

DEFERRED COMPENSATION PLAN
FOR EMPLOYEES OF THE
TOWN OF BETHLEHEM
Financial Statements
December 31, 2012 and 2011
(With Independent Auditors' Report Thereon)

DEFERRED COMPENSATION PLAN FOR
EMPLOYEES OF THE TOWN OF BETHLEHEM

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 6
Financial Statements:	
Statements of Fiduciary Net Assets Available for Plan Benefits	7
Statements of Changes in Fiduciary Net Assets Available for Plan Benefits	8
Notes to Financial Statements	9 - 14

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INDEPENDENT AUDITORS' REPORT

The Deferred Compensation Committee
Deferred Compensation Plan for Employees
of the Town of Bethlehem:

Report on the Financial Statements

We have audited the accompanying financial statements of the Deferred Compensation Plan for Employees of the Town of Bethlehem, which comprise the statements of fiduciary net assets available for plan benefits as of December 31, 2012 and 2011, and the related statements of changes in fiduciary net assets available for plan benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets available for plan benefits of the Deferred Compensation Plan for Employees of the Town of Bethlehem as of December 31, 2012 and 2011, and the changes in its fiduciary net assets available for plan benefits for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. 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.

Toski & Co., CPAs, P.C.

Williamsville, New York
June 28, 2013

DEFERRED COMPENSATION PLAN FOR
EMPLOYEES OF THE TOWN OF BETHLEHEM

Management's Discussion and Analysis

December 31, 2012 and 2011

This section presents management's discussion and analysis (MD&A) of the Deferred Compensation Plan for Employees of the Town of Bethlehem's (the Plan) financial position and performance for the fiscal years ended December 31, 2012 and 2011. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements and notes to financial statements to better understand the financial condition and performance of the Plan during the fiscal years ended December 31, 2012 and 2011.

Financial Highlights

- The Plan's net assets at December 31, 2012 were \$6,443,446, as compared to \$5,750,011 at December 31, 2011. The net assets represent participant contributions and net investment income.
- The Plan's net assets for the year ended December 31, 2012 increased by \$693,435, or approximately 12.1%, from the prior year. The Plan's net assets increased by \$435,323 or approximately 8.2% during the year ended December 31, 2011.
- The Plan had investment gains of \$579,756 during the year ended December 31, 2012, compared to \$(41,428) in investment losses during the year ended December 31, 2011.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements, which comprise the following:

- Statements of Fiduciary Net Assets Available for Plan Benefits
- Statements of Changes in Fiduciary Net Assets Available for Plan Benefits
- Notes to Financial Statements

Statements of Fiduciary Net Assets Available for Plan Benefits - These statements present information regarding the Plan's assets, liabilities and resulting net assets held in trust for plan benefits. This statement reflects the Plan's investments at fair market value at December 31, 2012 and 2011.

Statements of Changes in Fiduciary Net Assets Available for Plan Benefits - These statements present how the Plan's net assets held in trust changed during the years ended December 31, 2012 and 2011. These statements present contributions by participants along with net investment income during the periods from individual participant-directed investing activities. Deductions for participant benefit payments and administrative expenses are also presented.

Notes to Financial Statements - The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules that are essential to better understand the Plan's financial statements.

DEFERRED COMPENSATION PLAN FOR
EMPLOYEES OF THE TOWN OF BETHLEHEM
Management's Discussion and Analysis, Continued

Condensed Financial Information

<u>Description</u>	Net assets		<u>Increase</u>	
	<u>2012</u>	<u>2011</u>	<u>Amount</u>	<u>Percentage</u>
Assets:				
Investments, at fair value:				
Pooled separate accounts	\$ 4,212,800	4,044,462	168,338	4.2%
Fixed interest account	<u>2,105,098</u>	<u>1,629,376</u>	<u>475,722</u>	<u>29.2%</u>
Total investments	6,317,898	5,673,838	644,060	11.4%
Notes receivable from participants	<u>125,548</u>	<u>76,173</u>	<u>49,375</u>	<u>64.8%</u>
Total fiduciary net assets available for plan benefits	\$ <u>6,443,446</u>	<u>5,750,011</u>	<u>693,435</u>	<u>12.1%</u>

Changes in net assets

<u>Description</u>	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>	
			<u>Amount</u>	<u>Percentage</u>
Fiduciary net assets available for plan benefits at beginning of year	\$ <u>5,750,011</u>	<u>5,314,688</u>	<u>435,323</u>	<u>8.2%</u>
Additions:				
Contributions	609,400	682,478	(73,078)	(10.7%)
Net investment/interest income	<u>579,756</u>	<u>(41,428)</u>	<u>621,184</u>	<u>1,499.4%</u>
Total additions	<u>1,189,156</u>	<u>641,050</u>	<u>548,106</u>	<u>85.5%</u>
Deductions:				
Benefits paid to participants	494,871	205,227	289,644	141.1%
Administrative expenses	<u>850</u>	<u>500</u>	<u>350</u>	<u>70.0%</u>
Total deductions	<u>495,721</u>	<u>205,727</u>	<u>289,994</u>	<u>141.0%</u>
Increase	<u>693,435</u>	<u>435,323</u>	<u>258,112</u>	<u>59.3%</u>
Fiduciary net assets available for plan benefits at end of year	\$ <u>6,443,446</u>	<u>5,750,011</u>	<u>693,435</u>	<u>12.1%</u>

DEFERRED COMPENSATION PLAN FOR
EMPLOYEES OF THE TOWN OF BETHLEHEM
Management's Discussion and Analysis, Continued

Investments

The Plan is entirely participant-directed, which means that each Plan participant decides how his or her contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the respective investment funds.

Investments consisted of the following at December 31, 2012 and 2011:

	<u>Market value</u>	
	<u>2012</u>	<u>2011</u>
Nationwide Fixed Account	\$ 2,105,098	1,629,376
Fidelity Contrafund	429,175	373,162
Nationwide Inv Destination Moderate Aggressive Fund	528,296	465,322
Nationwide Inv Destination Moderate Fund	382,264	346,420
Dreyfus S&P 500 Index Fund	165,670	222,808
Pimco Total Return Fund	380,855	304,322
Neuberger Berman Genesis Fund	177,614	206,878
Nationwide Large Cap Growth Fund	204,957	181,649
Nationwide International Index Fund	85,883	123,309
Fidelity Equity Income Fund	111,479	113,603
Invesco Van Kampen Growth and Income Fund	225,847	208,063
JPMorgan Mid Cap Value Fund	91,819	117,951
Nationwide Inv Destination Aggressive Fund	167,351	140,950
Oppenheimer Global Fund	76,465	82,829
American Century Value Fund	62,974	90,173
Nationwide International Value Fund	74,470	78,936
T Rowe Price Growth Stock Fund	18,483	99,655
American Century Vista Fund	91,871	84,019
Brown Capital Management Small Co. Fund	53,195	48,168
Federated U.S. Government Fund	57,391	83,704
Janus Fund	47,465	47,904
Nationwide Mid Cap Market Fund	83,651	77,840
Dreyfus Appreciation Fund	67,789	62,339
American Century Growth Fund	42,220	49,488
Nationwide S&P 500 Index Fund	2,460	1,215
Neuberger Berman Socially Resp. Fund	16,459	14,955
Nationwide Inv Destination Moderate Conservative Fund	29,841	30,637
Waddell & Reed High Income Fund	225,819	157,677
Nationwide Destination 2025 Fund	50,800	47,315
Nationwide US Small Cap Value Fund	12,268	9,494
Nationwide Money Market Fund	37,796	65,294

DEFERRED COMPENSATION PLAN FOR
EMPLOYEES OF THE TOWN OF BETHLEHEM
Management's Discussion and Analysis, Continued

Investments, Continued

	<u>Market value</u>	
	<u>2012</u>	<u>2011</u>
Nationwide Bond Index Fund	\$ 74,632	16,182
American Century International Discovery Fund	10,154	8,564
Nationwide Small Cap Index Fund	2,044	1,684
Nationwide Destination 2035 Fund	27,785	12,756
Nationwide Inv Destination Conservative Fund	13,596	10,447
Nationwide Destination 2040 Fund	2,908	2,541
NVIT Multi Manager Small Company Fund	2,700	2,357
Nationwide Destination 2045 Fund	18,629	14,634
Nationwide Destination 2050 Fund	43,987	29,174
Nationwide Destination 2055 Fund	722	-
Nationwide Destination 2030 Fund	5,248	2,402
Invesco International Growth	6,826	7,642
Nationwide Institutional Service Fund	<u>942</u>	<u>-</u>
	<u>\$ 6,317,898</u>	<u>5,673,838</u>

Contributions and Distributions

The Plan had contributions of \$609,400 during the year ended December 31, 2012 compared to \$682,478 during the year ended December 31, 2011. Decreased contributions are attributable to higher employee rollovers into the Plan in 2011.

The Plan had benefits paid to participants of \$494,871 during the year ended December 31, 2012 compared to \$205,227 during the year ended December 31, 2011.

Fiduciary Responsibilities

The Town of Bethlehem Deferred Compensation Plan Committee and the Plan administrator are co-fiduciaries of the Plan.

The Plan's assets can only be used for the exclusive benefit of the Plan's participants, beneficiaries and alternate payees.

Request for Information

This financial report is designed to provide a general overview for those parties interested in the Plan's finances. Questions concerning any of the information provided in this financial report or requests for additional information should be addressed to:

Town of Bethlehem Deferred Compensation Plan
445 Delaware Avenue
Delmar, New York 12054

DEFERRED COMPENSATION PLAN FOR
EMPLOYEES OF THE TOWN OF BETHLEHEM
Statements of Fiduciary Net Assets Available for Plan Benefits
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets:		
Investments, at fair value:		
Pooled separate accounts	\$ 4,212,800	4,044,462
Fixed interest account	<u>2,105,098</u>	<u>1,629,376</u>
Total investments	6,317,898	5,673,838
Notes receivable from participants	<u>125,548</u>	<u>76,173</u>
Fiduciary net assets available for plan benefits	<u>\$ 6,443,446</u>	<u>5,750,011</u>

See accompanying notes to financial statements.

DEFERRED COMPENSATION PLAN FOR
EMPLOYEES OF THE TOWN OF BETHLEHEM
Statements of Changes in Fiduciary Net Assets Available for
Plan Benefits
Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Additions to net assets attributed to:		
Contributions	\$ 609,400	682,478
Net investment income	575,346	(44,898)
Interest income on notes receivable from participants	<u>4,410</u>	<u>3,470</u>
Total additions to net assets	<u>1,189,156</u>	<u>641,050</u>
Deductions from net assets attributed to:		
Benefits paid to participants	494,871	205,227
Administrative expenses	<u>850</u>	<u>500</u>
Total deductions from net assets	<u>495,721</u>	<u>205,727</u>
Net increase	693,435	435,323
Fiduciary net assets available for plan benefits:		
Beginning of year	<u>5,750,011</u>	<u>5,314,688</u>
End of year	<u>\$ 6,443,446</u>	<u>5,750,011</u>

See accompanying notes to financial statements.

DEFERRED COMPENSATION PLAN FOR
EMPLOYEES OF THE TOWN OF BETHLEHEM

Notes to Financial Statements

December 31, 2012 and 2011

(1) Description of Plan

The following description of the Deferred Compensation Plan for Employees of the Town of Bethlehem (the Plan) is provided for general informational purposes. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

(a) General

The Plan was established to provide a tax sheltered savings and investment opportunity for employees of the Town of Bethlehem, New York (the Town). The Plan is overseen by a committee comprised of four representatives.

The Plan, created in accordance with Internal Revenue Code (IRC) Section 457, is available to all Town employees and permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination of employment, retirement, death or unforeseeable financial emergency.

The Plan has entered into a contract with Nationwide Retirement Solutions (Nationwide) to administer the Plan. Nationwide offers several investment options through various financial organizations, and maintains individual accounts for Plan participants.

All amounts of compensation deferred under the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries and alternate payees pursuant to the trust agreement.

The Plan is exempt from income taxes in accordance with IRC Section 457.

(b) Contributions

Participants may contribute a minimum of \$260 up to the lesser of \$17,000 or 100% of includable compensation. If an employee is age 50 or older, the employee is permitted to contribute up to \$22,500 in a calendar year. A participant may rollover an existing 457 deferred compensation plan, retirement plan, or a traditional IRA into the Plan at any time.

(c) Participant Accounts

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

(d) Vesting

Plan participants are immediately vested in their contributions plus earnings thereon.

DEFERRED COMPENSATION PLAN FOR
EMPLOYEES OF THE TOWN OF BETHLEHEM
Notes to Financial Statements, Continued

(1) Description of Plan, Continued

(e) Investment Options

Upon enrollment in the Plan, a participant may direct his or her contributions into a variety of investment options offered by Nationwide. Participants may change their investment options throughout the Plan year.

(f) Payment of Benefits

Upon termination of service due to death, disability, retirement or separation from service, a participant may elect to receive either a lump-sum payment equal to the value of the unpaid portion of the amount deferred as of the last valuation date, or monthly, quarterly, semi-annual or annual installment payments made over a period which does not exceed the remaining life expectancy of the participant or beneficiary. Additionally, participants may request withdrawals for unforeseeable emergencies subject to certain Federal rules and regulations.

(g) Notes Receivable From Participants

Participants may borrow from their accounts a minimum of \$1,000 up to a maximum of \$50,000 or 50% of their account balance, whichever is less. The loans are secured by the balance in the participants' account and bear interest at the prime rate plus 1% per annum.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis and present fiduciary net assets available for plan benefits and changes therein.

(b) Estimates

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

(c) Investment Valuation and Income Recognition

Investments in pooled separate accounts are presented at fair value based on published market prices. Investments in the fixed interest account are presented at contract value, which approximates fair value. See note 4 for discussion of fair value measurements.

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

DEFERRED COMPENSATION PLAN FOR
EMPLOYEES OF THE TOWN OF BETHLEHEM

Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(d) Notes Receivable From Participants

Notes receivable from participants are measured at their unpaid balance plus any accrued but unpaid interest. Delinquent participant loans are reclassified as distributions based upon the terms of the Plan document.

(e) Subsequent Events

The Plan has evaluated events after December 31, 2012, and through June 28, 2013, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(3) Investments

The fair value of individual investments that represent 5% or more of the Plan's net assets at December 31, 2012 are as follows:

	<u>2012</u>	<u>2011</u>
Nationwide Fixed Account	\$ 2,105,098	1,629,376
Fidelity Contrafund	429,175	373,162
Nationwide Inv. Destination Moderate Aggressive Fund	528,296	465,322
Nationwide Inv. Destination Moderate Fund	382,264	346,420
Pimco Total Return Fund	<u>380,855</u>	<u>304,322</u>

During the years ended December 31, 2012 and 2011, the Plan's investments (including securities bought, sold, as well as held during the year) appreciated (depreciated) in value by \$575,346 and \$(44,898), respectively.

(4) Fair Value Measurements

A framework has been established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.
- Level 2 - Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;

DEFERRED COMPENSATION PLAN FOR
EMPLOYEES OF THE TOWN OF BETHLEHEM
Notes to Financial Statements, Continued

(4) Fair Value Measurements, Continued

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's 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 methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012.

- Pooled separate accounts - Valued at the net asset value of units held by the Plan at year-end.
- Fixed interest account - Valued at fair value (which approximates contract value) by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer (note 5).

The methods 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 methods are 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 table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2012 and 2011:

	<u>2012</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pooled separate accounts:				
Equity:				
Allocated	\$ -	1,271,429	-	1,271,429
International	-	253,799	-	253,799
Large cap	-	1,395,917	-	1,395,917
Mid cap	-	444,954	-	444,954
Small cap	-	70,207	-	70,207
Fixed income	-	738,698	-	738,698
Money market	37,796	-	-	37,796
Fixed interest account	<u>-</u>	<u>-</u>	<u>2,105,098</u>	<u>2,105,098</u>
Total investments at fair value	\$ <u>37,796</u>	<u>4,175,004</u>	<u>2,105,098</u>	<u>6,317,898</u>

DEFERRED COMPENSATION PLAN FOR
EMPLOYEES OF THE TOWN OF BETHLEHEM
Notes to Financial Statements, Continued

(4) Fair Value Measurements, Continued

	<u>2011</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pooled separate accounts:				
Equity:				
Allocated	\$ -	993,776	-	993,776
International	-	177,971	-	177,971
Large cap	-	1,588,323	-	1,588,323
Mid cap	-	486,688	-	486,688
Small cap	-	61,703	-	61,703
Balanced	-	108,822	-	108,822
Fixed income	-	561,885	-	561,885
Money market	65,294	-	-	65,294
Fixed interest account	<u>-</u>	<u>-</u>	<u>1,629,376</u>	<u>1,629,376</u>
Total investments at fair value	\$ <u>65,294</u>	<u>3,979,168</u>	<u>1,629,376</u>	<u>5,673,838</u>

Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the years ended December 31, 2012 and 2011:

<u>Guaranteed interest account</u>	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 1,629,376	1,275,702
Purchases, sales, issuances and settlements (net)	149,529	180,704
Transfers in	347,130	193,105
Transfers out	<u>(20,937)</u>	<u>(20,135)</u>
Balance at end of year	\$ <u>2,105,098</u>	<u>1,629,376</u>

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

(5) Nationwide Fixed Account

The Plan maintains a fixed interest account with Nationwide that provides a stable rate of return by investing in a pool of government securities backed by the full faith and credit of the U.S. government and/or its agencies. In advance of each calendar quarter, Nationwide establishes a rate of return for that quarter for the investment. The rate in effect for 2012 and 2011 was 3.50% and 3.55%, respectively.

DEFERRED COMPENSATION PLAN FOR
EMPLOYEES OF THE TOWN OF BETHLEHEM
Notes to Financial Statements, Continued

(6) Plan Termination

The Town reserves the right to amend, suspend, or terminate the Plan and any deferrals thereunder, the trust agreement and any investment fund, in whole or in part and for any reason and without the consent of any employee, participant, beneficiary, or other person. Upon termination of the Plan, all amounts deferred shall be payable as provided in the Plan.

(7) Risks and Uncertainties

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