

TOWN OF BETHLEHEM, NEW YORK
REGULATORY BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2011

TOWN OF BETHLEHEM, NEW YORK

TABLE OF CONTENTS

DECEMBER 31, 2011

	<u>Page</u>
Management's Discussion and Analysis	1-5
Independent Auditor's Report	6-7
Regulatory Basis Financial Statements	
General Fund	8-9
Special Revenue Funds	
Highway Fund	10
Water Fund	11
Sewer Fund	12
Ambulance Fund	13
Special Grant Fund	14
Capital Projects Fund	15
Agency Fund	16
Non-Current Governmental Assets Account Group	17
Non-Current Governmental Liabilities Account Group	18
Notes to Regulatory Basis Financial Statements	19-36
Additional Reports Required by Government Auditing Standards and OMB Circular A-133	
Schedule of Expenditures of Federal Awards	37
Notes to Schedule of Expenditures of Federal Awards	38
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Regulatory Basis Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39-40
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	41-42
Schedule of Findings and Questioned Costs	43-44

TOWN OF BETHLEHEM, NEW YORK
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 DECEMBER 31, 2011

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, 2011. This document should be read in conjunction with the Town's financial statements.

Financial Highlights

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

In 2011 the Town's major funds were impacted by two significant events which negatively affected the Town's financial statements. In August, Hurricane Irene caused significant damage to property and infrastructure of the Town, and in September there was a change in the Office of the State Comptroller's (OSC) Guidance relating to the timing of the accounting for pension costs.

The General Fund, with a positive net operating result of \$716,000, was the only fund in which operating revenues exceeded operating expenses. This was primarily because the Town's collection of sales tax receipts exceeded expectations for the year due to updated census data as well as a recovering economy.

The Highway and Water Fund were positive to budget, but showed net operating losses. Although both funds made significant cutbacks to general discretionary spending, they were greatly impacted by Hurricane Irene and the pension change.

The Sewer Fund experienced a shortfall to budget. This was primarily the result of a decrease in anticipated user fees as well as the factors noted above.

In total, the Town expended \$1.37 million in unbudgeted funds as a direct result of Hurricane Irene across all four funds. While management has no official timetable from FEMA and SEMO, the Town expects that 100% of these expenditures will be reimbursed at some point in the future.

Refer to the following chart, which compares the budgeted revenue and expenditures with actual figures for 2011:

	<u>General</u>	<u>Highway</u>	<u>Water</u>	<u>Sewer</u>
Budgeted Revenue	\$17,671,131	\$7,103,255	\$8,813,699	\$4,148,985
Budgeted Expenses	<u>17,801,327</u>	<u>7,516,165</u>	<u>9,499,128</u>	<u>4,906,801</u>
Budgeted Surplus (Shortfall)	<u>\$ (130,196)</u>	<u>\$ (412,910)</u>	<u>\$ (685,429)</u>	<u>\$ (757,816)</u>
Actual Revenue	\$18,639,158	\$6,225,445	\$8,749,414	\$4,010,726
Operating Expenses	<u>17,923,456</u>	<u>6,417,447</u>	<u>8,854,450</u>	<u>4,878,788</u>
Operating Surplus (Shortfall)	715,702	(192,002)	(105,036)	(868,062)
Prior Period Change in Accounting Policy	(902,740)	(237,975)	(147,653)	(104,388)
Total Fund Balance, December 31, 2010	<u>3,738,916</u>	<u>2,441,625</u>	<u>3,371,573</u>	<u>2,226,292</u>
Total Fund Balance, December 31, 2011	<u>\$ 3,551,878</u>	<u>\$ 2,011,648</u>	<u>\$ 3,118,884</u>	<u>\$ 1,253,842</u>
Nonspendable Fund Balance	\$ 575,671	\$ 514,476	\$ 87,448	\$ 55,085
Assigned Appropriated Fund Balance	\$ 159,528	\$ 248,614	\$ 583,477	\$ 445,773
Assigned Appropriated for Contingency	\$ 2,816,679	\$ 1,248,558	\$ 2,447,959	\$ 752,984

General Items of Note for All Funds

Fringe Benefits

The Town employed approximately 234 full time employees, 31 part time employees and 259 seasonal employees during the year.

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

<u>Fringe Benefits</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
FICA and Medicare Taxes	\$ 1,141,672	\$ 1,155,589
Health and Dental Insurance	2,384,186	2,218,079
Retirement Systems	2,426,167	1,332,311
Workers' Compensation Insurance	537,662	479,635
Life and Short-Term Disability Insurance	44,867	28,493
Total	<u>\$ 6,534,554</u>	<u>\$ 5,214,107</u>

Overall, fringe benefits increased by \$1.3 million or 25.3%, and retirement system costs represent \$1.1 million of this variance. The primary driver of this one-time event relates to the reversal of OSC guidance from 2004 which changed the timing of when the Town accounts for its pension costs. The new guidance states that the expenditures which had previously been considered a 2011 cost now relate to the period covering April 2010 through March 2011, and what had been considered a 2012 cost now covered the period April 2011 through March 2012. This process also adversely affected spending to budget by roughly \$450,000, and caused the Town to report a prior period adjustment for the change in accounting policy.

Post Retirement Benefits

In addition to providing pension benefits, the Town provides certain health care benefits for retired employees and their spouses. Those benefits are provided through payments to an insurance company. The Town recognizes the cost of providing these benefits for 141 retirees by expensing the annual insurance premiums. The post retirement expense was approximately \$564,000 for 2010 and \$626,000 for 2011 resulting in a 10.99% increase in the expense.

The current prescribed method for local governments to report these expenditures is on a cash basis, where the cost equals amounts paid to the insurance carrier. However, GASB 45 is applicable to governments who prepare their financial statements in accordance with Generally Accepted Accounting Principles (GAAP), and became effective December 15, 2007. The standard requires the employer to recognize the future value of retiree benefits as a liability in the period in which the benefits are earned, which has the potential to significantly increase the reported obligations for the Town.

TOWN OF BETHLEHEM, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011

Interest Income

A summary of the budgeted interest income compared to actual for 2011 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	\$ 22,030	\$ 10,377	\$ (11,653)
Highway	22,540	10,875	(11,665)
Water	26,000	10,416	(15,584)
Sewer	15,950	12,859	(3,091)
Capital	-	8,335	8,335
Total	<u>\$ 86,520</u>	<u>\$ 52,862</u>	<u>\$ (33,658)</u>

The interest earnings for 2011 were equal to \$52,862, a 5% increase from the 2010 earnings of approximately \$50,000. This contrasts with the decrease in the average rate earned on investments in 2011 which was .30% compared to an average rate of .32% for 2010. The net return on investments increased primarily because the Town closed three accounts with poor yields (M&T Bank, Citizens Bank and HSBC) and opened two new accounts (Berkshire Bank and Capital Bank) mid-year to take advantage of above average rates.

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>2011</u>	<u>2010</u>
Serial Bonds	\$ 17,640,000	\$ 18,745,000
Compensated Absences	253,845	296,475
Workers' Compensation	499,528	1,499,740
Landfill Closure and Post Closure	100,000	100,000
Judgments and Claims	60,000	70,000
Total Long-Term Debt	<u>\$ 18,553,373</u>	<u>\$ 20,711,215</u>

The projected long-term cost of workers' compensation was reduced by \$1 million primarily due to the termination (relating to a felony conviction) of an employee on permanent 207(c) leave.

Cumulative Effect on Change in Accounting Principles

As noted above, the Town, in accordance with updated guidance from the OSC, adjusted the accounting period for the invoices received relating to the New York State pension payments. This change adjusted the language from 2004 which allowed the Town to forgo booking any related expenses in that year. In 2011, the reductions in each of the fund balances relating to this change were approximately \$900,000, \$238,000, \$148,000 and \$104,000 in the General, Highway, Water and Sewer Funds, respectively.

Items of Note for the General Fund

Total revenues increased 11.29% from \$16.7 million in 2010 to \$18.6 million in 2011. Of those revenues, sales tax was up 8.1% from \$9.4 million in 2010 to \$10.2 million in 2011, and was \$858,000 more than the \$9.35 million the Town budgeted. Franchise fee revenues decreased 15.15%, from \$707,000 in 2010 to \$600,000 in 2011 due to a one-time occurrence in audit recoveries of \$144,000 in 2010. Total operating expenditures increased 5.99% from \$16.9 million in 2010 to \$17.9 million in 2011. In planning its 2011 budget, the Town appropriated \$130,000 of fund balance to use in operations. The Town's use of fund balance amounted to \$187,000, including the prior period adjustment of \$903,000, which was approximately \$57,000 more than budgeted. Without the prior period adjustment, the General Fund would have added \$716,000 to the 2011 fund balance.

Items of Note for the Highway Fund

The Highway Fund is largely funded with property taxes. Given the desire to maintain stability in the tax rates, the fund is at a greater risk for imbalance due to the trend for operating costs to rise at a faster rate than the tax base. The fund tries to preserve structural balance by managing the size of the workforce relative to the seasonal operating needs of the department. However, the growth in roads and sidewalks from new development continues to place service and cost pressures on the department. In 2010, the Town took out a BAN for \$780,000 to finance Town paving projects. In the current year, the Town refinanced the 2010 BAN and took out an additional BAN for \$1.1 million, covering additional paving projects for \$780,000 and equipment for \$360,000. The paving and equipment expenditures and corresponding liabilities are accounted for in the Highway Capital Fund.

Items of Note for the Water and Sewer Funds

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

The Water Fund's operating revenue decreased by \$82,000, or 0.09%, in 2011, primarily due to a decrease in water usage from April through September of 2011, mostly offset by a change in rate structure, which had the effect of a rate increase. Operating expenditures increased \$634,000, or 7.7%. The Town took out a BAN for \$150,000 in 2010 for equipment acquisition. While the BAN was refinanced in 2011, there was no additional borrowings during the year. The expenditures and corresponding liability are accounted for in the Water Capital Fund.

The Sewer Fund's operating revenue decreased by \$105,000, or 2.7%, in 2011 primarily because user charges decreased \$77,000 due to decreased usage of water (on which sewer charges are based). Operating expenditures increased 28.6% primarily due to spending on Hurricane Irene and the change in accounting for pension costs, as noted above. In 2010, the Town took out a BAN for \$395,000 for equipment acquisition. While the BAN was refinanced in 2011, there was no additional borrowing during the year. The expenditures and corresponding liability are accounted for in the Sewer Capital Fund.

TOWN OF BETHLEHEM, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011

Analysis of Fund Balances

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

	<u>General</u>	<u>Highway</u>	<u>Water</u>	<u>Sewer</u>
Fund Balance, December 31, 2011	\$ 3,551,877	\$ 2,011,648	\$ 3,118,884	\$ 1,253,842
2012 Use of Fund Balance	(112,249)	(248,614)	(344,166)	(263,756)
Prior Year Encumbrances	(94,184)	(385,876)	(342,647)	(251,451)
Nonspendable Fund Balance	(575,671)	(514,476)	(87,448)	(55,085)
Infrastructure Reserve	-	-	(478,000)	-
Projected Balance, December 31, 2012	<u>\$ 2,769,773</u>	<u>\$ 862,682</u>	<u>\$ 1,866,623</u>	<u>\$ 683,550</u>
2012 Budgeted Appropriations	<u>\$18,228,095</u>	<u>\$ 6,518,756</u>	<u>\$9,333,090</u>	<u>\$ 4,507,774</u>
Percent of Appropriations	15.20%	13.23%	20.00%	15.16%
Floor - 7% of Budgeted Appropriations	\$ 1,275,967	\$ 456,313	\$ 653,316	\$ 315,544
Optimal - 15% of Budgeted Appropriations	\$ 2,734,214	\$ 977,813	\$ 1,399,964	\$ 676,166
Ceiling - 20% of Budgeted Appropriations	\$ 3,645,619	\$ 1,303,751	\$ 1,866,618	\$ 901,555

The projected 2011 levels for the operating funds indicate sufficient net assets to fund currently budgetary requirements. Balances held above the ceiling will be moved to the Capital Reserves.

Capital Reserves

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

	<u>General</u>	<u>Highway</u>	<u>Water</u>	<u>Sewer</u>	<u>Recreation</u>
Fund Balance, December 31, 2010	\$ 491,717	\$ (291,783)	\$ 1,798,283	\$ 221,473	\$ 506,635
Increases	74,425	53,785	13,032	26,552	948
Decreases	(459,168)	(978,899)	-	(130,198)	(3,351)
Fund Balance, December 31, 2011	<u>\$ 106,974</u>	<u>\$(1,216,897)</u>	<u>\$ 1,811,315</u>	<u>\$ 117,827</u>	<u>\$ 504,232</u>

These reserves provide a supplemental funding source for major capital expenditures. The Town is in the process of developing a formal capital plan, based on the Office of the State Comptroller model plan, which will identify a timetable for anticipated projects, estimated funding needs, and provide an indication of the source of the project's funding (reserves, capital leases, grants or bonded indebtedness).

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.

The Town of Bethlehem Industrial Development Agency is a Component Unit of the Town of Bethlehem. Separately issued audited financial statements for the Town of Bethlehem Industrial Development Agency may be obtained by contacting Allen Maikels, CPA, BIDA CFO, at 21 Everett Road Extension, Albany, NY 12205.

CUSACK & COMPANY
Certified Public Accountants LLC

7 AIRPORT PARK BOULEVARD
LATHAM, NEW YORK 12110
(518) 786-3550
FAX (518) 786-1538
E-MAIL ADDRESS: INFO@CUSACKCPA.COM
WWW.CUSACKCPA.COM

CLIFTON PARK/HALFMOON OFFICE
(518) 664-7063
FAX (518) 541-3083

MEMBERS OF:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
AND
NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying regulatory basis financial statements of the Town of Bethlehem, New York, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Town of Bethlehem, New York's management. Our responsibility is to express an opinion on these regulatory basis financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the regulatory basis financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the regulatory basis financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall regulatory basis financial statement presentation. We believe that our audit provides a reasonable basis for our 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 also described in Note 1. The effect on the financial statements of the variances between these regulatory accounting practices generally accepted in the United States of America, although not reasonably determined, are presumed to be material.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Town of Bethlehem, New York, as of December 31, 2011, and the changes in its financial position for the year then ended.

As described in Note (H), 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.

In our opinion, except for the recording of other postemployment benefits as previously described, 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, 2011, and the results of its operations for the year then ended in conformity with accounting principles prescribed by the New York State Office of State Comptroller.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2012, on our consideration of the Town of Bethlehem's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the regulatory basis financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on page 37 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of Sales, Local Governments and Non-Profit Organizations, and is not a required part of the regulatory basis financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
July 11, 2012

TOWN OF BETHLEHEM, NEW YORK
GENERAL FUND
REGULATORY BASIS BALANCE SHEET
DECEMBER 31, 2011

Assets

Cash	\$ 1,270,114
Other receivables	183,772
State and federal receivables	157,583
Due from other governments	3,514,086
Inventory	75,029
Prepaid expenses	<u>500,642</u>

Total Assets \$ 5,701,226

Liabilities

Accounts payable	\$ 334,288
Accrued liabilities	468,599
Due to other governments	609,718
Due to other funds	241,325
Deferred revenues	<u>495,418</u>

Total Liabilities 2,149,348

Fund Balance

Reserved:	
Nonspendable	575,671
Assigned	159,528
Unassigned	<u>2,816,679</u>

Total Fund Balance 3,551,878

Total Liabilities and Fund Balance \$ 5,701,226

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, 2011

	<u>Modified</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 2,078,649	\$ 2,078,649	\$ -	\$ -
Real property tax items	700,965	700,374	-	(591)
Non-property tax items	10,044,238	10,807,725	-	763,487
Departmental income	1,658,025	1,640,781	-	(17,244)
Use of money and property	101,030	91,169	-	(9,861)
Licenses and permits	50,990	40,912	-	(10,078)
Fines and forfeitures	561,000	496,517	-	(64,483)
Sales of property and compensation for loss	128,120	208,169	-	80,049
Miscellaneous local sources	81,100	68,219	-	(12,881)
Interfund revenues	-	237	-	237
State aid	1,561,085	1,521,173	-	(39,912)
Federal aid	43,000	61,524	-	18,524
Total Revenues	17,008,202	17,715,449	-	707,247
Expenditures				
General government support	3,882,435	3,599,216	27,555	255,664
Education	15,456	15,455	-	1
Public safety	6,084,459	6,084,461	-	(2)
Health	1,539	1,539	-	-
Transportation	568,346	561,516	6,806	24
Economic assistance and opportunity	441,663	441,663	-	-
Culture and recreation	1,523,194	1,518,065	5,132	(3)
Home and community services	1,311,384	1,288,103	7,786	15,495
Employee benefits	4,104,107	4,104,093	-	14
Debt service (principal and interest)	291,348	291,345	-	3
Total Expenditures	18,223,931	17,905,456	47,279	271,196
Other Financing Sources and Uses				
Operating transfer in	944,578	923,709	-	(20,869)
Operating transfers out	(18,000)	(18,000)	-	-
Total Other Financing Sources and Uses	926,578	905,709	-	(20,869)
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources and Uses				
	\$ (289,151)	715,702	\$ (47,279)	\$ 957,574
Cumulative Effect of Change in Accounting Principle				
		(902,740)		
Fund Balance - January 1, 2011		3,738,916		
Fund Balance - December 31, 2011		\$ 3,551,878		

TOWN OF BETHLEHEM, NEW YORK
HIGHWAY FUND

Regulatory Basis Balance Sheet
December 31, 2011

Assets	
Cash	\$ 1,720,409
Other receivables	29,118
Due from other governments	196,959
Inventories	402,952
Prepaid Expenses	<u>111,524</u>
Total Assets	<u><u>\$ 2,460,962</u></u>
Liabilities	
Accounts payable	\$ 137,151
Accrued liabilities	115,204
Deferred revenue	<u>196,959</u>
Total Liabilities	<u><u>449,314</u></u>
Fund Balance	
Nonspendable:	514,476
Assigned	<u>1,497,172</u>
Total Fund Balance	<u><u>2,011,648</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 2,460,962</u></u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2011

	<u>Modified</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
	<u>Budget</u>			
Revenues				
Real property tax	\$ 3,973,588	\$ 3,973,588	\$ -	\$ -
Real property tax items	1,311,427	1,317,973	-	6,546
Use of money and property	22,540	10,875	-	(11,665)
Intergovernmental charges	13,000	16,096	-	3,096
Sales of property and compensation for loss	12,700	63,425	-	50,725
Miscellaneous local sources	-	6,711	-	6,711
Interfund revenues	380,000	516,473	-	136,473
State aid	250,000	248,892	-	(1,108)
Federal aid	<u>-</u>	<u>71,412</u>	<u>-</u>	<u>71,412</u>
Total Revenues	<u><u>5,963,255</u></u>	<u><u>6,225,445</u></u>	<u><u>-</u></u>	<u><u>262,190</u></u>
Expenditures				
Transportation	5,823,852	4,454,363	-	1,369,489
Employee benefits	1,639,385	1,639,385	-	-
Debt service	<u>113,926</u>	<u>59,078</u>	<u>-</u>	<u>54,848</u>
Total Expenditures	<u><u>7,577,163</u></u>	<u><u>6,152,826</u></u>	<u><u>-</u></u>	<u><u>1,424,337</u></u>
Other Financing Sources and Uses				
Bond Proceeds	1,140,000	-	-	(1,140,000)
Operating transfers out	<u>(278,550)</u>	<u>(264,621)</u>	<u>-</u>	<u>13,929</u>
Total Other Financing Sources and Uses	<u><u>861,450</u></u>	<u><u>(264,621)</u></u>	<u><u>-</u></u>	<u><u>(1,126,071)</u></u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources and Uses				
	<u><u>\$ (752,458)</u></u>	(192,002)	<u><u>\$ -</u></u>	<u><u>\$ 560,456</u></u>
Cumulative Effect of Changes in Accounting Principle		(237,975)		
		<u>2,441,625</u>		
Fund Balance - January 1, 2011		<u><u>\$ 2,011,648</u></u>		
Fund Balance - December 31, 2011				

TOWN OF BETHLEHEM, NEW YORK
WATER FUND

Regulatory Basis Balance Sheet
December 31, 2011

Assets	
Cash	\$ 1,470,249
Other receivables	2,051,650
Due from other governments	642,274
Inventories	10,170
Prepaid expenses	<u>77,278</u>
Total Assets	<u><u>\$ 4,251,621</u></u>
Liabilities	
Accounts payable	\$ 370,602
Accrued liabilities	104,822
Deferred revenues	<u>657,313</u>
Total Liabilities	<u><u>1,132,737</u></u>
Fund Balance	
Nonspendable	87,448
Assigned	<u>3,031,436</u>
Total Fund Balance	<u><u>3,118,884</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 4,251,621</u></u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2011

	<u>Modified</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 1,945,194	\$ 1,945,194	\$ -	\$ -
Departmental income	6,701,905	6,628,908	-	(72,997)
Use of money and property	146,000	131,708	-	(14,292)
Sale of property and compensation for loss	20,000	36,937	-	16,937
Miscellaneous local sources	600	2,257	-	1,657
Interfund revenues	<u>-</u>	<u>4,410</u>	<u>-</u>	<u>4,410</u>
Total Revenues	<u><u>8,813,699</u></u>	<u><u>8,749,414</u></u>	<u><u>-</u></u>	<u><u>(64,285)</u></u>
Expenditures				
Home and community services	7,244,565	6,507,779	239,311	497,475
Employee benefits	881,724	869,291	-	12,433
Debt service (principal and interest)	<u>1,266,826</u>	<u>1,266,819</u>	<u>-</u>	<u>7</u>
Total Expenditures	<u><u>9,393,115</u></u>	<u><u>8,643,889</u></u>	<u><u>239,311</u></u>	<u><u>509,915</u></u>
Other Financing Uses				
Operating transfers out	<u>(210,561)</u>	<u>(210,561)</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Uses				
	<u><u>\$ (789,977)</u></u>	<u><u>(105,036)</u></u>	<u><u>\$ (239,311)</u></u>	<u><u>\$ 445,630</u></u>
Cumulative Effect of Change in Accounting Principle				
		(147,653)		
Fund Balance - January 1, 2011		<u><u>3,371,573</u></u>		
Fund Balance - December 31, 2011		<u><u>\$ 3,118,884</u></u>		

TOWN OF BETHLEHEM, NEW YORK
SEWER FUND

Regulatory Basis Balance Sheet
December 31, 2011

Assets	
Cash	\$ 718,541
Other receivables	689,026
Due from other governments	508,718
Prepaid expenses	<u>55,085</u>
Total Assets	<u>\$ 1,971,370</u>
Liabilities	
Accounts payable	\$ 71,940
Accrued liabilities	86,692
Deferred revenues	<u>558,896</u>
Total Liabilities	<u>717,528</u>
Fund Balance	
Unspendable	
Assigned	55,085
Total Fund Balance	<u>1,198,757</u>
Total Liabilities and Fund Balance	<u>1,253,842</u>
	<u>\$ 1,971,370</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2011

	<u>Modified</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 1,527,234	\$ 1,527,234	\$ -	\$ -
Departmental income	2,605,881	2,466,038	-	(139,843)
Use of money and property	15,950	12,859	-	(3,091)
Sale of property and compensation for loss	-	2,631	-	2,631
Miscellaneous local sources	-	1,524	-	1,524
Federal aid	<u>-</u>	<u>440</u>	<u>-</u>	<u>440</u>
Total Revenue	<u>4,149,065</u>	<u>4,010,726</u>	<u>-</u>	<u>(138,339)</u>
Expenditures				
Home and community services	3,957,740	3,559,654	182,017	216,069
Employee benefits	555,227	548,247	-	6,980
Debt service (principal and interest)	<u>685,181</u>	<u>597,360</u>	<u>-</u>	<u>87,821</u>
Total Expenditures	<u>5,198,148</u>	<u>4,705,261</u>	<u>182,017</u>	<u>310,870</u>
Other Financing Uses				
Operating transfers out	<u>(173,527)</u>	<u>(173,527)</u>	<u>-</u>	<u>-</u>
Total Other Financing Uses	<u>(173,527)</u>	<u>(173,527)</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Uses				
	<u>\$ (1,222,610)</u>	(868,062)	<u>\$ (182,017)</u>	<u>\$ 172,531</u>
Cumulative Effect of Change in Accounting Principle		(104,388)		
Fund Balance - January 1, 2011		<u>2,226,292</u>		
Fund Balance - December 31, 2011		<u>\$ 1,253,842</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, 2011

	<u>Actual</u>
Revenues	
Real property taxes and tax items	\$ 1,462,491
Total Revenues	<u>1,462,491</u>
Expenditures	
Health	<u>1,187,491</u>
Total Expenditures	<u>1,187,491</u>
Other Financing Uses	
Operating transfer out	<u>(275,000)</u>
Excess of Revenues Over Expenditures	-
Fund Balance - January 1, 2011	<u>-</u>
Fund Balance - December 31, 2011	<u><u>\$ -</u></u>

TOWN OF BETHLEHEM, NEW YORK
SPECIAL GRANT FUND

Regulatory Basis Balance Sheet
December 31, 2011

Assets	
Cash	\$ 55,643
Total Assets	<u>\$ 55,643</u>
Liabilities	
Other liabilities	\$ 19,732
Deferred revenues	<u>35,911</u>
Total Liabilities	<u>55,643</u>
Fund Balance	
Unreserved:	
Unassigned	<u>-</u>
Total Fund Balance	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 55,643</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2011

	<u>Actual</u>
Revenues	
Use of money and property	\$ 50
Federal aid	<u>325,133</u>
Total Revenues	<u>325,183</u>
Expenditures	
Home and community services	<u>325,183</u>
Total Expenditures	<u>325,183</u>
Excess of Revenues Over Expenditures	
Fund Balance - January 1, 2011	<u>-</u>
Fund Balance - December 31, 2011	<u>\$ -</u>

TOWN OF BETHLEHEM, NEW YORK
CAPITAL PROJECTS FUND

Regulatory Basis Balance Sheet
December 31, 2011

Assets	
Cash	\$ 3,151,301
Cash - restricted	2,532,348
Total Assets	<u>\$ 5,683,649</u>
Liabilities	
Accounts payable and retainage	\$ 145,391
Notes payable	2,900,000
Total Liabilities	<u>3,045,391</u>
Fund Balance	
Reserved	2,532,348
Assigned	105,910
Total Fund Balance	<u>2,638,258</u>
Total Liabilities and Fund Balance	<u>\$ 5,683,649</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit)
For the Year Ended December 31, 2011

	<u>Actual</u>
Revenues	
Use of money and property	\$ 8,335
Miscellaneous local sources	329
Federal aid	46,291
	<u>54,955</u>
Other Financing Sources	
Operating transfers	18,000
Bond anticipation notes redeemed	1,505,000
Total Revenues and Other Financing Sources	<u>1,577,955</u>
Expenditures	
General government support	405,334
Public safety	53,832
Transportation	978,899
Culture and recreation	3,351
Home and community services	184,866
Debt service	1,290,000
Total Expenditures	<u>2,916,282</u>
Excess of Expenditures Over Revenues and Other Financing Sources	(1,338,327)
Fund Balance - January 1, 2011	<u>3,976,585</u>
Fund Balance - December 31, 2011	<u>\$ 2,638,258</u>

TOWN OF BETHLEHEM, NEW YORK
AGENCY FUND

Regulatory Basis Balance Sheet
December 31, 2011

Assets	
Cash	\$ 163,633
Due from other funds	<u>241,325</u>
Total Assets	<u><u>\$ 404,958</u></u>
Liabilities	
Agency liabilities	<u>\$ 404,958</u>
Total Liabilities	<u><u>\$ 404,958</u></u>

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

Regulatory Basis Balance Sheet
December 31, 2011

Assets	
Land	\$ 18,74,465
Improvements other than buildings	8,599,827
Buildings	24,985,055
Machinery and equipment	19,656,911
Infrastructure	<u>10,520,530</u>
	<u>\$ 65,636,788</u>
Investment in Fixed Assets	<u>\$ 65,636,788</u>

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

Regulatory Basis Balance Sheet
December 31, 2011

Assets	
Provisions to be made in future budgets	\$ 18,553,373
Total Assets	<u>\$ 18,553,373</u>
Liabilities	
Landfill closure and post closure costs	\$ 100,000
Judgments and claims payable	60,000
Compensated absences	253,845
Workers' Compensation	499,528
Bonds payable	<u>17,640,000</u>
Total Liabilities	<u>\$ 18,553,373</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The following is a summary of significant accounting policies:

A. Financial Reporting Entity

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

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

The reporting entity of the Town is based upon criteria set forth by GASB Statement No. 14, *The Financial Reporting Entity*. 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 14.

B. Basis of Presentation

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

Governmental Fund Types

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Governmental Fund Types (Continued)

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Governmental Fund Types (Continued)

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

C. Basis of Accounting/Measurement Focus

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Property Taxes and Collections

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

E. General Budget Policies

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property, Plant and Equipment - General

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

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

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

The Town does not maintain adequate subsidiary records of general fixed assets to substantiate the balances, therefore; fixed assets are not accounted for at cost or an estimate of cost as required by OSC.

G. Vacation and Compensatory Time

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

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

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

H. Other Postemployment Benefits ("OPEB")

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

OPEB costs recognized as incurred was approximately \$626,000 in 2011 for 141 retirees.

I. Retirement Plans

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

J. Deferred Compensation Plan

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

K. Self-Insurance

Workers' Compensation Section 207-C

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Estimates

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

2. CASH, CASH RESTRICTED AND RESERVED FUND BALANCE

Cash and Investment

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

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

At year-end, the book amount of the Town's (the primary government) deposits was \$11,079,988 (excluding \$2,250 in petty cash) and the bank balance was \$11,283,925. The insured and collateral status of the year-end bank balance was as follows:

Covered by federal deposit insurance	\$ 1,732,586
Collateralized with securities held by a third party custodian for the benefit of the Town pursuant to three-party custody agreement	<u>9,551,339</u>
Total	<u>\$ 11,283,925</u>

Investments at December 31, 2011 consist of money market accounts and bank certificates of deposit.

3. PREPAID EXPENSES

The Town elected to prepay its required contributions to the New York State and Local Employees' Retirement System, the New York State Local Police and Fire Retirement Systems, and the Public Employees' Group Life Insurance Plan. The prepayment is equal to \$653,969 as of December 31, 2011. The balance at December 31, 2011 consists of:

<u>Fund</u>	<u>Amount</u>
General	\$ 500,642
Highway	111,524
Water	77,278
Sewer	55,085
Total	<u>\$ 744,529</u>

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Balance</u> <u>1/1/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/11</u>
Land	\$ 1,871,149	\$ 3,316	\$ -	\$ 1,874,465
Improvements	8,184,787	415,040	-	8,599,827
Buildings	24,856,775	128,280	-	24,985,055
Machinery and Equipment	18,324,152	1,856,851	(524,092)	19,656,911
Infrastructure	9,887,908	632,622	-	10,520,530
Total	<u>\$ 63,124,771</u>	<u>\$ 3,036,109</u>	<u>\$ (524,092)</u>	<u>\$ 65,636,788</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.

TOWN OF BETHLEHEM, NEW YORK
 NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2011

5. SHORT-TERM DEBT (CONTINUED)

<u>Fund</u>	<u>Description</u>	<u>Rate</u>	<u>Interest Amount</u>
General	Police Vehicle	1.79	\$ 53,333
Highway	Road Paving	1.79	728,000
Water/Sewer	Equipment	1.79	508,667
General	Town Hall Improvements	1.68	470,000
Highway	Road Paving	1.68	780,000
Highway	Equipment	1.68	360,000
			<u>\$ 2,900,000</u>

6. NON-CURRENT GOVERNMENTAL LIABILITIES

The following is a summary of changes in long-term debt outstanding at December 31, 2011:

	<u>Payable</u> <u>1/1/11</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Other Net</u> <u>Increase</u> <u>(Decrease)</u>	<u>Payable</u> <u>12/31/11</u>
Serial Bonds (a)	\$ 18,745,000	\$ -	\$ (1,105,000)	\$ -	\$ 17,640,000
Judgments and Claims (b)	70,000	-	-	(10,000)	60,000
Post Closure Landfill Monitoring (c)	100,000	-	-	-	100,000
Compensated Absences (d)	296,475	-	-	(42,630)	253,845
Workers' Compensation (e)	1,499,740	-	-	(1,000,212)	499,528
Total	<u>\$ 20,711,215</u>	<u>\$ -</u>	<u>\$ (1,105,000)</u>	<u>\$ (1,052,842)</u>	<u>\$ 18,553,373</u>

(a) Serial Bonds

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

6. NON-CURRENT GOVERNMENTAL LIABILITIES (CONTINUED)

(a) Serial Bonds (Continued)

The following is a summary of serial bonds outstanding at December 31, 2011:

<u>Description by Fund(s)</u>	<u>Original Date Issued</u>	<u>Original Amount</u>	<u>Rate (%)</u>	<u>Date Final Maturity</u>	<u>Outstanding at December 31, 2011</u>
Water	2004	\$ 12,105,000	5.00	2022	\$ 8,595,000
General	2008	1,880,000	4.50	2018	1,405,000
General, Water and Sewer	2009	<u>7,985,000</u>	3.25	2037	<u>7,640,000</u>
Total Outstanding		<u>\$ 21,970,000</u>			<u>\$ 17,640,000</u>

The following is a schedule of principal and interest payments for future debt service requirements as of December 31, 2011:

	<u>Principal</u>	<u>Interest</u>
2012	\$ 930,000	\$ 822,375
2013	975,000	775,525
2014	1,030,000	727,088
2015	1,085,000	675,819
2016	1,135,000	622,588
2017-2021	5,860,000	2,231,744
2022-2026	2,385,000	1,113,763
2027-2031	1,690,000	797,888
2032-2036	2,080,000	393,950
2037	<u>470,000</u>	<u>21,148</u>
Total	<u>\$ 17,640,000</u>	<u>\$ 8,182,888</u>

Serial bonds have been authorized for water improvements, but have not been issued as of December 31, 2001, in the amount \$11,776,000. At December 31, 2011 the total outstanding serial bonds and BANs aggregated \$20,540,000, of this amount \$10,222,854 was subject to the constitutional debt limit and represented approximately 4.36% 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 \$10,000 to \$60,000. 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.

6. NON-CURRENT GOVERNMENTAL LIABILITIES (CONTINUED)

(c) Post Closure Landfill Monitoring

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

(d) Compensated Absences

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

(e) Workers' Compensation Section 207-C

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

Unpaid claims and claim adjustment expenses at January 1, 2011	\$ 1,499,740
Decrease in provision for incurred events of prior years	(706,910)
Payments made of claims	<u>(293,302)</u>
Unpaid Claims and Claim Adjustment Expenses at December 31, 2011	<u>\$ 499,528</u>
Unpaid claims and claim adjustment expenses at January 1, 2010	1,637,560
Increase in provision for incurred events of prior years	45,057
Payments made of claims	<u>(182,877)</u>
Unpaid Claims and Claim Expenses at December 31, 2010	<u>\$ 1,499,740</u>

7. DEFERRED REVENUE

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

7. DEFERRED REVENUE (CONTINUED)

Deferred revenue consists of the following:

General Fund:	
Federal and State Grants	\$ 343,277
Customer Deposits	114,613
Other	<u>37,528</u>
Total General Fund	<u>\$ 495,418</u>
Special Grant Fund:	
Federal Aid	<u>\$ 35,911</u>
Highway Fund:	
Federal and State Grants	<u>\$ 196,959</u>
Water Fund:	
Federal and State Grants	\$ 420,755
Departmental Income	<u>236,558</u>
	<u>\$ 657,313</u>
Sewer Fund:	
Federal and State Grants	\$ 396,141
Department Income	<u>162,755</u>
	<u>\$ 558,896</u>

8. INTERFUND RECEIVABLES AND PAYABLES/INTERFUND TRANSFERS

Interfund receivables, payables and transfers at December 31, 2011 were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Operating Transfer-In</u>	<u>Operating Interfund Transfers-Out</u>
General	\$ -	\$ 241,325	\$ 923,709	\$ 18,000
Highway	-	-	-	264,621
Capital Projects	-	-	18,000	-
Sewer Districts	-	-	-	173,527
Water Districts	-	-	-	210,561
Ambulance	-	-	-	275,000
Agency	<u>241,325</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 241,325</u>	<u>\$ 241,325</u>	<u>\$ 941,709</u>	<u>\$ 941,709</u>

9. PENSION PLANS

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

Plan Description

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

Funding Policies

The ERS is noncontributory except for employees who joined the System after July 27, 1976 who contribute 3% of their salary, until such time as they obtain ten years of service credit and employees who joined after January 1, 2010 who generally contribute 3% of their salary for the entire length of service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

- Requires minimum contributions by employers of 4.5% of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes the cycle of annual billing such that the contributions for a given fiscal year will be based on the value of the pension fund on the prior April 1st (billing due February 2010 would be based on the pension value as of March 31, 2009).

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

9. PENSION PLANS (CONTINUED)

Funding Policies (Continued)

The pension expense due in February 2012 was prepaid in December 2011, in order to receive the discount offered by the State Retirement System and resulted in a savings to the Town of \$23,804 as of December 31, 2011. The Town's contributions made to the Systems were equal to 100 percent of the contributions required for each year. The contributions in the current and two preceding years were:

	<u>ERS</u>	<u>PFRS</u>
2011	\$ 1,763,202	\$ 857,536
2010	\$ 1,254,182	\$ 606,334
2009	\$ 888,320	\$ 486,107

10. FUND EQUITY

As of December 31, 2011, the Town 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, 2011.
- **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.

10. FUND EQUITY (CONTINUED)

Fund balances are detailed as follows:

	<u>General Fund</u>	<u>Highway Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Nonspendable				
Inventory	\$ 75,029	\$ 402,952	\$ 10,170	\$ -
Prepaid Expenses	<u>500,642</u>	<u>111,524</u>	<u>77,278</u>	<u>55,085</u>
	<u>575,671</u>	<u>514,476</u>	<u>87,448</u>	<u>55,085</u>
Assigned				
Encumbrances	47,279	-	239,311	182,017
Subsequent Years Budget	112,249	248,614	344,166	263,756
Highway Fund	-	1,248,558	-	-
Water Fund	-	-	2,447,959	-
Sewer Fund	-	-	-	752,984
	<u>159,528</u>	<u>1,497,172</u>	<u>3,031,436</u>	<u>1,198,757</u>
Unassigned	<u>2,816,679</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,551,878</u>	<u>\$ 2,011,648</u>	<u>\$ 3,118,884</u>	<u>\$ 1,253,842</u>

Capital Reserves

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

Capital Projects Fund:

Improvements and equipment	\$ 106,975
Recreational facilities	504,232
Fire tower and additions and improvements	32,440
Highway equipment	(1,216,897)
Reconstruction of water facilities	1,811,315
Reconstruction of sewer facilities	117,827
Pump station	<u>988,187</u>
Total GML Section 6-C	<u>\$ 2,344,079</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, 2011, the balance of the reserve was \$188,269.

Total Capital Reserves Under GML Sections 6-C and 6-O	<u>\$ 2,532,348</u>
---	---------------------

10. FUND EQUITY (CONTINUED)

The Town has a fund balance policy which in effect requires a minimum fund balance of 20% of budgeted expenditures in the general and special revenue funds. At December 31, 2011, the general fund did not meet the minimum and was at 15.5% of budgeted expenditures. Any balances in excess of the minimum fund balance (for the special revenue funds only) are classed as capital reserve funds.

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

11. COMMITMENTS AND CONTINGENCIES

The Town of Bethlehem has completed closure of the North Street landfill, in accordance with an Order of Consent issued by the Department of Environmental Conservation (DEC) on November 18, 1993. The Town is required to monitor the site for 30 years, with 15 years lapsed as of December 31, 2011. The current estimated liability for post closure care costs of the landfill for the remaining 15 years is \$38,000. However, the actual cost of post closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The liability has been funded in a capital reserve fund.

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

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

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

12. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has purchased commercial insurance for all risk above minimal deductible amounts except for Workers' Compensation and environmental hazards. Settled claims have not exceeded the commercial coverage, or the amounts provided for in non-current governmental liability group of accounts by any material amounts during 2011. There was no reduction in insurance coverage during 2011. An estimate of liability is recorded at December 31, 2011 for outstanding claims or for any potential claims incurred but not reported as of that date in the non-current government liability group of accounts.

13. CUMULATIVE EFFECT ON CHANGE IN ACCOUNTING PRINCIPLE

In 2011, the Town instituted a change in accounting policy for pension expense. Prior to 2011, pension costs were recognized as an expenditure when due. In 2011, the recognition of pension costs was for the period billed. As a result the cumulative effect of a change in accounting Principle of \$1,392,756 was recorded in 2011 as a reduction of fund balance. The reductions by fund were: General Fund \$902,740, Highway Fund \$237,975, Water Fund \$147,653 and Sewer Fund \$104,388.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions as to any potential material impact on operations or financial position occurring through July 11, 2012, the date the financial statements were available to be issued.

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

TOWN OF BETHLEHEM, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2011

<u>Federal Grantor/Pass-Through Grantor/Program Title Expenditures</u>	<u>CFDA Federal Number</u>	<u>Awards</u>
<u>U.S. Department of Housing and Urban Development</u>		
Direct:		
Section 8 Housing Choice Vouchers	14.871	\$ <u>325,133</u>
<u>Department of Transportation</u>		
Passed Through State of New York:		
Safety Incentive Grants for Use of Seatbelts	20.604	3,320
State and Community Highway Fund	20.600	24,926
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	22,909
Occupant Protection	20.602	3,610
Highway Planning and Construction	20.205	<u>124,902</u>
Total Expenditures of Federal Awards		<u>179,667</u>
Total Federal Assistance		\$ <u>504,800</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Relationship to Financial Statements

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

General Fund	\$ 61,524
Highway Fund	71,412
Sewer Fund	440
Special Grant	325,133
Capital Projects	<u>46,291</u>
Federal Aid Per Schedule of Expenditures of Federal Awards	<u>\$ 504,800</u>

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

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

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

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

We have audited the regulatory basis financial statements of the Town of Bethlehem, New York as of and for the year ended December 31, 2011, and have issued our report thereon dated July 11, 2012. 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.

Internal Control Over Financial Reporting

Management of the Town of Bethlehem, New York is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Bethlehem, New York's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Bethlehem's financial statements are free of 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 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*.

This report is intended solely for the information and use of management, others within the Town, and the Town Board and is not intended to be and should not be used by anyone other than these specified parties.

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

CUSACK & COMPANY, CPA'S LLC

Latham, New York
July 11, 2012

CUSACK & COMPANY
Certified Public Accountants LLC
7 AIRPORT PARK BOULEVARD
LATHAM, NEW YORK 12110
(518) 786-3550
FAX (518) 786-1538
E-MAIL ADDRESS: INFO@ CUSACKCPA.COM
WWW.CUSACKCPA.COM

CLIFTON PARK/HALFMOON OFFICE
(518) 664-7063
FAX (518) 541-3083

MEMBERS OF:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
AND
NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Town of Bethlehem, New York with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal program for the year ended December 31, 2011. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Town of Bethlehem, New York's management. Our responsibility is to express an opinion on the Town of Bethlehem, New York's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Bethlehem, New York's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Bethlehem, New York's compliance with those requirements.

In our opinion, the Town of Bethlehem, New York complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

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 requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Bethlehem, New York's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town'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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of management, others within the Town, the Town Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
July 11, 2012

TOWN OF BETHLEHEM, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weakness(es) identified?	_____ yes	___ x ___ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ yes	___ x ___ none reported

Noncompliance material to financial statements noted? _____ yes ___**x**___ no

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified?	_____ yes	___ x ___ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ yes	___ x ___ none reported

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

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

Identification of major programs.

<u>CFDA NUMBER(S)</u>	<u>NAME OF FEDERAL PROGRAM OR CLUSTER</u>
------------------------------	--

14.871	Section 8 Housing Choice Vouchers
--------	-----------------------------------

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

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

SECTION II - FINANCIAL STATEMENT FINDINGS

1) Accounts Payable Cut-Off

During our audit we noted a significant amount of 2012 expenditures had been incorrectly accrued into 2011.

We recommend that procedures be developed and implemented to insure proper cut-off at year end.

In following up with Town management, we noted procedures have been established to avoid future cut-off issues. The Comptroller's office is working in conjunction with the general ledger software provider to properly roll encumbrances forward and monitor beginning of the year invoices.

TOWN OF BETHLEHEM, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2) Time Sheets

During our audit we noted 7 instances in which the employee time sheet was not signed by either the employee or employer.

We recommend Town management improve its quality control over this particular area of the payroll process in order for this control to operate more effectively.

We have followed up with the Director of Human Resources and noted that they believe procedures have been established to avoid future authorization issues. Human Resources has issued a directive to all Town department heads stating that payroll will not be processed for any timesheet that is not authorized by both the employee and their supervisor. Timesheets for 2012 have been reviewed by management and no instances of non-compliance were noted by them.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings for the year ended December 31, 2011.