferred Compensation Plan for Employees of the Town of Bethlehem

Management's Discussion and Analysis
December 31, 2020 and 2019

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the statements. Information in the notes to financial statements is described below:

- Note 1 provides a general description of the Plan, as well as descriptions of participant accounts; vesting requirements, investment options, benefit payments, and Plan amendments;
- Note 2 provides a summary of the Plan's significant accounting policies;
- Note 3 provides a description of the valuation techniques used to estimate the fair value of investments;
- Note 4 describes the group investment contract;
- Note 5 describes the risks and concentrations related to the Plan's investments;
- Note 6 describes the Plan's termination rights;
- Note 7 describes the Plan's tax status; and
- Note 8 describes the Plan's related party and party-in-interest transactions.

Financial Highlights

The following financial analysis summarizes the significant financial results of the Plan for the year ended December 31, 2020:

- The net position available for benefits as of December 31, 2020 was approximately \$15,168,000, which is an increase of approximately \$2,124,000 from December 31, 2019. Although earnings on investments decreased approximately \$142,000 compared to 2019, total earnings were approximately \$1,800,000 for 2020, and were the primary reason for the increase in the net position available for benefits.
- The declared rate for Plan assets invested in the General Interest Account's was 3.5% for 2020 and 2019. Approximately \$3,899,000, or 26%, of the Plan assets are invested in this account as of December 31, 2020, which is an increase of approximately \$386,000 from December 31, 2019.
- Voluntary employee contributions to the Plan totaled approximately \$718,000 for the Plan year ended December 31, 2020, all of which were comprised of employee contributions. There were no rollover contributions during the year ending December 31, 2020. This is an increase of approximately \$28,000 from the year ended December 31, 2019 due to an increase in salary deferrals into the Plan of approximately \$62,000 from 2019 to 2020, offset by a decrease in rollovers contributions of approximately \$34,000 from 2019 to 2020.
- Deductions from the Plan primarily represent benefits paid to participants, participant rollovers to other public employer deferred compensation plans and qualified retirement plans. These deductions totaled approximately \$393,000 for the year ended December 31, 2020, which is an increase of approximately \$65,000, or 20%, from 2019. Employee terminations were relatively consistent in 2020 and 2019.

Contacting the Town's Financial Management

This financial report is designed to provide users with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the funds it receives. If you have any questions about this report or need additional financial information, contact Bethlehem Town Comptroller's Office, Bethlehem Town Hall, 445 Delaware Ave, Delmar, New York 12054.

Deferred Compensation Plan for Employees of the Town of Bethlehem

Statements of Net Position Available for Benefits

	December 31,	
	<u>2020</u>	<u>2019</u>
ASSETS		
Investments, <i>at fair value</i>	\$ 11,069,465	\$ 9,341,048
Guaranteed Interest Account, <i>at contract value</i>	<u>3,898,545</u>	<u>3,513,439</u>
Total investments	14,968,010	12,854,487
Notes receivable from participants	<u>200,150</u>	<u>189,386</u>
NET POSITION AVAILABLE FOR BENEFITS	<u><u>\$ 15,168,160</u></u>	<u><u>\$ 13,043,873</u></u>

Deferred Compensation Plan for Employees of the Town of Bethlehem

Statements of Changes in Net Position Available for Benefits

	Years Ended December 31,	
	2020	2019
ADDITIONS		
Net appreciation in fair value of investments	\$ 1,789,219	\$ 1,932,691
Interest income on notes receivable	10,656	9,023
	1,799,875	1,941,714
Contributions		
Participants	718,006	656,378
Rollovers	-	34,109
	718,006	690,487
 Total additions	 2,517,881	 2,632,201
DEDUCTIONS		
Benefits paid	392,897	327,901
Administrative expenses	697	877
	393,594	328,778
 Net increase in net position available for benefits	 2,124,287	 2,303,423
 NET POSITION AVAILABLE FOR BENEFITS, <i>beginning of year</i>	 13,043,873	 10,740,450
 NET POSITION AVAILABLE FOR BENEFITS, <i>end of year</i>	 \$ 15,168,160	 \$ 13,043,873

See accompanying Notes to Financial Statements.

Deferred Compensation Plan for Employees of the Town of Bethlehem

Notes to Financial Statements
December 31, 2020 and 2019

Note 1 - Description of the Plan

The Deferred Compensation Plan for Employees of the Town of Bethlehem (Plan) is sponsored by the Town of Bethlehem, New York (Town). The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

a. General

The Plan is a voluntary deferred contribution plan covering all eligible employees of the Town. The Plan's investments are held by Nationwide Financial Services, the Custodian of the Plan, who invests cash received and income from investments based on instruction from participants and makes distributions to participants. The Plan's Deferred Compensation Committee (Committee) is responsible for oversight of the Plan, determining the appropriateness of the Plan's investment offerings and monitoring investment performance.

b. Contributions

Each year, participants may make contributions of their pre-tax annual compensation to the Plan subject to certain limitations. The maximum participant deferral for the Plan was \$19,500 and \$19,000 for the years ended December 31, 2020 and 2019, respectively. Participants age 50 and over are also permitted to make additional "catch-up" contributions of \$6,500 and \$6,000 for the years ended December 31, 2020 and 2019, respectively. Participants that are within three years of normal retirement age (as defined in the Plan document) are also permitted to make special 457(b) catch up contributions and may contribute the lesser of: (1) twice the annual limit (\$39,000 and \$38,000 for the years ended December 31, 2020 and 2019, respectively), or (2) the basic annual limit plus the amount of the basic limit not used in prior years. Participants may also contribute amounts representing distributions from other qualified plans.

c. Plan Eligibility

Employees of the Town are eligible to participate in the Plan on the first day of the month following employment. Employees may join the Plan at any time following the date this eligibility condition is met.

d. Participant Accounts

Each participant's account is credited with the participant's contribution and allocations of the Plan's net investment earnings and fees paid to administer 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 by the participant's vested account.

e. Vesting

Participants are 100% vested in their contributions plus actual earnings thereon.

Deferred Compensation Plan for Employees of the Town of Bethlehem

Notes to Financial Statements
December 31, 2020 and 2019

Note 1 - Description of the Plan - Continued

f. Participant Notes Receivable

Participants may borrow from their accounts up to a maximum equal to the lesser of \$50,000, or 50% of their pre-tax account balance. Participant notes are secured by the balance in the participants' accounts and bear interest at rates at prime plus 1.75%. Principal and interest are paid ratably through regular payroll deductions. In general, loans must be repaid within five years. The repayment period for loans that are used to purchase a principal residence may be set for a term up to fifteen years.

g. Payment of Benefits

Upon termination of employment, death, or attaining the age of 70½, a participant (or their beneficiary in the case of death) may elect to receive an amount equal to the value of the participant's account, either in a lump sum amount, in monthly, quarterly, semi-annual, or annual installments over a period selected by the employee, or to defer distribution until a later date. Unforeseen emergency withdrawals are also allowed as defined by the Plan.

h. Administrative Fees

Certain Plan fees and expenses are paid from Plan assets and other fees and expenses of the Plan are paid directly by the Town.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

b. Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

c. Investment Valuation and Income Recognition

Investments are reported at fair value, except for investments in the Guaranteed Interest Account which are presented at contract value (see Note 4). Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The Committee determines the Plan's valuation policies utilizing information provided by the Custodian.

Deferred Compensation Plan for Employees of the Town of Bethlehem

Notes to Financial Statements
December 31, 2020 and 2019

Note 2 - Summary of Significant Accounting Policies - Continued

c. Investment Valuation and Income Recognition - Continued

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

d. Participant Notes Receivable

Notes receivable from participants are stated at their unpaid principal balance plus any accrued, but unpaid interest. Interest income is recorded on the accrual basis. No allowance for credit losses has been recorded as of December 31, 2020 and 2019. If a participant ceases to make loan repayments and the Plan administrator deems the participant loan to be in default, the participant loan balance is reduced, and a benefit payment is recorded.

e. Payment of Benefits

Benefits are recorded when paid.

f. Subsequent Events

The Plan has evaluated subsequent events for potential recognition or disclosure through February 9, 2022, the date the financial statements were available to be issued.

Note 3 - Investments and Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Deferred Compensation Plan for Employees of the Town of Bethlehem

Notes to Financial Statements
December 31, 2020 and 2019

Note 3 - Investments and Fair Value Measurements - Continued

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These may be generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the asset, which are typically based on an entity's own assumptions.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes to the methodology used at December 31, 2020 and 2019.

Pooled Separate Accounts: Investments in pooled separate accounts consist primarily of mutual funds. Fair value represents an "Accumulation Unit Value" (AUV) which is determined by the Plan's Custodian daily. The AUV which represents the net asset value (NAV), is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments. Participant transactions (purchases and sales) may occur daily. Were the Plan to initiate a full redemption, the investment advisor reserves the right to delay withdrawal from the trust for up to six months in order to ensure that securities liquidations will be carried out in an orderly business manner.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth, by level within the fair value hierarchy, the major categories of the Plan's assets measured at fair value:

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Pooled separate accounts, at fair value	\$ 13,631	\$ 11,055,834	\$ -	\$ 11,069,465
	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Pooled separate accounts, at fair value	\$ 4,056	\$ 9,336,992	\$ -	\$ 9,341,048

Note 4 - Nationwide Investment Contract

The Plan entered into a fully benefit-responsive guaranteed investment contract (GIC) with Nationwide. Nationwide maintains the contributions in a general account. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. Nationwide is required to repay the principal and a specified interest rate that is guaranteed to the plan. The crediting rate is established by Nationwide on a quarterly basis but may not be less than 3%.

Deferred Compensation Plan for Employees of the Town of Bethlehem

Notes to Financial Statements
December 31, 2020 and 2019

Note 4 - Nationwide Investment Contract - Continued

The contract meets the fully benefit-responsive contract criteria and is, therefore, reported at contract value. Contract value is the relevant measure for fully benefit-responsive investment contracts because this is the amount received by participants if they were to initiate permitted transactions under the Plan.

Note 5 - Risks and Concentrations

a. Concentration of Credit Risk

The Plan's investments with Nationwide represented 56% of the Plan's asset at both December 31, 2020 and 2019.

b. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that could adversely affect the fair value of an investment. Since all investments are participant directed, all risks exist at the participant level. Each participant has the ability to liquidate their position and has the responsibility for managing their exposure to loss.

c. Investment Risk

The Plan invests in various investment securities which are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in their values 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 position available for benefits.

Note 6 - Plan Termination

Although it has not expressed any intent to do so, the Town has the right to terminate the Plan subject to the provisions of the Plan and State law. Upon termination of the Plan, the Custodian will continue to hold the Plan assets and will make distributions of the Plan benefits in accordance with the instructions of the Plan Administrator and the Plan provisions.

Note 7 - Tax Status

The Plan is exempt from taxes pursuant to Section 457(b) of the Internal Revenue Code (IRC). The Plan Administrator believes the Plan is being operated in compliance with the applicable requirements of the IRC.

Deferred Compensation Plan for Employees of the Town of Bethlehem

Notes to Financial Statements
December 31, 2020 and 2019

Note 8 - Related Party and Party-in-Interest Transactions

Certain Plan investments are managed by Nationwide, the Custodian of the Plan.

Certain administrative functions are performed by the Town. No employees receive compensation for such functions from the Plan.

The Town paid certain administrative expenses on behalf of the plan totaling \$6,800 for both the years ended December 31, 2020 and 2019, which are reimbursed by Nationwide.

Note 9 - Subsequent Event

On December 9, 2021, the Town Board passed a resolution authorizing the adoption of the New York State Deferred Compensation Plan (NYS Plan), a voluntary retirement savings plan offered by New York State for State employees and employees of participating employers, which effectively terminated the Plan. Management estimates that participants will be enrolled in the NYS Plan in March 2022, at which time their existing account balances will be transferred.