

TOWN OF BETHLEHEM, NEW YORK
REGULATORY BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2013

TOWN OF BETHLEHEM, NEW YORK

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TOWN OF BETHLEHEM, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
 DECEMBER 31, 2013

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, 2013. This document should be read in conjunction with the Town's financial statements.

Financial Highlights

In 2013, the Town experienced the loss of the 20 year Payment in Lieu of Taxes ("PILOT") with Selkirk Cogen, which had provided for an increasing payment annually, and by 2012 reached \$1.76 million. This payment was split proportionally, based on tax rates, between the General and Highway Funds. The loss to the Town when the PILOT ceased was \$592,000 and \$1.17 million, respectively. In an effort to stem the negative impact on this loss, the Town began working toward a solution, beginning January 2012 that continues to evolve. The effect was that the Town experienced a net operating surplus in all four major operating funds: General, Highway, Water and Sewer Funds.

Major program changes and enhancements that were implemented in 2013 include:

- The Town began utilization of our payment processing center to collect annual property tax and school tax payments. This, combined with the water/sewer payment collection, began in 2012 and provided an opportunity to reduce the number of employees required to staff the Tax Receiver's office; and
- The Town helped to facilitate the process of combining local ambulance companies and districts, thus creating efficiencies in administrative costs, improved billings and uniform tax rates; and
- Exercised provisions of the Town's 2012 fund balance policy to supplement balances in the Town's Water and Sewer Capital Project Reserve Funds for the first time since 2007; providing funding alternatives for infrastructure repair and replacement needs, and reduce our reliance on borrowing; and
- Continued adjustments to forecasting tools: Multiyear Budgeting and Capital Planning. These programs enhance long range planning and improve program evaluation through the integration of financial and strategic planning.

The following chart compares the budgeted revenue and expenditures with actual figures for 2013:

	<u>General</u>	<u>Highway</u>	<u>Water</u>	<u>Sewer</u>
Final Budgeted Revenues and Transfers	\$17,969,937	\$ 6,505,949	\$ 9,345,563	\$ 4,392,759
Final Budgeted Expenses and Transfers	<u>18,622,909</u>	<u>6,678,325</u>	<u>11,321,020</u>	<u>5,111,871</u>
Budgeted Shortfall	<u>\$ (652,972)</u>	<u>\$ (172,376)</u>	<u>\$(1,975,457)</u>	<u>\$ (719,112)</u>
Actual Revenues and Transfers	\$18,712,324	\$ 6,641,722	\$ 9,482,271	\$ 4,316,864
Actual Expenses and Transfers	<u>17,844,507</u>	<u>6,633,572</u>	<u>8,162,484</u>	<u>4,180,840</u>
Operating Surplus	867,817	8,150	1,319,787	136,024
Capital Fund Transfer	<u>-</u>	<u>-</u>	<u>(1,746,517)</u>	<u>(165,000)</u>
Net Surplus (Deficit)	867,817	8,150	(426,730)	(28,976)
Total Fund Balance, December 31, 2012	<u>4,724,710</u>	<u>2,377,099</u>	<u>3,898,238</u>	<u>1,999,359</u>
Total Fund Balance, December 31, 2013	<u>\$ 5,592,527</u>	<u>\$ 2,385,249</u>	<u>\$ 3,471,508</u>	<u>\$ 1,970,383</u>
Nonspendable Fund Balance	\$ 526,695	\$ 674,665	\$ 88,289	55,614
Assigned Appropriated Fund Balance	280,673	44,351	414,076	661,267
Assigned Appropriated for Retirement	672,197	307,780	126,088	-
Assigned Appropriated for Contingency	-	1,358,453	2,843,055	1,253,502
Unassigned for Contingency	<u>4,112,962</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>\$ 5,592,527</u>	<u>\$ 2,385,249</u>	<u>\$ 3,471,508</u>	<u>\$ 1,970,383</u>

Financial Highlights (Continued)

The Town received funds from the Federal Emergency Management Agency (FEMA) and State Emergency Management Office (SEMO) relating to damage from Hurricane Irene in the amount of \$511,000. The related expenditures were recorded in 2012, without offsetting revenues in that year because, consistent with government accounting rules, the Town records revenue when it is "available and measurable". While the revenue was generally "measurable", the Town did not receive the funds within 60 days of the 2013 year end, and therefore, could not consider them to be "available". In 2013, the Town expended an additional \$929,000 for damage restoration, which is believed to be mostly reimbursable. Because the receipt of any or all of this funding is not guaranteed, and because the funding was not received within 60 days, consistent with prior year, the matching revenue was not recorded into the current year. As of December 31, 2013, the cumulative remaining non-guaranteed reimbursements of previously expended funds totaled \$2.25 million.

General Items of Note for All Funds

Fringe Benefits

The Town employed approximately 213 full time employees, 35 part time employees and 233 seasonal employees during the year.

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

<u>Fringe Benefits</u>	<u>2013 Actual</u>	<u>2012 Actual</u>
FICA and Medicare Taxes	\$ 1,086,441	\$ 1,092,182
Health and Dental Insurance - Current Employees	1,650,005	1,539,224
Health and Dental Insurance - Retirees	603,946	621,842
Retirement Systems	2,814,426	2,939,941
Workers' Compensation Insurance	596,197	645,096
Life and Short-Term Disability Insurance	47,419	42,635
Total	<u>\$ 6,798,434</u>	<u>\$ 6,880,920</u>

Overall, fringe benefits for current employees decreased by \$82,486, or 1.2%, of which NYS retirement system costs represented a decrease of \$125,515, or 4.27%, from the prior year. This difference stems from both rate and volume changes. The growth of the pension rates are slowing down as the economic downturn that occurred in 2008 and 2009 are removed from the actuarial tables used to calculate these rates. Further, beginning in 2012, the Town has taken advantage of most attrition opportunities by not filling open positions. As of January 1, 2012, the Town employed 227 full time employees; as of the final payroll in 2013, the Town employed 213 full time employees. Because NYS bills retirement in advance of the year covered, changes that occurred during 2012 did not affect retirement billing until 2013. Also, those employees that left employment were generally lower tier/greater benefit employees. Beyond retirement, health and dental insurance costs increased by \$92,885, or 4.3%, from the prior year. This difference stems from a combination of changes in employee health care selections and an overall rate change of approximately 10%. Lastly, workers' compensation insurance decreased \$48,899 relating to a one time discount offered by PERMA relating to the state assessment fee.

General Items of Note for All Funds (Continued)

Post Retirement Benefits

Retired employees that have met certain eligibility requirements are entitled to receive certain health care benefits for themselves and their spouses. Those benefits are provided through payments to an insurance company. The Town recognizes the cost of providing these benefits for 132 retirees (including spouses) by expensing the annual insurance premiums. The postretirement expense was \$603,946 for 2013 and \$621,842 for 2012 resulting in a 2.87% comparative decrease.

GASB 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" requires the employer to recognize the future value of retiree benefits as a liability in the period in which the benefits are earned, which would significantly increase the reported obligations for the Town.

Interest Income

A summary of the budgeted interest income compared to actual for 2013 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	\$ 7,065	\$ 7,234	\$ 169
Highway	13,150	7,315	(5,835)
Water	8,625	5,458	(3,167)
Sewer	9,025	5,473	(3,552)
Capital	-	6,017	6,017
Total	<u>\$ 37,865</u>	<u>\$ 31,497</u>	<u>\$ (6,368)</u>

The interest earnings for 2013 were equal to \$31,497, a 43% decrease from the 2012 earnings of \$54,938. This is consistent with the decrease in the average rate earned on investments in 2013 which was 0.12% compared to an average rate of 0.23% for 2012.

In addition to the interest earnings received in cash, the Town receives a number of services from our financial banking institutions at no additional cost, utilizing accumulated non cash credits (also known as "compensating balances"). The Town received, from Key Bank, an average compensating balance rate of 1.0% (down from 1.48% in 2012), in addition to the interest paid in cash. The Town utilized these credits to pay for services such as: "Lockbox", which receives, deposits, processes and provides an electronic upload to our billing system for water, sewer and tax payments; free return envelopes for lockbox payments; "positive pay", which matches checks written by the Town against an electronic file provided to the bank to prevent fraudulent checks from being drawn against the Town's checking accounts; reconciliation services, which provides for a verification process on current checks outstanding; debt blocks, which prevent unauthorized ACH activity (unless expressly granted), free checks and deposit slips; and free credit card processing for parks activities. While it is difficult to assign a monetary value to the majority of the services provided, the lockbox services, which were implemented in 2012, have allowed the Town to absorb the attrition from one full time position, saving approximately \$25,000 in 2012 and \$80,000 in 2013. In addition, the bank provides return envelopes free of charge resulting in approximately \$6,000 savings in 2013.

General Items of Note for All Funds (Continued)

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>2013</u>	<u>2012</u>
Serial Bonds	\$ 15,000,000	\$ 16,040,000
Compensated Absences	238,491	237,532
Workers' Compensation	-	75,756
Landfill Closure and Post Closure	100,000	100,000
Judgments and Claims	131,000	81,000
Total Long-Term Debt	<u>\$ 15,469,491</u>	<u>\$ 16,534,288</u>

Items of Note for the General Fund

Total revenues decreased \$480,000, or 2.5%, from \$19.2 million in 2012 to \$18.7 million in 2013. The primary driver of the decrease was payments in lieu of taxes ("PILOT" revenues) which decreased \$592,000 due to the expiration of the 20 year Selkirk Cogen agreement. The offsetting increase to property taxes were \$93,000; a net decrease of \$499,000. Additionally, sales tax collections were up \$115,000 (1.1%) from \$10.5 million in 2012 to \$10.65 million in 2013. Fines and forfeited bail, primarily collections from traffic enforcement, decreased \$57,000 (13.2%) from \$432,000 to \$375,000, due mostly to decreases in violations. State and federal aid increased \$304,000 (17.2%) primarily due to recoveries of FEMA and SEMO expenditures from 2012. Lastly, interfund transfers were down \$254,000 due to a change in policy on Highway Fund administrative cost reimbursements to the General Fund.

Total expenditures decreased \$155,000, or 0.1%, from \$18 million in 2012 to \$17.8 million in 2013. In 2013, the Town spent \$368,000 in the Assessor's department for the 2014 town wide revaluation. The police department had several retirements of long tenured employees during 2013 resulting in contractual payments of \$150,000. Additionally, police overtime costs increased \$97,000 (17%); \$71,000 of which was reimbursed and recorded in revenues. The Town purchased four police vehicles in 2013, an increase of two over the prior year, and purchased add-on equipment for the vehicles in both years, resulting in a year over year increase in cost of \$85,000. These increases in expenditures were offset primarily by a reduction of expenditures on Hurricane Irene related projects which decreased \$907,000 (50%) from 2012 to 2013.

In planning the 2013 budget, the Town anticipated adding \$297,000 to the fund balance through regular operations. However, the operating surplus at the end of the year was \$868,000; \$571,000 more than projected. This was due primarily to the \$509,000 of FEMA/SEMO reimbursements which were received in 2013, but not budgeted.

Items of Note for the Highway Fund

Total revenue increased \$119,000, or 1.8%, from \$6.52 million in 2012 to \$6.64 million in 2013. This was primarily due to a \$1.4 million property tax shift to make up for the loss of \$1.2 million in revenue due to the expiration of the 20 year Selkirk Cogen PILOT agreement.

Items of Note for the Highway Fund (Continued)

Total expenditures increased \$476,000, or 7.7%, from \$6.2 million in 2012 to \$6.6 million in 2013. This was due primarily to increased projects relating to Hurricane Irene totaling \$370,000 for the year, a \$303,000 increase over 2012. Also, due to increased cold and snow, the Town expended \$128,000 in overtime for snow and ice removal in 2013, an increase of \$71,000 over 2012. Lastly, the Town borrowed \$167,000 less than 2012 for paving materials in accordance with the Town's capital plan, which began in 2012, to phase out borrowing for paving.

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 is in the midst of a workout plan to preserve structural balance by managing the size of the workforce relative to the seasonal operating needs of the department as well as reduction of annual borrowings for annual roadway paving purchases. However, the growth in roads and sidewalks from new development continues to place service and cost pressures on the department. In 2013, the Town refinanced Bond Anticipation Notes (short term bonds) from 2010, 2011 and 2012 in the amount of \$2.3 million, while committing to additional funding through BANs for \$748,000. All related paving and equipment expenditures including corresponding liabilities are accounted for in the Highway Capital Reserve Fund.

Items of Note for the Water Fund

The Water Fund is largely funded with user charges and is 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.

The Water Fund's operating revenue stayed relatively flat showing an increase of only \$21,000, or 0.02%, over 2012. This was due to several factors. The first relates to a \$71,000 (3.65%) increase in property taxes relating to the expiration of the 20 year Selkirk Cogen PILOT agreement. The next factor relates to residential and commercial metered water revenues increasing by \$345,000 (\$230,000 related to a 3.5% increase in rates while the remaining \$115,000 related to an increase in usage). The third factor relates to an increase of \$43,000 (30.3%) in cell tower antenna rental charges. This relates largely to one new contract for \$25,000, while the remainder increased due to annual escalators. Lastly, FEMA and SEMO reimbursements of \$430,000 in 2012 for expenditures relating to Hurricane Irene were not received in 2013.

The Water Fund's operating expenditures decreased \$520,000 due primarily to fewer Hurricane Irene related expenditures versus 2012 which totaled \$648,000. There were no reimbursable costs in the water fund relating to the 2011 storm in 2013. Also, in December 2012 the Town refinanced debt on the Clapper Road water plant in order to take advantage of favorable rates. The saving in 2013 from this refinancing was \$133,000 over previously scheduled payments.

From 2008 through 2012, the Town had not transferred any operating fund balance into the Water Capital Project Reserve Fund. However, in 2013, in accordance with the Fund Balance Policy adopted in 2012, the Town transferred \$1.7 million from the water fund operating fund balance to help cover infrastructure and equipment costs identified through the multi-year capital planning process. While these funds are a transfer out of the operating fund, they do not represent a true operating expenditure.

In 2013, the Town obtained Bond Anticipation Notes in the amount of \$1 million for a New Salem Water Transmission Main project beginning in the current year. The Town anticipates borrowing an additional \$700,000 in 2014 to fund the completion of the project. Additionally, the Town refinanced Bond Anticipation Notes from 2010 in the amount of \$120,000 relating to equipment acquisition. All related equipment expenditures including corresponding liabilities are accounted for in the Water Capital Reserve Project Fund.

Items of Note for the Sewer Fund

The Sewer Fund is largely funded with user charges and is somewhat easier, than the General and Highway Funds, to bring to a self-sustaining financial position, even considering the longer-term and sizeable infrastructure construction and maintenance costs for these funds.

The Sewer Fund's operating revenue decreased by \$362,000, or 7.75%, in 2013 for similar reasons to the Water Fund. First, property taxes increased \$102,000, or 6.67%, relating to the expiration of the Selkirk Cogen PILOT agreement. The next factor relates to an increase of \$39,000 based on increased volume of water sales (on which sewer charges are based). Lastly, in 2012, the Town received \$475,000 in reimbursements from FEMA and SEMO for expenditures relating to Hurricane Irene damages to the Town's sewer infrastructure. There was only \$2,000 in reimbursements in 2013.

The Sewer Fund's operating expenditures increased by \$247,000, or 6.28%, in 2013. This relates primarily to a sewer pipe restoration project with a cost of \$290,000 which began in the current year.

From 2008 through 2012, the Town had not transferred any operating fund balance into the Sewer Capital Project Reserve Fund. However, in 2013, in accordance with the Fund Balance Policy adopted in 2013, the Town transferred \$165,000 from the sewer fund operating balance to help cover infrastructure and equipment costs identified through the multi-year capital planning process. While these funds are a transfer out of the operating fund, they do not represent a true operating expenditure.

In 2013, the Town obtained Bond Anticipation Notes in the amount of \$150,000 million for a Sewer Pump Station project beginning in the current year. The Town anticipates additional borrowings of \$1.35 million in 2014 to fund the completion of the project. Additionally, the Town refinanced Bond Anticipation Notes from 2010 in the amount of \$316,000 relating to equipment acquisition. All related equipment expenditures including corresponding liabilities are accounted for in the Sewer Capital Reserve Project Fund.

Analysis of Fund Balances

In 2012, 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 2014, 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, 2013	\$ 5,592,527	\$ 2,385,249	\$ 3,471,508	\$ 1,970,383
Less: 2014 Use of Fund Balance	-	-	41,208	15,027
Encumbrances	280,673	44,351	372,868	646,240
Retirement Contribution Reserve	672,197	307,780	126,088	-
Nonspendable Fund Balance	526,695	674,665	88,289	55,614
Infrastructure Reserve	514,062	80,179	932,965	367,050
Projected Balance, December 31, 2014	<u>\$ 3,598,900</u>	<u>\$ 1,278,274</u>	<u>\$ 1,910,090</u>	<u>\$ 886,452</u>
2014 Budgeted Appropriations	<u>\$ 17,994,499</u>	<u>\$ 6,391,372</u>	<u>\$ 9,550,449</u>	<u>\$ 4,432,261</u>
Percent of Appropriations	20%	20%	20%	20%
Floor - 7% of Budgeted Appropriations	\$ 1,259,615	\$ 447,396	\$ 668,531	\$ 310,258
Optimal - 15% of Budgeted Appropriations	\$ 2,699,175	\$ 958,706	\$ 1,432,567	\$ 664,839
Ceiling - 20% of Budgeted Appropriations	\$ 3,598,900	\$ 1,278,274	\$ 1,910,090	\$ 886,452

The projected 2014 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.

TOWN OF BETHLEHEM, NEW YORK
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 DECEMBER 31, 2013

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>
Cash Balance - December 31, 2012	\$ 474,627	\$ 838,617	\$ 1,858,999	\$ 1,415,593	\$ 312,712
Increases	881	237,557	1,759,876	468,427	25,935
Decreases	<u>-</u>	<u>(174,686)</u>	<u>(406,001)</u>	<u>(298,592)</u>	<u>(137,800)</u>
Cash Balance, December 31, 2013	475,508	901,488	3,212,874	1,585,428	200,847
Outstanding BANs	<u>(348,999)</u>	<u>(3,094,317)</u>	<u>(1,120,000)</u>	<u>(466,001)</u>	<u>-</u>
Fund Balance - December 31, 2013	<u>\$ 126,509</u>	<u>\$ (2,192,829)</u>	<u>\$ 2,092,874</u>	<u>\$ 1,119,427</u>	<u>\$ 200,847</u>

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

Contacting the Town's Financial Management

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying regulatory basis financial statements of the Town of Bethlehem, New York (the "Town") as of and for the year ended December 31, 2013, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these regulatory basis 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 regulatory basis financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis of Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the Town prepared these financial statements using accounting principles prescribed by the New York State Office of the State Comptroller to demonstrate compliance with the State's regulatory basis of accounting, which practices differ from accounting principles generally accepted in the United States of America. The differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America are described in Note 1 to the financial statements. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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, 2013, and the changes in its financial position for the year then ended.

Basis of Qualified Opinion

As described in Note 1, the Town has not recorded other postemployment benefits in accordance with the regulatory basis accounting principles. The amounts that would have been recorded as a liability, had other postemployment benefits been recorded in accordance with the regulatory basis accounting principles, is not known. Additionally, as described in Note 1, the Town does not maintain historical general fixed asset records which should be included to conform with accounting principles prescribed by the New York State Office of the State Comptroller. The amounts that should be recorded in the general fixed asset account group are not known.

Opinion on Regulatory Basis of Accounting

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the items mentioned above, 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, 2013, and the results of its operations for the year then ended in accordance with accounting principles prescribed by the New York State Office of the State Comptroller.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Town of Bethlehem, New York as of and for the year ended December 31, 2013, and have issued our report thereon dated April 21, 2014, which contained a qualified opinion on those regulatory basis financial statements. Our audit was conducted for the purpose of forming an opinion on the regulatory basis financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the regulatory basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. 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 regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the regulatory basis financial statements as a whole.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Bethlehem, New York's basic financial statements. The Management's Discussion and Analysis section is presented for purposes of additional analysis and is not a required part of the basic financial statements. This section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2014 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
April 21, 2014

TOWN OF BETHLEHEM, NEW YORK
GENERAL FUND
REGULATORY BASIS BALANCE SHEET
DECEMBER 31, 2013

Assets

Cash	\$ 3,577,349
Other receivables	318,499
State and federal receivables	8,337
Due from other governments	4,105,730
Inventory	85,049
Prepaid expenses	<u>441,646</u>

Total Assets \$ 8,536,610

Liabilities

Accounts payable	\$ 834,151
Accrued liabilities	471,166
Due to other governments	431,708
Due to other funds	395,463
Deferred revenues	<u>811,595</u>

Total Liabilities 2,944,083

Fund Balance

Nonspendable	526,695
Assigned	952,870
Unassigned	<u>4,112,962</u>

Total Fund Balance 5,592,527

Total Liabilities and Fund Balance \$ 8,536,610

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, 2013

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 2,078,649	\$ 2,080,612	\$ -	\$ 1,963
Real property tax items	96,075	100,685	-	4,610
Non-property tax items	11,215,150	11,268,471	-	53,321
Departmental income	1,621,892	1,711,402	-	89,510
Intergovernmental charges	87,200	50,000	-	(37,200)
Use of money and property	87,065	87,569	-	504
Licenses and permits	36,315	35,624	-	(691)
Fines and forfeitures	485,000	375,012	-	(109,988)
Sales of property and compensation for loss	122,000	239,844	-	117,844
Miscellaneous local sources	-	43,358	-	43,358
State aid	1,267,250	1,547,014	-	279,764
Federal aid	24,600	519,112	-	494,512
Total Revenues	<u>17,121,196</u>	<u>18,058,703</u>	<u>-</u>	<u>937,507</u>
Expenditures				
General government support	4,036,776	3,837,551	61,201	138,024
Education	158	158	-	-
Public safety	6,184,599	5,982,069	173,801	28,729
Health	1,500	1,496	-	4
Transportation	597,694	549,380	1,523	46,791
Economic assistance and opportunity	436,468	436,061	405	2
Culture and recreation	1,293,798	1,280,170	1,612	12,016
Home and community services	1,403,658	1,167,607	42,131	193,920
Employee benefits	4,331,625	4,253,389	-	78,236
Debt service (principal and interest)	336,633	336,626	-	7
Total Expenditures	<u>18,622,909</u>	<u>17,844,507</u>	<u>280,673</u>	<u>497,729</u>
Other Financing Sources				
Operating transfers in	848,741	653,621	-	(195,120)
Total Other Financing Sources and Uses	<u>848,741</u>	<u>653,621</u>	<u>-</u>	<u>(195,120)</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources				
	<u>\$ (652,972)</u>	867,817	<u>\$ (280,673)</u>	<u>\$ 1,240,116</u>
Fund Balance - January 1, 2013		<u>4,724,710</u>		
Fund Balance - December 31, 2013		<u>\$ 5,592,527</u>		

TOWN OF BETHLEHEM, NEW YORK
HIGHWAY FUND

Regulatory Basis Balance Sheet
December 31, 2013

Assets	
Cash	\$ 2,043,537
Other receivables	10,504
Due from other governments	428,053
Inventories	522,406
Prepaid Expenses	152,259
Total Assets	<u>\$ 3,156,759</u>
Liabilities	
Accounts payable	\$ 170,510
Accrued liabilities	172,432
Deferred revenue	428,568
Total Liabilities	<u>771,510</u>
Fund Balance	
Nonspendable	674,665
Assigned	1,710,584
Total Fund Balance	<u>2,385,249</u>
Total Liabilities and Fund Balance	<u>\$ 3,156,759</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2013

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 5,537,080	\$ 5,540,948	\$ -	\$ 3,868
Real property tax items	228,284	237,210	-	8,926
Use of money and property	13,150	7,315	-	(5,835)
Intergovernmental charges	10,000	6,329	-	(3,671)
Sales of property and compensation for loss	23,000	33,869	-	10,869
Miscellaneous local sources	-	4,778	-	4,778
Interfund revenues	395,000	495,230	-	100,230
State aid	250,000	316,043	-	66,043
Total Revenues	<u>6,456,514</u>	<u>6,641,722</u>	<u>-</u>	<u>185,208</u>
Expenditures				
Transportation	4,731,217	4,686,862	44,351	4
Employee benefits	1,692,551	1,692,549	-	2
Debt service	254,557	254,161	-	396
Total Expenditures	<u>6,678,325</u>	<u>6,633,572</u>	<u>44,351</u>	<u>402</u>
Other Financing Sources				
Operating transfers in	49,435	-	-	(49,435)
Total Other Financing Sources	<u>49,435</u>	<u>-</u>	<u>-</u>	<u>(49,435)</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources and Uses				
	<u>\$ (172,376)</u>	8,150	<u>\$ (44,351)</u>	<u>\$ 136,175</u>
Fund Balance - January 1, 2013		<u>2,377,099</u>		
Fund Balance - December 31, 2013		<u>\$ 2,385,249</u>		

TOWN OF BETHLEHEM, NEW YORK
WATER FUND

Regulatory Basis Balance Sheet
December 31, 2013

Assets	
Cash	\$ 2,255,942
Other receivables	1,843,697
Due from other governments	761,452
Inventories	12,639
Prepaid expenses	<u>75,650</u>
Total Assets	<u><u>\$ 4,949,380</u></u>
Liabilities	
Accounts payable	\$ 574,812
Accrued liabilities	88,252
Deferred revenues	<u>814,808</u>
Total Liabilities	<u><u>1,477,872</u></u>
Fund Balance	
Nonspendable	88,289
Assigned	<u>3,383,219</u>
Total Fund Balance	<u><u>3,471,508</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 4,949,380</u></u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2013

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 2,012,748	\$ 2,014,483	\$ -	\$ 1,735
Departmental income	7,036,100	7,262,626	-	226,526
Use of money and property	158,625	191,667	-	33,042
Sale of property and compensation for loss	23,000	12,616	-	(10,384)
Miscellaneous local sources	4,500	-	-	(4,500)
Interfund Revenues	-	879	-	879
Federal aid	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>
Total Revenues	<u><u>9,334,973</u></u>	<u><u>9,482,271</u></u>	<u><u>-</u></u>	<u><u>147,298</u></u>
Expenditures				
Home and community services	7,365,355	6,054,880	372,868	937,607
Employee benefits	951,675	881,192	-	70,483
Debt service (principal and interest)	<u>1,045,067</u>	<u>1,014,006</u>	<u>-</u>	<u>31,061</u>
Total Expenditures	<u><u>9,362,097</u></u>	<u><u>7,950,078</u></u>	<u><u>372,868</u></u>	<u><u>1,039,151</u></u>
Other Financing Sources and Uses				
Operating transfers in	10,590	-	-	(10,590)
Operating transfers out	<u>(1,958,923)</u>	<u>(1,958,923)</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources and Uses	<u><u>(1,948,333)</u></u>	<u><u>(1,958,923)</u></u>	<u><u>-</u></u>	<u><u>(10,590)</u></u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Uses				
	<u><u>\$ (1,975,457)</u></u>	<u><u>(426,730)</u></u>	<u><u>\$ (372,868)</u></u>	<u><u>\$ 1,175,859</u></u>
Fund Balance - January 1, 2013		<u>3,898,238</u>		
Fund Balance - December 31, 2013		<u><u>\$ 3,471,508</u></u>		

TOWN OF BETHLEHEM, NEW YORK
SEWER FUND

Regulatory Basis Balance Sheet
December 31, 2013

Assets	
Cash	\$ 1,611,225
Other receivables	708,836
Due from other governments	813,840
Prepaid expenses	55,614
Total Assets	<u>\$ 3,189,515</u>
Liabilities	
Accounts payable	\$ 90,515
Accrued liabilities	66,580
Deferred revenues	1,062,037
Total Liabilities	<u>1,219,132</u>
Fund Balance	
Unspendable	55,614
Assigned	1,914,769
Total Fund Balance	<u>1,970,383</u>
Total Liabilities and Fund Balance	<u>\$ 3,189,515</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 1,627,234	\$ 1,628,151	\$ -	\$ 917
Departmental income	2,675,400	2,678,096	-	2,696
Use of money and property	9,025	5,473	-	(3,552)
Sale of property and compensation for loss	4,600	384	-	(4,216)
Interfund revenues	1,500	2,760	-	1,260
State aid	-	500	-	500
Federal aid	75,000	1,500	-	(73,500)
Total Revenue	<u>4,392,759</u>	<u>4,316,864</u>	<u>-</u>	<u>(75,895)</u>
Expenditures				
Home and community services	3,813,008	3,058,098	646,240	108,670
Employee benefits	586,369	575,250	-	11,119
Debt service (principal and interest)	381,279	381,277	-	2
Total Expenditures	<u>4,780,656</u>	<u>4,014,625</u>	<u>646,240</u>	<u>119,791</u>
Other Financing Uses				
Operating transfers out	(331,215)	(331,215)	-	-
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Uses				
	<u>\$ (719,112)</u>	(28,976)	<u>\$ (646,240)</u>	<u>\$ 43,896</u>
Fund Balance - January 1, 2013		<u>1,999,359</u>		
Fund Balance - December 31, 2013		<u>\$ 1,970,383</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, 2013

	<u>Actual</u>
Revenues	
Real property taxes and tax items	\$ 1,235,681
Total Revenues	<u>1,235,681</u>
Expenditures	
Health	<u>960,681</u>
Total Expenditures	<u>960,681</u>
Other Financing Uses	
Operating transfer out	<u>(275,000)</u>
Excess of Revenues Over Expenditures	-
Fund Balance - January 1, 2013	<u>-</u>
Fund Balance - December 31, 2013	<u><u>\$ -</u></u>

TOWN OF BETHLEHEM, NEW YORK
SPECIAL GRANT FUND

Regulatory Basis Balance Sheet
December 31, 2013

Assets	
Cash	\$ 13,712
Total Assets	<u>\$ 13,712</u>
Liabilities	
Accounts payable	\$ 44
Other liabilities	4,932
Deferred revenues	<u>8,736</u>
Total Liabilities	<u>13,712</u>
Fund Balance	
Unassigned	<u>-</u>
Total Fund Balance	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 13,712</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2013

	<u>Actual</u>
Revenues	
Use of money and property	\$ 14
Sale of property and compensation for loss	375
Federal aid	<u>316,610</u>
Total Revenues	<u>316,699</u>
Expenditures	
Home and community services	<u>316,699</u>
Total Expenditures	<u>316,699</u>
Excess of Revenues Over Expenditures	-
Fund Balance - January 1, 2013	<u>-</u>
Fund Balance - December 31, 2013	<u>\$ -</u>

TOWN OF BETHLEHEM, NEW YORK
CAPITAL PROJECTS FUND

Regulatory Basis Balance Sheet
December 31, 2013

Assets	
Cash	\$ 5,135,273
Cash - restricted	1,952,960
Due from other governments	<u>131,223</u>
Total Assets	<u><u>\$ 7,219,456</u></u>
Liabilities	
Accounts payable and retainage	\$ 509,622
Notes payable	<u>5,029,317</u>
Total Liabilities	<u><u>5,538,939</u></u>
Fund Balance	
Restricted	1,574,561
Assigned	<u>105,956</u>
Total Fund Balance	<u><u>1,680,517</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 7,219,456</u></u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2013

	<u>Actual</u>
Revenues	
Use of money and property	\$ 13,017
State aid	276,369
Federal aid	<u>71,407</u>
Total Revenues	<u><u>360,793</u></u>
Expenditures	
Transportation	738,189
Culture and recreation	137,800
Home and community services	<u>1,832,000</u>
Total Expenditures	<u><u>2,707,989</u></u>
Other Financing Sources	
Operating transfers in	1,911,517
Bond anticipation notes redeemed	<u>344,183</u>
Total Revenues and Other Financing Sources	<u><u>2,255,700</u></u>
Excess of Expenditures Over Revenues and Other Financing Sources	(91,496)
Fund Balance - January 1, 2013	<u>1,772,013</u>
Fund Balance - December 31, 2013	<u><u>\$ 1,680,517</u></u>

TOWN OF BETHLEHEM, NEW YORK
AGENCY FUND

Regulatory Basis Balance Sheet
December 31, 2013

Assets	
Cash	\$ 113,213
Accounts receivable	15,759
Due from other funds	<u>395,463</u>
Total Assets	<u><u>\$ 524,435</u></u>
Liabilities	
Agency liabilities	<u>\$ 524,435</u>
Total Liabilities	<u><u>\$ 524,435</u></u>

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

Regulatory Basis Balance Sheet
December 31, 2013
(Unaudited)

Assets	
Land	\$ 1,874,465
Improvements other than buildings	10,148,713
Buildings	25,192,128
Machinery and equipment	20,740,564
Infrastructure	19,748,825
	<u>\$ 77,704,695</u>
Investment in Fixed Assets	<u>\$ 77,704,695</u>

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

Regulatory Basis Balance Sheet
December 31, 2013

Assets	
Provisions to be made in future budgets	\$ 15,469,491
Total Assets	<u>\$ 15,469,491</u>
Liabilities	
Landfill closure and post closure costs	\$ 100,000
Judgments and claims payable	131,000
Compensated absences	238,491
Bonds payable	<u>15,000,000</u>
Total Liabilities	<u>\$ 15,469,491</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. 61. As required by OSC guidelines, the AUD of the reporting entity includes the Town (the primary government) and its blended component units. The Town has determined it has no blended component units based on the criteria set forth in GASB Statement 61.

B. Basis of Presentation

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

Governmental Fund Types

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Governmental Fund Types (Continued)

b. Special Revenue Funds (Continued)

- 2) Water District Fund - The Town has water a district used to account for the revenues and expenditures associated with providing water treatment and transportation.
- 3) Sewer District Fund - The Town has 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)

e. Accounts Groups (Continued)

- 2) The Non-Current Governmental Liabilities Account Group - used to account for all long-term debt and other long-term liabilities of the Town.

C. Basis of Accounting/Measurement Focus

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

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

Material revenue sources considered susceptible to accrual include real property taxes, State and Federal aid, sales tax and certain use charges in the special revenue funds. For those types of revenue sources, such as grants, where expenditures are the prime factors for determining eligibility, revenues are recognized when the expenditure is made, unless it has not been received within 60 days after the fiscal year has ended.

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.

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

The Town does not maintain historical records of general fixed assets; therefore, fixed assets are not accounted for at cost or an estimate of cost as required by OSC.

G. Vacation and Compensatory Time

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

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

Estimated vacation and compensatory time accumulated by governmental fund type employees and additional salary related payments have been recorded in the non-current governmental liabilities account group.

H. Other Postemployment Benefits (“OPEB”)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Effective for the year ended December 31, 2008, Governmental Accounting Standards Board Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" ("GASB 45") requires the Town to recognize the cost of pension benefits 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. The Town has not adopted GASB 45.

OPEB costs recognized as incurred was \$603,946 in 2013 for 132 retirees.

I. Retirement Plans

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

J. Deferred Compensation Plan

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

K. Self-Insurance

Workers' Compensation Section 207-C

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Estimates

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

2. CASH, CASH RESTRICTED AND RESERVED FUND BALANCE

Cash and 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 \$16,700,967 (excluding \$2,250 in petty cash) and the bank balance was \$16,960,985. The insured and collateral status of the year-end bank balance was as follows:

Covered by federal deposit insurance	\$ 1,532,281
Collateralized with securities held by a third party custodian for the benefit of the Town pursuant to three-party custody agreement	<u>15,428,704</u>
Total	<u>\$ 16,960,985</u>

Investments at December 31, 2013 consist of money market accounts and bank certificates of deposit.

3. PREPAID RETIREMENT SYSTEMS

The Town elected to prepay its required contributions to the New York State and Local Employees' Retirement System, the New York State Local Police and Fire Retirement Systems, and the Public Employees' Group Life Insurance Plan. The prepayment is equal to \$686,723 as of December 31, 2013. The balance at December 31, 2013 consists of:

<u>Fund</u>	<u>Amount</u>
General	\$ 409,230
Highway	152,259
Water	72,240
Sewer	52,994
Total	<u>\$ 686,723</u>

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	<u>Balance</u> <u>1/1/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/13</u>
Land	\$ 1,874,465	\$ -	\$ -	\$ 1,874,465
Improvements	8,875,730	1,272,983	-	10,148,713
Buildings	25,192,128	-	-	25,192,128
Machinery and Equipment	19,959,863	1,041,960	(261,259)	20,740,564
Infrastructure	18,367,123	1,381,702	-	19,748,825
Total	<u>\$ 74,269,309</u>	<u>\$ 3,696,645</u>	<u>\$ (261,259)</u>	<u>\$ 77,704,695</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.

5. SHORT-TERM DEBT (CONTINUED)

BAN's outstanding at December 31, 2013 are as follows:

<u>Fund</u>	<u>Description</u>	<u>Interest Rate</u>	<u>Amount</u>
Highway/Water/Sewer	Road Paving and Equipment	0.58%	\$ 1,021,000
General/Highway	Town Hall Improvements, Road Paving and Equipment	0.57%	1,284,000
Highway	Road Paving and Equipment	0.75%	826,317
Highway/Water/Sewer	Road Paving and Equipment	0.54%	1,898,000
			<u>\$ 5,029,317</u>

6. NON-CURRENT GOVERNMENTAL LIABILITIES

The following is a summary of changes in long-term debt outstanding at December 31, 2013:

	<u>Payable</u> <u>1/1/13</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Other Net</u> <u>Increase</u> <u>(Decrease)</u>	<u>Payable</u> <u>12/31/13</u>
Serial Bonds (a)	\$ 16,040,000	\$ -	\$ (1,040,000)		\$ 15,000,000
Judgments and Claims (b)	81,000	-	-	50,000	131,000
Post Closure Landfill Monitoring (c)	100,000	-	-	-	100,000
Compensated Absences (d)	237,532	-	-	959	238,491
Workers' Compensation (e)	75,756	-	-	(75,756)	-
Total	<u>\$ 16,534,288</u>	<u>\$ -</u>	<u>\$ (1,040,000)</u>	<u>\$ (24,797)</u>	<u>\$ 15,469,491</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, 2013:

<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, 2013</u>
General	2008	\$ 1,880,000	4.50%	2018	\$ 1,050,000
General, Water and Sewer	2009	7,958,000	3.25%	2037	7,300,000
Water	2012	<u>6,715,000</u>	4.20%	2022	<u>6,650,000</u>
Total Outstanding		<u>\$ 16,553,000</u>			<u>\$ 15,000,000</u>

The following is a schedule of principal and interest payments for future debt service requirements as of December 31, 2013:

	<u>Principal</u>	<u>Interest</u>
2014	\$ 995,000	\$ 629,438
2015	1,040,000	591,950
2016	1,075,000	549,638
2017	1,125,000	504,925
2018	1,170,000	458,000
2019-2023	4,495,000	1,576,125
2024-2028	1,495,000	985,525
2029-2033	1,835,000	643,763
2034-2037	<u>1,770,000</u>	<u>203,175</u>
Total	<u>\$ 15,000,000</u>	<u>\$ 6,142,539</u>

Serial bonds have been authorized in the amount of \$1,350,000 for sanitary pump station rehabilitation and \$700,000 for installation of water transmission main at the New Salem Water Treatment Plant, but have not been issued as of December 31, 2013.

At December 31, 2013 the total outstanding serial bonds and BANs aggregated \$20,029,317. Of this amount \$10,597,581 was subject to the constitutional debt limit and represented approximately 4.53% of the debt limit.

6. NON-CURRENT GOVERNMENTAL LIABILITIES (CONTINUED)

(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 \$1,000 to \$131,000. Provisions for losses for those cases that have a reasonably possible risk of loss for which a range of loss has been estimated is recorded in the non-current governmental liability group of accounts.

(c) Post Closure Landfill Monitoring

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

(d) Compensated Absences

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

(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, 2013	\$ 75,756
Decrease in provision for incurred events of prior years	-
Payments made of claims	<u>(75,756)</u>
Unpaid Claims and Claim Adjustment Expenses at December 31, 2013	<u>\$ -</u>
Unpaid claims and claim adjustment expenses at January 1, 2012	\$ 499,528
Decrease in provision for incurred events of prior years	(200,902)
Payments made of claims	<u>(222,870)</u>
Unpaid Claims and Claim Expenses at December 31, 2012	<u>\$ 75,756</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.

Deferred revenue consists of the following:

General Fund:	
Federal and State Grants	\$ 571,588
Customer Deposits	134,485
Other	<u>105,522</u>
Total General Fund	<u><u>\$ 811,595</u></u>
Special Grant Fund:	
Federal Aid	<u><u>\$ 8,736</u></u>
Highway Fund:	
Federal and State Grants	<u><u>\$ 428,568</u></u>
Water Fund:	
Federal and State Grants	\$ 558,500
Departmental Income	<u>256,308</u>
	<u><u>\$ 814,808</u></u>
Sewer Fund:	
Federal and State Grants	\$ 695,703
Department Income	176,590
Customer Deposits	<u>189,744</u>
	<u><u>\$ 1,062,037</u></u>

8. INTERFUND RECEIVABLES AND PAYABLES/INTERFUND TRANSFERS

Interfund receivables, payables and transfers at December 31, 2013 were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Operating Transfer-In</u>	<u>Operating Interfund Transfers-Out</u>
General	\$ -	\$ 395,463	\$ 653,621	\$ -
Highway	-	-	-	-
Capital Projects	-	-	1,911,517	-
Sewer Districts	-	-	-	331,215
Water Districts	-	-	-	1,958,923
Ambulance	-	-	-	275,000
Agency	<u>395,463</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$ 395,463</u></u>	<u><u>\$ 395,463</u></u>	<u><u>\$ 2,565,138</u></u>	<u><u>\$ 2,565,138</u></u>

9. PENSION PLANS

The Town of Bethlehem participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS), 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

ERS and PFRS provide 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

ERS and PFRS are noncontributory except for employees who joined the System after July 27, 1976 who contribute 3% of their salary, until such time as they obtain ten years of service credit, employees who joined between January 1, 2011 and April 1, 2012, who generally contribute 3% of their salary for the entire length of service, and employees who joined after April 1, 2012 who contribute between 3% and 6% of their earned wages for the entire length of their career. 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 2012 would be based on the pension value as of March 31, 2011).

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 2014 was prepaid in December 2013, in order to receive the discount offered by the State Retirement System and resulted in a savings to the Town of \$27,739 as of December 31, 2013. 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>
2013	\$ 2,003,731	\$ 810,693
2012	\$ 1,963,971	\$ 975,970
2011	\$ 1,763,202	\$ 857,536

10. FUND EQUITY

The Town has implemented GASB 54 “Fund Balance Reporting and Governmental Fund Type Definitions.” GASB 54 defines five categories of fund balance as follows:

- **Nonspendable** fund balance includes amounts that cannot be spent because they are either not in spendable form or contractually required to be maintained intact.
- **Restricted** fund balance includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- **Committed** fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town Board. The Town had no committed fund balances at December 31, 2013.
- **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	\$ 85,049	\$ 522,406	\$ 12,639	\$ -
Prepaid expenses	441,646	152,259	75,650	55,614
	<u>526,695</u>	<u>674,665</u>	<u>88,289</u>	<u>55,614</u>
Assigned				
Encumbrances	280,673	44,351	372,868	646,240
Subsequent years budget	-	-	41,208	15,027
Retirement contribution	672,197	307,780	126,088	-
Highway Fund	-	1,358,453	-	-
Water Fund	-	-	2,843,055	-
Sewer Fund	-	-	-	1,253,502
	<u>952,870</u>	<u>1,710,584</u>	<u>3,383,219</u>	<u>1,914,769</u>
Unassigned				
Total Fund Balance	<u>4,112,962</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,592,527</u>	<u>\$ 2,385,249</u>	<u>\$ 3,471,508</u>	<u>\$ 1,970,383</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	\$ 475,508
Recreational facilities	200,847
Fire tower and additions and improvements	38,669
Highway equipment	901,488
Reconstruction of water facilities	3,212,874
Reconstruction of sewer facilities	<u>1,585,428</u>
Subtotal	6,414,814
Less BAN's outstanding as of December 31, 2013	<u>(5,029,317)</u>
Total GML Section 6-C	<u>\$ 1,385,497</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, 2013, the balance of the reserve was \$189,064.

Total Capital Reserves Under GML Sections 6-C and 6-O	<u>\$ 1,574,561</u>
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10. FUND EQUITY (CONTINUED)

The Town has a fund balance policy that provides guidance for minimum, maximum and optimal levels at which the operating fund reserves should be held. These percentages of fund balance to appropriations are set at 7%, 20% and 15%, respectively. As of December 31, 2013, all funds were at maximum. To the extent that fund balances exceed the maximum, per policy, the balances are classified 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 17 years lapsed as of December 31, 2013. The current estimated liability for post closure care costs of the landfill for the remaining 13 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 June 30, 2014. 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.

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 2013. There was no reduction in insurance coverage during 2013. An estimate of liability is recorded at December 31, 2013 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. SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions as to any potential material impact on operations or financial position occurring through April 21, 2014, the date the financial statements were available to be issued. No such events or transactions were identified.

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

TOWN OF BETHLEHEM, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

<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>316,610</u>
<u>U.S. Department of Transportation</u>		
Passed Through State of New York:		
State and Community Highway Safety	20.600	47,144
Metropolitan Transportation Planning	20.505	<u>52,685</u>
		<u>99,829</u>
<u>U.S. Department of Homeland Security</u>		
Direct:		
Disaster Grants - Public Assistance	97.036	<u>477,722</u>
<u>U.S. Department of Justice</u>		
Direct:		
Equitable Sharing Program	16.922	<u>14,468</u>
Total Federal Assistance		<u>\$ 908,629</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	\$ 519,112
Sewer Fund	1,500
Special Grant	316,610
Capital Projects	<u>71,407</u>
 Federal Aid Per Schedule of Expenditures of Federal Awards	 <u>\$ 908,629</u>

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

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

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CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS OF:
NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the regulatory basis financial statements of the Town of Bethlehem, New York, as of and for the year ended December 31, 2013, and the related notes to the regulatory basis financial statements, and have issued our report thereon dated April 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the regulatory basis financial statements, we considered the Town of Bethlehem, New York's internal control over regulatory basis financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Bethlehem, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Bethlehem, New York's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town of Bethlehem, New York's regulatory basis financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Bethlehem, New York's regulatory basis financial statements are free from misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of regulatory basis financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Bethlehem, New York's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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
April 21, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Bethlehem, New York's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Bethlehem, New York's major federal programs for the year ended December 31, 2013. The Town of Bethlehem, New York's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Bethlehem, New York's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Bethlehem, New York's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Bethlehem, New York complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the Town of Bethlehem, New York is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Bethlehem, New York's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 of Bethlehem, New York's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of the control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance to be material weaknesses. However, material weaknesses may exist that have not been identified.

The propose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
April 21, 2014

