

City of Bethlehem, Pennsylvania

Financial Statements and Supplementary Information

Year Ended December 31, 2017 with
Independent Auditor's Report

MaherDuessel

Pursuing the profession while promoting the public good©
www.md-cpas.com

CITY OF BETHLEHEM, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2017

TABLE OF CONTENTS

Independent Auditor's Report

Management's Discussion and Analysis	i
---	---

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Position	1
Statement of Activities	3

Fund Financial Statements:

Balance Sheet – Governmental Funds	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	6
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	8
Balance Sheet – Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	11
Statement of Cash Flows – Proprietary Funds	12
Statement of Fiduciary Net Position	14
Statement of Changes in Fiduciary Net Position	15

CITY OF BETHLEHEM, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2017

TABLE OF CONTENTS

(Continued)

Balance Sheet – Component Units	16
Statement of Activities – Component Units	18
Notes to Financial Statements	19
Required Supplementary Information:	
Budgetary Comparison Schedule – Budget and Actual (Budgetary Basis) – General Fund	113
Notes to Budgetary Comparison Schedule	114
Required Supplementary Information – Pension Plans:	
Schedule of Changes in the Police Pension Plan’s Net Pension Liability and Related Ratios	115
Schedule of City Contributions and Investment Returns – Police Pension Plan	116
Schedule of Changes in the Firemen Pension Plan’s Net Pension Liability and Related Ratios	117
Schedule of City Contributions and Investment Returns – Firemen Pension Plan	118
Schedule of Changes in the Officers’ and Employees’ Pension Plan’s Net Pension Asset and Related Ratios	119
Schedule of City Contributions and Investment Returns – Officers’ and Employees’ Pension Plan	120
Schedule of Changes in the City’s Pennsylvania Municipal Retirement System Pension Plan’s Net Pension Liability and Related Ratios	121

CITY OF BETHLEHEM, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2017

TABLE OF CONTENTS

(Continued)

Schedule of City Contributions – City’s Pennsylvania Municipal Retirement System Pension Plan	122
Schedule of Changes in the Bethlehem Parking Authority Pension Plan’s Net Pension Liability and Related Ratios	123
Schedule of Bethlehem Parking Authority Contributions	124
Schedule of Changes in the Bethlehem Redevelopment Authority Pension Plan’s Net Pension Liability and Related Ratios	125
Schedule of Bethlehem Redevelopment Authority Contributions	126
Schedule of Funding Progress, Schedule of Employer Contributions, and Notes to Required Supplementary Information – Post-Employment Benefits Other Than Pensions	127

Supplementary Information:

Other Non-major Governmental Funds:

Combining Balance Sheet	128
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	129

Independent Auditor's Report

**The Honorable Robert J. Donchez,
Mayor, and Honorable Members
of City Council
City of Bethlehem, Pennsylvania**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bethlehem, Pennsylvania (City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Bethlehem Area Public Library, Bethlehem Parking Authority, and Bethlehem Redevelopment Authority were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the historical pension plan and other post-employment benefit plan information on pages i through xvi, 113 through 114, and 115 through 127, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining non-major governmental fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major governmental fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major governmental fund financial statements are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018, on our consideration of the City'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 solely 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 effectiveness of the City's 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 City's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
October 22, 2018

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

This Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of the financial activities of the City of Bethlehem for the years ended December 31, 2017 and 2016. The City's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow.

Financial Highlights

The City's total net position increased by \$7,230,533 in 2017 and increased by \$15,717,184 in 2016.

In the City's governmental activities, net position increased by \$6,331,396 in 2017 and increased by \$13,246,063 in 2016. In 2017, the increase in net position is the result of certain capital grants of activity. This was comprised of \$4.2 million grant revenue for the Lynn Avenue bridge and \$1.0 million for the High Street bridge. For these projects the expenses were capitalized and, therefore, it makes it appear that there were no current expenses for the grant revenue that was recorded. In 2016, the increase in net position is the result of an increase of capital grants of \$12.8 million. This was comprised of \$11.6 million in dedicated roads from new development within the City and \$1.4 million in improvements at the Bethlehem Public Library. There was also a real estate tax increase of approximately 2.2% for 2016.

In the City's business-type activities, net position increased by \$899,137 in 2017 and increased by \$2,471,121 in 2016. In 2017, the increase was due to a sewer rate increase of approximately 10%. In 2016, the increase is the result of an increase in charges for services of \$1.4 million. Industrial charges in the Water Fund increased by \$400,000; while bulk sewer charges to Bethlehem Township increased by \$433,000. The City also continues to more aggressively replace older meters.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, parks, public works, community development, fire, and police. The business-type activities of the City include the water, sewer, and municipal golf operations.

The government-wide financial statements include not only the City itself, but also the legally separate Bethlehem Authority. Financial information for this blended *component unit* is reported as combined with the financial information presented for the primary government itself.

The City's other three component units, the legally separate Bethlehem Parking Authority (Parking Authority), the legally separate Bethlehem Public Library (Library), and the legally separate Bethlehem Redevelopment Authority (Redevelopment Authority), are shown in a separate column as discretely presented component units.

The government-wide financial statements can be found on pages 1-4 of this report.

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, the non-utility capital improvements fund, and the debt service fund, which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation captioned "Other Non-Major Governmental Funds." Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 5-8 of this report.

Proprietary Funds The City maintains four proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and municipal golf operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its medical insurance. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The internal service fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 9-13 of this report.

Fiduciary Funds

The City's fiduciary fund accounts for the Employee Benefit Trust Fund and Agency Fund and can be found on pages 14-15.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Component Units

The City's component units include the Parking Authority, Library, and Redevelopment Authority. The component unit's financial statements can be found on pages 16-18.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-112 of this report.

Other Information

Required supplementary information can be found on pages 113-127 of this report. The combining statements referred to earlier in connection with governmental fund types are presented immediately following the required supplementary information section. Combining schedules can be found on pages 128-129 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources at the close of the end of December 31, 2017 by \$49,916,431 and 2016 by \$57,146,964.

The City's net position reflects its investment in capital assets (e.g., land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

City's Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Totals	
	2017	2016 (Restated)	2017	2016 (Restated)	2017	2016 (Restated)
Current assets	\$ 38,752,275	\$ 27,773,162	\$ 23,970,149	\$ 18,931,937	\$ 62,722,424	\$ 46,705,099
Capital assets	70,303,608	67,920,460	102,147,612	106,776,175	172,451,220	174,696,635
Other assets	2,575,927	4,198,403	15,683,751	15,909,241	18,259,678	20,107,644
Total assets	\$ 111,631,810	\$ 99,892,025	\$ 141,801,512	\$ 141,617,353	\$ 253,433,322	\$ 241,509,378
Deferred outflows of resources	\$ 23,831,571	\$ 15,398,147	\$ 3,108,171	\$ 3,412,493	\$ 26,939,742	\$ 18,810,640
Current liabilities	\$ 18,931,374	\$ 16,507,270	\$ 10,434,865	\$ 11,843,895	\$ 29,366,239	\$ 28,351,165
Noncurrent liabilities	174,499,008	167,837,777	121,400,080	121,020,330	295,899,088	288,858,107
Total liabilities	\$ 193,430,382	\$ 184,345,047	\$ 131,834,945	\$ 132,864,225	\$ 325,265,327	\$ 317,209,272
Deferred inflows of resources	\$ 4,756,478	\$ -	\$ 267,690	\$ 257,710	\$ 5,024,168	\$ 257,710
Net investment in capital assets	\$ 28,691,416	\$ 29,956,714	\$ 1,698,044	\$ (735,343)	\$ 30,389,460	\$ 29,221,371
Restricted	7,445,988	4,771,714	400,833	759,014	7,846,821	5,530,728
Unrestricted	(98,860,883)	(103,783,303)	10,708,171	11,884,240	(88,152,712)	(91,899,063)
Total net position (deficit)	\$ (62,723,479)	\$ (69,054,875)	\$ 12,807,048	\$ 11,907,911	\$ (49,916,431)	\$ (57,146,964)

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Current assets in governmental activities increased approximately \$11.0 million. This was due to an overall increase in cash of \$8.6 million. General Fund cash increased by \$3.7 million due to excess revenues over expenditures. Non-Utility Capital Improvements Fund cash increased by \$2.1 primarily due to an increase in unspent bond proceeds. There was also an increase of \$2.1 million in amounts due from other governments. \$1.2 million is related to a grant receivable for the Lynn Avenue bridge project.

Deferred outflows of resources in governmental activities increased approximately \$8.4 million. This was due to a \$5.2 million increase in deferred charges on refunding due to the issuance of the Series A of 2017 and Series E of 2017 General Obligation Bonds. In addition, there was a \$3.3 million increase in deferred outflows of resources for pensions primarily due to the deferral of differences in expected and actual experiences for the Police and Firemen's pension plans.

Noncurrent liabilities in governmental activities increased approximately \$6.7 million. This was primarily due to an overall increase in bonds and notes payable of \$5.9 million based on debt issued, refunded, and paid, as well as an increase in bond premium.

Deferred inflows of resources in governmental activities increased approximately \$4.8 million. This was primarily due to the deferral of the differences between projected and actual investment earnings in the pension plans.

Current assets in business-type activities increased approximately \$5.0 million. This was due to an increase in cash in the Sewer Capital Fund from unspent bond proceeds.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

City's Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Totals	
	2017	2016 (Restated)	2017	2016 (Restated)	2017	2016 (Restated)
Program revenues:						
Charges for services	\$ 12,413,870	\$ 12,051,530	\$ 39,667,473	\$ 39,198,970	\$ 52,081,343	\$ 51,250,500
Operating grants and contributions	11,595,604	19,662,678	-	-	11,595,604	19,662,678
Capital grants and contributions	6,230,007	13,473,531	23,839	21,930	6,253,846	13,495,461
General revenues:						
Taxes	40,455,783	39,806,223	-	-	40,455,783	39,806,223
Investment earnings	177,710	68,861	809,391	839,778	987,101	908,639
Unrestricted grants	15,325,035	15,251,510	-	-	15,325,035	15,251,510
Total revenues	86,198,009	100,314,333	40,500,703	40,060,678	126,698,712	140,375,011
Expenses:						
General government	932,305	843,944	-	-	932,305	843,944
Administrative	1,416,282	1,024,640	-	-	1,416,282	1,024,640
Community development	8,190,819	15,767,685	-	-	8,190,819	15,767,685
Parks and public property	2,619,603	5,580,568	-	-	2,619,603	5,580,568
Public works	14,043,676	10,152,649	-	-	14,043,676	10,152,649
Police	23,136,441	23,321,538	-	-	23,136,441	23,321,538
Fire	14,761,796	14,262,715	-	-	14,761,796	14,262,715
General expenditures	10,379,537	10,813,789	-	-	10,379,537	10,813,789
Civic	143,422	115,161	-	-	143,422	115,161
Library	1,552,130	1,479,664	-	-	1,552,130	1,479,664
Program expenditures	1,826,180	2,003,666	-	-	1,826,180	2,003,666
Interest on long-term debt	4,923,466	5,422,707	-	-	4,923,466	5,422,707
Water fund	-	-	20,204,788	19,871,288	20,204,788	19,871,288
Sewer fund	-	-	13,893,436	12,620,382	13,893,436	12,620,382
Other non-major fund	-	-	1,444,298	1,377,431	1,444,298	1,377,431
Total expenses	83,925,657	90,788,726	35,542,522	33,869,101	119,468,179	124,657,827
Change in net position before transfers	2,272,352	9,525,607	4,958,181	6,191,577	7,230,533	15,717,184
Transfers	4,059,044	3,720,456	(4,059,044)	(3,720,456)	-	-
Change in net position	6,331,396	13,246,063	899,137	2,471,121	7,230,533	15,717,184
Net position:						
Beginning	(69,054,875)	(82,300,938)	11,907,911	9,436,790	(57,146,964)	(72,864,148)
Ending	<u>\$ (62,723,479)</u>	<u>\$ (69,054,875)</u>	<u>\$ 12,807,048</u>	<u>\$ 11,907,911</u>	<u>\$ (49,916,431)</u>	<u>\$ (57,146,964)</u>

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Governmental activities. Governmental activities increased the City's net position by \$6,331,396 for the year ended December 31, 2017. Key elements of this increase are as follows:

- Operating grants and contributions in governmental activities decreased approximately \$8.1 million. This was due to a reduction of pass-through Redevelopment Assistance Capital Program (RACP) grants of \$8.2 million.
- Capital grants and contributions in governmental activities decreased approximately \$7.2 million. This decrease was comprised of \$11.6 million in dedicated roads from new development within the City and \$1.4 million in improvements at the Library that were recorded in 2016 and not 2017, as well as the recording of \$5.2 in grant revenue for 2017 related to the Lynn Avenue and High Street bridge projects.
- Community development expenses in governmental activities decreased approximately \$7.6 million. This was due to a reduction of pass-through RACP grants of \$8.2 million.
- Public works expenses increased approximately \$3.9 million. This was largely due to the inclusion of the Grounds and Facilities bureaus under public works for 2017. Both bureaus were under parks and public property in 2016.
- Parks and public property expenses decreased approximately \$3.0 million. This was due to the inclusion of the Grounds and Facilities bureaus under public works for 2017. Both bureaus were under parks and public property in 2016.

Business-type activities. Business-type activities increased the City's net position by \$899,137 for the year ended December 31, 2017. Key elements of this change are as follows:

- Charges for services in business-type activities increased approximately \$500,000. This was due to a sewer rate increase of approximately 10% for 2017.
- Sewer Fund expenses in business-type activities increased approximately \$1.3 million. This was due to additional depreciation expense related to the completion of the large biosolids dewatering project.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Financial Analysis of the Major Funds

General Fund

Revenues of the General Fund totaled \$72,714,318 for the year ended December 31, 2017. The following represents a summary of General Fund revenue, for the years ended December 31, 2017 and 2016 by source, along with changes from 2016:

	2017	2016	Change From 2016 to 2017	Percentage Change
Taxes	\$ 40,093,039	\$ 39,563,440	\$ 529,599	1.34%
Licenses and permits	3,033,586	2,652,726	380,860	14.36%
Intergovernmental revenues	9,444,337	17,425,210	(7,980,873)	-45.80%
Fines and forfeitures	378,721	366,782	11,939	3.26%
Departmental earnings	7,429,202	7,588,394	(159,192)	-2.10%
Other charges	1,482,268	1,292,787	189,481	14.66%
Municipal recreation	464,334	454,791	9,543	2.10%
Investment income	112,793	37,076	75,717	204.22%
Host fee	9,903,107	9,690,640	212,467	2.19%
Other	372,931	720,084	(347,153)	-48.21%
Total	\$ 72,714,318	\$ 79,791,930	\$ (7,077,612)	-8.87%

Intergovernmental revenues decreased by \$7,980,873 from 2016 to 2017. The decrease was due to a reduction of RACP funds of \$8,242,429. These are pass-through funds for the City and the amounts can fluctuate significantly from year to year.

Taxes increased by \$529,599 from 2016 to 2017 due to an increase in earned income tax collections.

Licenses and permits increased by \$380,860 from 2016 to 2017. The increase was due to an increase in building permits of \$326,345. This was the result of an increase in new construction activity. Mercantile and business privilege license fees increased \$74,643 due to a more focused City-wide approach on collections.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

General Fund expenditures totaled \$62,801,055 for the year ended December 31, 2017, which represents a decrease of \$7,548,257 or 10.73% from 2016. The following represents a summary of General Fund expenditures for the years ended December 31, 2017 and 2016, by function, along with changes from 2016:

	2017	2016	Change From 2016 to 2017	Percentage Change
General government	\$ 756,528	\$ 770,590	\$ (14,062)	-1.82%
Administrative	1,050,290	910,693	139,597	15.33%
Community development	7,786,478	15,569,882	(7,783,404)	-49.99%
Parks and public property	687,632	3,039,121	(2,351,489)	-77.37%
Public works	7,462,670	5,074,457	2,388,213	47.06%
Police	18,860,054	18,463,039	397,015	2.15%
Fire	13,412,115	13,221,368	190,747	1.44%
General expenditures	10,377,467	10,926,636	(549,169)	-5.03%
Civic	143,422	115,161	28,261	24.54%
Library	1,315,934	1,315,934	-	0.00%
Debt service - principal	781,148	758,726	22,422	2.96%
Debt service - interest	167,317	183,705	(16,388)	-8.92%
Total	\$ 62,801,055	\$ 70,349,312	\$ (7,548,257)	-10.73%

The decrease in General Fund expenditures is the result of the following:

- Community development decreased by \$7,783,404 due to a reduction of RACP funds of \$8,242,429. These are pass-through funds for the City and the amounts can fluctuate significantly from year to year.
- Public works increased by \$2,388,213 due to the inclusion of the Grounds and Facilities bureaus under public works for 2017. Both bureaus were under parks and public property in 2016.
- Parks and public property decreased by \$2,351,489 due to the inclusion of the Grounds and Facilities bureaus under public works for 2017. Both bureaus were under parks and public property in 2016.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

- General expenditures decreased by \$549,169 due to a decrease in Medical expenses of \$787,834 and an increase in Professional services of \$84,954. Professional services increased due to Act 111 police and fire arbitration expenses paid in 2017. The City's insurance package increased \$70,967 due to an increase in the annual premiums.
- Police increased by \$397,015 largely due to the contractual wage increase of 3%.

General Fund Budgetary Highlights

The General Fund expenditure budget for fiscal year 2017 was approximately \$72.2 million. This was an increase of \$0.3 million over the previous year amended budget. There were no material amendments to the 2017 budget. Actual expenditures were approximately \$4.6 million less than budgeted. General expenditures were lower than budgeted due to a favorable variance in medical claims and worker's compensation. There were also savings in debt service due to favorable terms with debt refinancing. Personnel costs saw savings as there were numerous vacant positions throughout the year. Lastly, the Health Bureau budget saw savings as not all of the grant funds were expended in 2017.

Non-Utility Capital Improvements Fund

Cash and cash equivalents increased by approximately \$2.1 million. This was due to having \$3.6 million more in unspent bond proceeds, as the City issued bonds in 2017, as well as approximately \$1.5 million less in unspent intergovernmental and non-bond proceeds.

Capital outlays increase by approximately \$6.6 million. This is due to increase in expenditures of \$5.3 million relating to the Lynn Avenue and High Street bridge projects.

Debt Service Fund

Debt service principal and interest expenditures are a function of amortization schedules created when debt is issued. Total debt service expenditures decreased approximately \$127,000 from 2016. Expenditures were consistent with 2016, as any long-term debt issued for any of the Governmental Funds in 2017 had interest capitalized for the year.

Other Non-Major Governmental Funds

The Other Non-Major Governmental Funds revenues are derived from specific sources and are restricted for specific uses. Such funds, primarily Commonwealth of Pennsylvania and federal grants, are restricted by law or other formal action to expenditure for specific purposes.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Pension Trust Fund

At December 31, 2017, the net position - restricted for employees' retirement pension benefits was \$157,502,481. The average interest rate all inclusive with costs of the pension bond is 5.5%. The Fund returned 14.27%, net of fees, in 2017. The Fund returned an average of 8.49% annually since its inception in 1987.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2017 amounted to \$70,303,608 and \$102,147,612 (net of accumulated depreciation), respectively. This investment in capital assets includes land and improvements, buildings and improvements, furniture, machinery, equipment, and infrastructure including but not limited to roads, bridges, streetlights, dams, and storm sewer systems.

Major capital asset events during the current year for governmental activities included the following:

- The City spent \$4,473,557 towards the replacement of the Lynn Avenue bridge.
- The City spent \$1,073,335 towards the replacement of the High Street bridge.
- The City spent \$447,828 towards the replacement of the pedestrian bridge crossing the Monocacy Creek in Johnston Park adjacent to the Main Street ramp.
- The City spent \$393,269 towards the renewal/upgrade to the streetscape on selected sections of Third Street and Fourth Streets from Hayes Street to Wyandotte Street.

Major capital asset events during the current year for business-type activities included the following:

- The City spent \$1,823,570 on the design and installation of a new solids dewatering facility and to replace belt filter presses.
- The City spent \$1,131,837 on the replacement, relocation, or rehabilitation of the water distribution system based.
- The City spent \$896,866 to demolish and install a new roof at primary digester 2.
- The City spent \$273,140 on the replacement of water distribution infrastructure as part of the Route 412 roadway reconstruction performed by Penn DOT.

Additional information on the City's capital assets can be found at Note 4 on pages 49-54.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Long-Term Debt

In April of 2017, the City issued \$21,710,000 in debt to advance refund certain existing bond issues, to pay for certain non-utility and sewer projects, and to acquire blighted property.

In November of 2017, the City issued \$18,730,000 in debt to advance refund all of the Bethlehem Authority's Guaranteed Lease Revenue Bonds, Series A of 2011.

As of September 1, 2018, the City's net nonelectoral debt of \$89,565,511 is well below the net nonelectoral debt limit of \$204,975,723. Additional information on the City's long-term debt can be found at Note 7 on pages 56-68 of this report.

The City's bonds have a rating from Standard and Poor's Rating Group of "A+" (Stable Outlook).

Economic Outlook

In Bethlehem, economic activity on the former Bethlehem Steel Corporation property continues. Sands Casino Resort Bethlehem remains the top performing table games casino in the Commonwealth of Pennsylvania. The Sands continued investing in the casino floor and retail development at the Sands Outlets. Resort amenities, such as the 50,000 square foot Sands Bethlehem Events Center, continue to develop around gaming, which further strengthen Bethlehem's position as a destination. The sale of the Sands portfolio in Bethlehem, reported at \$1.3 billion, is expected in the second quarter of 2019.

Economic activity of the site extends beyond tourism and entertainment. The once vacant Bethlehem Steel land is now home to Lehigh Valley Industrial Park VII (LVIP VII), which includes 21 projects, just under 4,000 full-time employees, over \$300 million in private investment for more than 5 million square feet of development on 500 acres. Adjacent to LVIP VII, Majestic Realty has attracted 3 large warehouse tenants and Liberty Property Trust and Trammel Crow house Walmart and Primark facilities for a total of \$220 million of investment. Several manufacturers, including Reeb Millwork, Curtiss-Wright, Ecopax, Vastex and Project Mustang have constructed or have projects under construction, further developing the industrial park.

Development continues in Bethlehem outside of the industrial and entertainment areas, as well. In west Bethlehem, Nitschmann Middle School, a new \$43.8 million middle school, is complete. The remediation and demolition of several structures at the former Martin Tower site is close to completion. On the north side, the Hotel Bethlehem has proposed a \$40 million expansion of the hotel and parking garage. On the south side, Lehigh University is currently investing more than \$150 million in new construction on campus.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

In December 2013, the City was awarded one of two City Revitalization and Improvement Zone (CRIZ) designations. Currently, the CRIZ is approximately 130 acres and the City is exploring nine different development projects. Three projects are complete, including a \$20 million mixed use building at 3rd and New Streets and Five 10 Flats, which is the first phase of the Greenway Commons project on East Third Street. This \$25 million mixed use project, containing first floor retail uses and over 100 upper floor apartments, will add vibrancy to the eclectic Southside. To accommodate new CRIZ projects, the Bethlehem Parking Authority has constructed in a \$14 million, 626 car garage on the Southside and development is underway for a second Southside garage of approximately 450 spaces.

In 2018, Bethlehem was awarded five Opportunity Zone census tracts and Brinker Lofts has closed on the first Opportunity Zone project in the city. This project is in partnership with Lehigh University and once complete, will include 30 market rate apartments and a commercial opportunity.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

The following is a list of other major development projects:

Residential		Status as of September 2018
Bethlehem Togs/124-128 W. Union Blvd	\$ 5,500,000	Under Construction
Evans St. 5-story Apartment Building	3,000,000	Plans Approved
Henn - Kelchner Road Condos	2,100,000	Plans Approved
James Best - Residential (Taylor Court)	3,000,000	Under Construction
Overlook at Saucon Creek	3,000,000	Under Construction / Portions Complete
Park View Commons - William Street	3,000,000	Under Construction / Portions Complete
Riverview Heights-Edward Street	5,000,000	Under Construction
Saucon Square Condominiums - Fire Lane	3,500,000	Under Construction / Portions Complete
Silk Mill Apartments (Phase 1&2)	13,000,000	Phase II Plans Under Construction
Stever Mills on Creek Rd.	15,000,000	Under Construction / Portions Complete
Villas at Saucon Valley	12,000,000	Under Construction/Portions Complete
Residential Subtotal	68,100,000	
Residential/Senior		
Cottages @ Monocacy Manor	4,500,000	Under Construction/Portions Complete
Turnberry Mews	10,000,000	Under Construction / Portions Complete
Residential / Senior Subtotal	14,500,000	
Institutional		
Lehigh University - Bridge West/68 University Dr.	99,000,000	Plans Submitted
Lehigh University - Chandler Ullman	30,000,000	Under Construction/Portions Complete
Lehigh University - Crescent Building	2,000,000	Under Construction
Moravian Village Twin Dwelling/500 Bk. E. Morton.	4,300,000	Plans Approved
Moravian Village Memory Care Facility/626 Stefko NMIH	20,000,000	Plans Approved
Nitschmann Middle School/909 W. Union Blvd.	43,800,000	Under Construction/Portions Complete
Southside Commons/422-440 Brodhead Ave.	36,500,000	Under Construction
Terrace Homes/Northwood Gardens/Madison Ave	35,500,000	Under Construction/Portions Complete
Institutional Subtotal	297,100,000	

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

		Status as of September 2018
Mixed-Use		
13 W. Morton Street	\$ 1,900,000	Plans Approved
Greenway Commons/422-630 E. Third Street	48,000,000	Under Construction / Portions Complete
Polk Street Parking Garage	16,000,000	Plans Approved
65 E. Elizabeth Building	10,000,000	Under Construction / Portions Complete
3rd & New Street Office Building (306 S. New St.)	24,000,000	Under Construction / Portions Complete
1338 E. Fourth Street	1,500,000	Plans Approved
Mixed-Use Subtotal	101,400,000	
Industrial		
LVIP VII LPT Warehouse (lots 3, 4, 5), 10 Emery	44,000,000	Under Construction / Portions Complete
LVIP VII Lot 12 Spillman Dr. (1920 Spillman Drive)	4,000,000	Plans Approved
LVIP VII Lot 13 Spillman Dr. (2010 Spillman Drive)	9,702,000	Under Construction
LVIP VII Lot 81 - 1025 Feather Way	12,000,000	Plans Approved
Patriot Distribution (LVIP VII, Lot 14, 2120 Spillman)	11,770,000	Under Construction
835 E. North Street	500,000	Plans Approved
Majestic (lot 5), 3769 Commerce Center Blvd.	20,000,000	Under Construction
Majestic (lots 6, 7), 3905 Commerce Center Blvd.	39,650,000	Under Construction
Project Mustang (1125 Easton Road)	16,000,000	Under Construction
LVIP VII (lots 63 & 64), 500 Commerce Center Blvd.	4,000,000	Plans Approved
Industrial Subtotal	161,622,000	
Commercial		
Bethlehem LNG/1475 & 1525 Easton Road	40,000,000	Plans Approved
Negrao Preschool and Swim School	10,800,000	Under Construction / Portions Complete
Trans Bridge Park & Ride (3150 City Line Place)	230,000	Plans Approved
404 Building (restaurants at 404 E. Third Street)	6,200,000	Plans Approved
920 Hellertown Road (Dunkin Donuts)	1,100,000	Plans Approved
Sterling Apts. - 1620 Catasauqua Road	7,500,000	Under Construction
Commercial Subtotal	65,830,000	
Grand Total	\$ 708,552,000	

Requests For Information

Questions concerning any of the information provided in this report or requests for additional financial information and complete financial statements for the discretely presented component units should be addressed to the Administration Department, City of Bethlehem, 10 East Church Street, Bethlehem, Pennsylvania 18018.

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF NET POSITION

DECEMBER 31, 2017

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Assets					
Current assets:					
Cash and cash equivalents	\$ 23,799,994	\$ 14,740,961	\$ 38,540,955	\$ 2,230,616	\$ 40,771,571
Investments	43,551	-	43,551	1,230	44,781
Receivables (net of allowance for uncollectibles):					
Taxes	4,081,523	-	4,081,523	-	4,081,523
Accounts	932,248	9,499,316	10,431,564	427,979	10,859,543
Grants	-	-	-	3,257,119	3,257,119
Pledges	-	-	-	9,000	9,000
Other	1,418,953	-	1,418,953	117,415	1,536,368
Accrued interest	-	8,042	8,042	-	8,042
Due from other governments	7,891,474	-	7,891,474	-	7,891,474
Internal balances	584,532	(584,532)	-	-	-
Inventories	-	306,362	306,362	-	306,362
Prepaid expenses	-	-	-	181,808	181,808
Total current assets	38,752,275	23,970,149	62,722,424	6,225,167	68,947,591
Noncurrent assets:					
Loans receivable	1,321,504	-	1,321,504	-	1,321,504
Restricted cash and cash equivalents	-	9,150,306	9,150,306	2,778,543	11,928,849
Restricted investments	-	5,898,006	5,898,006	10,500,725	16,398,731
Capital assets, not being depreciated	12,519,709	2,892,675	15,412,384	19,130,127	34,542,511
Capital assets, net	57,783,899	99,254,937	157,038,836	43,006,287	200,045,123
Net pension asset	712,591	400,833	1,113,424	-	1,113,424
Other assets	541,832	234,606	776,438	-	776,438
Total noncurrent assets	72,879,535	117,831,363	190,710,898	75,415,682	266,126,580
Total Assets	111,631,810	141,801,512	253,433,322	81,640,849	335,074,171
Deferred Outflows of Resources					
Deferred outflows of resources - pensions	18,420,387	3,108,171	21,528,558	648,882	22,177,440
Deferred charge on refunding	5,411,184	-	5,411,184	483,441	5,894,625
Total Deferred Outflows of Resources	23,831,571	3,108,171	26,939,742	1,132,323	28,072,065

(Continued)

The accompanying notes are an integral part of these financial statements.

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Liabilities					
Current liabilities:					
Accounts payable and other					
accrued expenses	2,865,959	1,339,920	4,205,879	1,787,090	5,992,969
Accrued payroll	1,005,145	185,467	1,190,612	52,559	1,243,171
Accrued vacation and other					
compensated absences	839,610	640,864	1,480,474	125,606	1,606,080
Termination benefits payable	111,597	-	111,597	-	111,597
Interest payable	750,507	375,968	1,126,475	233,316	1,359,791
Current portion of long-term debt	5,495,000	7,703,426	13,198,426	6,395,702	19,594,128
Current portion of capital lease					
obligations	996,398	189,213	1,185,611	-	1,185,611
Due to Agency Fund	1,605,459	7	1,605,466	-	1,605,466
Unearned revenue	5,261,699	-	5,261,699	222,047	5,483,746
Total current liabilities	<u>18,931,374</u>	<u>10,434,865</u>	<u>29,366,239</u>	<u>8,816,320</u>	<u>38,182,559</u>
Noncurrent liabilities:					
Accrued vacation and other					
compensated absences, net of					
current portion	3,411,031	-	3,411,031	-	3,411,031
Accrued sick pay	-	158,480	158,480	-	158,480
Long-term debt, net of current					
portion	110,459,025	111,621,231	222,080,256	44,408,791	266,489,047
Capital lease obligation, net of					
current portion	4,103,923	145,621	4,249,544	-	4,249,544
Net pension liability	51,388,259	5,946,334	57,334,593	677,813	58,012,406
Other post-employment benefit					
liability	5,136,770	1,066,338	6,203,108	-	6,203,108
Unearned revenue	-	2,462,076	2,462,076	187,196	2,649,272
Total noncurrent liabilities	<u>174,499,008</u>	<u>121,400,080</u>	<u>295,899,088</u>	<u>45,273,800</u>	<u>341,172,888</u>
Total Liabilities	<u>193,430,382</u>	<u>131,834,945</u>	<u>325,265,327</u>	<u>54,090,120</u>	<u>379,355,447</u>
Deferred Inflows of Resources					
Deferred inflows of resources -					
pensions	4,756,478	40,344	4,796,822	19,865	4,816,687
Deferred charge on refunding	-	227,346	227,346	-	227,346
Total Deferred Inflows of Resources	<u>4,756,478</u>	<u>267,690</u>	<u>5,024,168</u>	<u>19,865</u>	<u>5,044,033</u>
Net Position					
Net investment in capital assets	28,691,416	1,698,044	30,389,460	20,590,571	50,980,031
Restricted	7,445,988	400,833	7,846,821	2,086,907	9,933,728
Unrestricted	(98,860,883)	10,708,171	(88,152,712)	5,985,709	(82,167,003)
Total Net Position	<u>\$ (62,723,479)</u>	<u>\$ 12,807,048</u>	<u>\$ (49,916,431)</u>	<u>\$ 28,663,187</u>	<u>\$ (21,253,244)</u>

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

<u>Function/Programs:</u>	<u>Expenses</u>	Program Revenues		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 932,305	\$ -	\$ -	\$ -
Administrative	1,416,282	282,474	-	-
Community development	8,190,819	4,315,729	4,060,924	199,442
Parks and public property	2,619,603	631,373	245,677	241,314
Public works	14,043,676	1,475,750	2,076,665	5,768,747
Police	23,136,441	1,953,782	2,978,806	-
Fire	14,761,796	3,754,762	14,625	-
General expenditures	10,379,537	-	-	-
Civic	143,422	-	-	-
Library	1,552,130	-	-	20,504
Program expenditures	1,826,180	-	2,218,907	-
Interest on long-term debt	4,923,466	-	-	-
Total governmental activities	83,925,657	12,413,870	11,595,604	6,230,007
Business-type activities:				
Water Fund	20,204,788	21,255,913	-	-
Sewer Fund	13,893,436	17,126,558	-	23,839
Other non-major fund	1,444,298	1,285,002	-	-
Total business-type activities	35,542,522	39,667,473	-	23,839
Total primary government	\$ 119,468,179	\$ 52,081,343	\$ 11,595,604	\$ 6,253,846
Component units:				
Bethlehem Parking Authority	\$ 5,051,858	\$ 5,686,858	\$ -	\$ 4,971,031
Bethlehem Public Library	2,998,124	199,245	2,639,716	-
Bethlehem Redevelopment Authority	7,925,477	-	72,641	12,567,778
Total component units	\$ 15,975,459	\$ 5,886,103	\$ 2,712,357	\$ 17,538,809

General Revenues:

Real estate taxes and other taxes

Grants and other charges not restricted
to specific programs

Investment income

Transfers

Total general revenues and transfers

Change in Net Position

Net Position:

Beginning of year - restated

End of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and
Changes in Net Position

Primary Government			Component Units	Total Reporting Entity
Governmental Activities	Business-Type Activities	Total		
\$ (932,305)	\$ -	\$ (932,305)	\$ -	\$ (932,305)
(1,133,808)	-	(1,133,808)	-	(1,133,808)
385,276	-	385,276	-	385,276
(1,501,239)	-	(1,501,239)	-	(1,501,239)
(4,722,514)	-	(4,722,514)	-	(4,722,514)
(18,203,853)	-	(18,203,853)	-	(18,203,853)
(10,992,409)	-	(10,992,409)	-	(10,992,409)
(10,379,537)	-	(10,379,537)	-	(10,379,537)
(143,422)	-	(143,422)	-	(143,422)
(1,531,626)	-	(1,531,626)	-	(1,531,626)
392,727	-	392,727	-	392,727
(4,923,466)	-	(4,923,466)	-	(4,923,466)
<u>(53,686,176)</u>	<u>-</u>	<u>(53,686,176)</u>	<u>-</u>	<u>(53,686,176)</u>
-	1,051,125	1,051,125	-	1,051,125
-	3,256,961	3,256,961	-	3,256,961
-	(159,296)	(159,296)	-	(159,296)
<u>-</u>	<u>4,148,790</u>	<u>4,148,790</u>	<u>-</u>	<u>4,148,790</u>
<u>(53,686,176)</u>	<u>4,148,790</u>	<u>(49,537,386)</u>	<u>-</u>	<u>(49,537,386)</u>
-	-	-	5,606,031	5,606,031
-	-	-	(159,163)	(159,163)
-	-	-	4,714,942	4,714,942
<u>-</u>	<u>-</u>	<u>-</u>	<u>10,161,810</u>	<u>10,161,810</u>
40,455,783	-	40,455,783	-	40,455,783
15,325,035	-	15,325,035	-	15,325,035
177,710	809,391	987,101	242,969	1,230,070
4,059,044	(4,059,044)	-	-	-
<u>60,017,572</u>	<u>(3,249,653)</u>	<u>56,767,919</u>	<u>242,969</u>	<u>57,010,888</u>
6,331,396	899,137	7,230,533	10,404,779	17,635,312
<u>(69,054,875)</u>	<u>11,907,911</u>	<u>(57,146,964)</u>	<u>18,258,408</u>	<u>(38,888,556)</u>
<u>\$ (62,723,479)</u>	<u>\$ 12,807,048</u>	<u>\$ (49,916,431)</u>	<u>\$ 28,663,187</u>	<u>\$ (21,253,244)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2017

	General Fund	Non-Utility Capital Improvements Fund	Debt Service Fund	Other Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 11,536,447	\$ 5,359,312	\$ -	\$ 6,839,836	\$ 23,735,595
Investments	-	43,551	-	-	43,551
Receivables:					
Taxes	4,081,523	-	-	-	4,081,523
Accounts	932,248	-	-	-	932,248
Loans	-	-	-	1,321,504	1,321,504
Other	1,247,172	171,781	-	-	1,418,953
Due from other funds	647,385	23,500	-	-	670,885
Due from other governments	5,842,263	1,287,565	-	761,646	7,891,474
Total Assets	\$ 24,287,038	\$ 6,885,709	\$ -	\$ 8,922,986	\$ 40,095,733
Liabilities, Deferred Inflows of Resources, and Fund Balance					
Liabilities:					
Accounts payable and other accrued expenses	\$ 704,318	\$ 1,920,952	\$ -	\$ 236,860	\$ 2,862,130
Accrued payroll	967,755	-	-	37,390	1,005,145
Accrued vacation and other compensated absences	819,281	-	-	20,329	839,610
Due to other funds	1,605,466	65,570	-	20,776	1,691,812
Unearned revenues	217,165	460,976	-	4,583,558	5,261,699
Total Liabilities	4,313,985	2,447,498	-	4,898,913	11,660,396
Deferred Inflows of Resources:					
Unavailable revenue - taxes	2,159,741	-	-	-	2,159,741
Fund Balance:					
Restricted for:					
Parks and public property	762,557	-	-	-	762,557
Community development	230,739	-	-	-	230,739
Debt service	1,480,027	-	-	-	1,480,027
Capital projects	-	4,438,211	-	-	4,438,211
Public works	-	-	-	963,327	963,327
Police	236,001	-	-	3,060,746	3,296,747
Assigned for capital projects	3,000,000	-	-	-	3,000,000
Unassigned	12,103,988	-	-	-	12,103,988
Total Fund Balance	17,813,312	4,438,211	-	4,024,073	26,275,596
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 24,287,038	\$ 6,885,709	\$ -	\$ 8,922,986	\$ 40,095,733

The accompanying notes are an integral part of these financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

DECEMBER 31, 2017

Total Fund Balance - Governmental Funds \$ 26,275,596

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 70,303,608

Net pension asset and deferred outflows related to pensions 19,132,978

Real estate taxes and earned income taxes not collected within a period of time subsequent to year-end are recognized as revenue in the statement of net position. 2,159,741

Accrued vacation and other compensated absences not due within the next twelve months are recorded on the statement of net position. (3,411,031)

Termination benefits are not due and payable in the current period and, therefore, are not reported in the funds. (111,597)

Net pension liability and deferred inflows related to pensions (56,144,737)

Other post-employment benefit liability is recorded on the statement of net position. (5,136,770)

Prepaid bond insurance and charge on refunding are amortized on the statement of net position. 5,953,016

Long-term liabilities, including bonds and notes payable and capital lease obligations, are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds and notes (115,954,025)

Capital leases (5,100,321)

Accrued interest payable is included on the statement of net position. (750,507)

Assets and liabilities of the internal service fund reported in the statement of net position are used to charge the costs of insurance to individual funds and are not reported in the governmental funds.

60,570

Net Position - Governmental Activities \$ (62,723,479)

The accompanying notes are an integral part of these financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2017

	General Fund	Non-Utility Capital Improvements Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 40,093,039	\$ -	\$ -	\$ -	\$ 40,093,039
Licenses and permits	3,033,586	-	-	-	3,033,586
Intergovernmental revenues	9,444,337	6,255,738	-	6,666,696	22,366,771
Fines and forfeitures	378,721	-	-	-	378,721
Departmental earnings	7,429,202	-	-	-	7,429,202
Other charges	1,482,268	-	-	-	1,482,268
Municipal recreation	464,334	-	-	-	464,334
Investment income	112,793	34,498	-	30,419	177,710
Host fee	9,903,107	-	-	-	9,903,107
Other	372,931	25,263	-	152,426	550,620
Total revenues	72,714,318	6,315,499	-	6,849,541	85,879,358
Expenditures:					
Current:					
General government	756,528	-	-	-	756,528
Administrative	1,050,290	-	-	-	1,050,290
Community development	7,786,478	-	-	-	7,786,478
Parks and public property	687,632	-	-	-	687,632
Public works	7,462,670	-	-	1,478,902	8,941,572
Police	18,860,054	-	-	2,323,306	21,183,360
Fire	13,412,115	-	-	-	13,412,115
General expenditures	10,377,467	-	-	-	10,377,467
Civic	143,422	-	-	-	143,422
Library	1,315,934	-	-	-	1,315,934
Program expenditures	-	-	-	2,228,620	2,228,620
Capital outlays	-	9,811,211	-	-	9,811,211
Debt service - principal	781,148	926,930	4,929,000	-	6,637,078
Debt service - interest	167,317	518,239	4,219,439	-	4,904,995
Total expenditures	62,801,055	11,256,380	9,148,439	6,030,828	89,236,702
Excess (Deficiency) of Revenues Over Expenditures	9,913,263	(4,940,881)	(9,148,439)	818,713	(3,357,344)
Other Financing Sources (Uses):					
Capital lease	301,202	-	-	-	301,202
Debt issued	-	5,920,000	-	-	5,920,000
Refunding debt issued	-	29,390,000	-	-	29,390,000
Payments to refunded bond escrow agent	-	(30,005,575)	-	-	(30,005,575)
Original issue discount	-	(127,741)	-	-	(127,741)
Original issue premium	-	1,869,524	-	-	1,869,524
Transfers in	2,699,598	34,758	9,148,439	1,485,000	13,367,795
Transfers out	(8,598,542)	(131,721)	-	(578,488)	(9,308,751)
Total other financing sources (uses)	(5,597,742)	6,949,245	9,148,439	906,512	11,406,454
Net Change in Fund Balance	4,315,521	2,008,364	-	1,725,225	8,049,110
Fund Balance:					
Beginning of the year - restated	13,497,791	2,429,847	-	2,298,848	18,226,486
End of the year	<u>\$ 17,813,312</u>	<u>\$ 4,438,211</u>	<u>\$ -</u>	<u>\$ 4,024,073</u>	<u>\$ 26,275,596</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

Net Change in Fund Balance - Governmental Funds \$ 8,049,110

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$11,355,994) and donated capital assets (\$20,504) were greater than depreciation (\$8,939,229) and loss on disposal (\$54,121) in the current period. 2,383,148

Revenues related to real estate taxes and earned income taxes in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 298,147

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of those differences in the treatment of long-term debt.

Issuance of capital lease	(301,202)
Issuance of bonds	(35,310,000)
Payments to refunded bond escrow agent	30,005,575
Repayment of principal	6,637,078

Accrued interest expense on long-term debt is reported in the statement of activities, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. 76,132

Change in net pension asset and deferred outflows of resources related to pensions in the statement of activities. 2,519,211

Change in termination benefits in the statement of activities. 107,754

Change in accrued vacation and other compensated absences not due within the next twelve months in the statement of activities. 63,206

Change in net pension liability and deferred inflows of resources related to pensions in the statement of activities. (5,945,437)

Change in other post-employment benefit liability in the statement of activities. (412,870)

Governmental funds report the effect of bond insurance, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. (1,836,386)

Activities of the internal service fund are reported as net loss within the statement of activities. (2,070)

Change in Net Position - Governmental Activities \$ 6,331,396

The accompanying notes are an integral part of these financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - PROPRIETARY FUNDS

DECEMBER 31, 2017

Assets and Deferred Outflows of Resources	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Assets:					
Current assets:					
Cash and cash equivalents	\$ 4,881,094	\$ 9,836,256	\$ 23,611	\$ 14,740,961	\$ 64,399
Accounts receivable, net	4,575,468	4,923,848	-	9,499,316	-
Accrued interest	8,042	-	-	8,042	-
Due from other funds	-	55,000	10,570	65,570	-
Inventories	204,976	80,845	20,541	306,362	-
Total current assets	9,669,580	14,895,949	54,722	24,620,251	64,399
Restricted assets:					
Cash and cash equivalents	9,150,306	-	-	9,150,306	-
Investments	5,898,006	-	-	5,898,006	-
Capital assets, not being depreciated	1,627,565	1,090,110	175,000	2,892,675	-
Capital assets, net	71,124,776	27,928,340	201,821	99,254,937	-
Net pension asset	167,014	189,282	44,537	400,833	-
Other assets	181,048	53,558	-	234,606	-
Total Assets	97,818,295	44,157,239	476,080	142,451,614	64,399
Deferred Outflows of Resources:					
Deferred outflows of resources - pensions	1,281,616	1,466,980	359,575	3,108,171	-
Total Deferred Outflows of Resources	1,281,616	1,466,980	359,575	3,108,171	-
Total Assets and Deferred Outflows of Resources	\$ 99,099,911	\$ 45,624,219	\$ 835,655	\$ 145,559,785	\$ 64,399

(Continued)

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund	Total	Internal Service
			Municipal Golf Fund		
Liabilities, Deferred Inflows of Resources, and Net Position					
Liabilities:					
Current liabilities:					
Accounts payable and other accrued expenses	\$ 181,626	\$ 261,237	\$ 87,254	\$ 530,117	\$ 3,829
Accrued payroll	93,225	83,221	9,021	185,467	-
Accrued vacation and other compensated absences	327,208	264,884	48,772	640,864	-
Construction accounts payable	564,309	245,494	-	809,803	-
Interest payable	302,528	73,440	-	375,968	-
Current portion of long-term debt	6,218,451	1,484,975	-	7,703,426	-
Current portion of capital lease obligation	119,293	-	69,920	189,213	-
Due to other funds	-	-	650,109	650,109	-
Total current liabilities	7,806,640	2,413,251	865,076	11,084,967	3,829
Accrued sick pay	103,656	42,057	12,767	158,480	-
Long-term debt, net	84,851,860	26,769,371	-	111,621,231	-
Capital lease obligation, net	145,621	-	-	145,621	-
Net pension liability	2,477,639	2,807,991	660,704	5,946,334	-
Other post-employment benefits liability	645,688	352,158	68,492	1,066,338	-
Unearned revenue	-	2,462,076	-	2,462,076	-
Total Liabilities	96,031,104	34,846,904	1,607,039	132,485,047	3,829
Deferred Inflows of Resources:					
Deferred inflows of resources - pensions	16,553	18,965	4,826	40,344	-
Deferred charge on refunding	227,346	-	-	227,346	-
Total Deferred Inflows of Resources	243,899	18,965	4,826	267,690	-
Net Position:					
Net investment in capital assets	(4,145,179)	5,536,322	306,901	1,698,044	-
Restricted	167,014	189,282	44,537	400,833	-
Unrestricted	6,803,073	5,032,746	(1,127,648)	10,708,171	60,570
Total Net Position	2,824,908	10,758,350	(776,210)	12,807,048	60,570
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 99,099,911	\$ 45,624,219	\$ 835,655	\$ 145,559,785	\$ 64,399

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN IN NET POSITION - PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2017

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Operating Revenues:					
Charges for services	\$ 20,895,058	\$ 15,860,195	\$ 1,275,421	\$ 38,030,674	\$ 10,940,784
Operating Expenses:					
Salaries, wages, and fringe benefits	4,767,839	4,503,788	809,383	10,081,010	-
Professional fees	804,129	233,273	2,700	1,040,102	-
Utilities	262,761	664,427	31,343	958,531	-
Maintenance and repairs	145,704	194,983	43,166	383,853	-
Department contracts	421,191	1,244,575	21,166	1,686,932	-
Supplies	342,328	543,476	138,074	1,023,878	-
Service charges	2,956,526	2,126,038	200,105	5,282,669	-
Depreciation and amortization	5,583,724	3,726,431	154,312	9,464,467	-
Insurance claims	-	-	-	-	11,030,006
Administration	-	-	-	-	61,078
Other	403,951	89,523	37,381	530,855	-
Total operating expenses	15,688,153	13,326,514	1,437,630	30,452,297	11,091,084
Operating Income (Loss)	5,206,905	2,533,681	(162,209)	7,578,377	(150,300)
Non-Operating Revenues (Expenses):					
Investment income	757,331	52,060	-	809,391	254
Interest expense	(4,516,635)	(566,922)	(6,668)	(5,090,225)	-
Tapping fees	-	390,367	-	390,367	-
Other revenues	360,855	899,835	9,581	1,270,271	147,976
Total non-operating revenues (expenses)	(3,398,449)	775,340	2,913	(2,620,196)	148,230
Change in net position before transfers	1,808,456	3,309,021	(159,296)	4,958,181	(2,070)
Transfers in	-	-	13,400	13,400	-
Transfers out	(754,140)	(3,200,726)	(117,578)	(4,072,444)	-
Change in Net Position	1,054,316	108,295	(263,474)	899,137	(2,070)
Net Position:					
Beginning of year - restated	1,770,592	10,650,055	(512,736)	11,907,911	62,640
End of year	\$ 2,824,908	\$ 10,758,350	\$ (776,210)	\$ 12,807,048	\$ 60,570

The accompanying notes are an integral part of these financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other Enterprise Fund		
			Municipal Golf Fund	Total	
Cash Flows From Operating Activities:					
Receipts from customers	\$ 20,839,810	\$ 15,854,899	\$ 1,276,879	\$ 37,971,588	\$ 10,940,784
Payments to suppliers for services	(5,533,597)	(5,263,635)	(480,599)	(11,277,831)	(11,087,255)
Payment to employees	(3,899,813)	(3,570,302)	(611,196)	(8,081,311)	-
Net cash provided by (used in) operating activities	<u>11,406,400</u>	<u>7,020,962</u>	<u>185,084</u>	<u>18,612,446</u>	<u>(146,471)</u>
Cash Flows From Noncapital Financing Activities:					
Transfers out	(754,140)	(3,200,726)	(104,178)	(4,059,044)	-
Other revenues received	360,855	875,996	9,581	1,246,432	147,976
Net cash provided by (used in) noncapital financing activities	<u>(393,285)</u>	<u>(2,324,730)</u>	<u>(94,597)</u>	<u>(2,812,612)</u>	<u>147,976</u>
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(2,633,238)	(3,118,788)	(13,400)	(5,765,426)	-
Principal payments on debt	(5,965,980)	(1,564,133)	-	(7,530,113)	-
Interest payments on debt	(3,194,929)	(557,408)	(6,668)	(3,759,005)	-
Principal payments on capital lease obligations	(131,057)	(26,234)	(69,644)	(226,935)	-
Tapping fees	-	390,367	-	390,367	-
Premium on debt issued	-	48,711	-	48,711	-
Proceeds from issuance of debt	-	5,365,700	-	5,365,700	-
Net cash provided by (used in) capital and related financing activities	<u>(11,925,204)</u>	<u>538,215</u>	<u>(89,712)</u>	<u>(11,476,701)</u>	<u>-</u>
Cash Flows From Investing Activities:					
Net purchase of investments	(654,105)	-	-	(654,105)	-
Interest and dividends on investments	757,331	52,060	-	809,391	254
Net cash provided by investing activities	<u>103,226</u>	<u>52,060</u>	<u>-</u>	<u>155,286</u>	<u>254</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(808,863)</u>	<u>5,286,507</u>	<u>775</u>	<u>4,478,419</u>	<u>1,759</u>
Cash and Cash Equivalents:					
Beginning of year	14,840,263	4,549,749	22,836	19,412,848	62,640
End of year	<u>\$ 14,031,400</u>	<u>\$ 9,836,256</u>	<u>\$ 23,611</u>	<u>\$ 23,891,267</u>	<u>\$ 64,399</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2017
(Continued)

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating income (loss)	\$ 5,206,905	\$ 2,533,681	\$ (162,209)	\$ 7,578,377	\$ (150,300)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	5,583,724	3,726,431	154,312	9,464,467	-
Amortization	443,202	502,296	118,187	1,063,685	-
Changes in assets and liabilities:					
Accounts receivable	(55,248)	(5,296)	-	(60,544)	-
Inventories	6,119	(10,616)	448	(4,049)	-
Net pension asset	145,521	167,901	44,759	358,181	-
Other assets	-	-	1,458	1,458	-
Deferred outflows of resources - pensions	(323,458)	(367,072)	(86,588)	(777,118)	-
Accrued vacation and other compensated absences	5,293	(14,113)	6,572	(2,248)	-
Accrued payroll	4,948	15,127	474	20,549	-
Accounts payable and other accrued expenses	(203,126)	(156,724)	(4,117)	(363,967)	3,829
Due to other funds	-	-	(2,995)	(2,995)	-
Net pension liability	537,399	590,574	106,350	1,234,323	-
Other post-employment benefits liability	41,109	22,687	4,285	68,081	-
Deferred outflows of resources - pensions	14,012	16,086	4,148	34,246	-
Net cash provided by (used in) operating activities	<u>\$ 11,406,400</u>	<u>\$ 7,020,962</u>	<u>\$ 185,084</u>	<u>\$ 18,612,446</u>	<u>\$ (146,471)</u>
Non-cash Capital and Related Financing Activities:					
Accretion of capital appreciation bonds	<u>\$ 1,876,242</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,876,242</u>	<u>\$ -</u>
Issuance of capital lease	<u>\$ 306,954</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 306,954</u>	<u>\$ -</u>

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2017

	Employee Benefit Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ 890,547	\$ 1,433,236
Interest and dividends receivable	351,128	-
Due from the City	-	1,605,466
Investments	156,260,806	-
Total Assets	157,502,481	3,038,702
Liabilities		
Escrow liabilities	-	3,038,702
Total Liabilities	-	\$ 3,038,702
Net Position		
Restricted for employees' retirement benefits	157,502,481	
Total Net Position	\$ 157,502,481	

The accompanying notes are an integral part of these financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2017

	<u>Employee Benefit Trust Fund</u>
Additions:	
<hr/>	
Contributions:	
Employee contributions	\$ 1,429,568
Employer contributions	7,059,271
Total contributions	<u>8,488,839</u>
Investment earnings:	
Investment income	2,108,502
Realized and unrealized gains, net	19,091,767
Total investment earnings	21,200,269
Less investment expense	<u>(622,389)</u>
Net investment earnings	<u>20,577,880</u>
Total additions	<u>29,066,719</u>
Deductions:	
<hr/>	
Benefits paid	18,427,204
Administrative costs	35,778
Total deductions	<u>18,462,982</u>
Change in Net Position	10,603,737
Net Position:	
<hr/>	
Beginning of year	<u>146,898,744</u>
End of year	<u><u>\$ 157,502,481</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - COMPONENT UNITS

DECEMBER 31, 2017

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority *	Total
Assets and Deferred Outflows of Resources				
<hr/>				
Assets:				
Current assets:				
Cash and cash equivalents	\$ 2,073,544	\$ 85,556	\$ 71,516	\$ 2,230,616
Investments	1,230	-	-	1,230
Accounts receivable, net	427,979	-	-	427,979
Grants receivable	3,257,119	-	-	3,257,119
Pledges receivable	-	9,000	-	9,000
Other receivables	44,904	-	72,511	117,415
Prepaid expenses	181,808	-	-	181,808
Total current assets	5,986,584	94,556	144,027	6,225,167
Restricted cash and cash equivalents	-	-	2,778,543	2,778,543
Restricted investments	839,499	2,023,952	7,637,274	10,500,725
Capital assets, not being depreciated	18,183,746	5,000	941,381	19,130,127
Capital assets, net	13,200,799	303,606	29,501,882	43,006,287
Total Assets	38,210,628	2,427,114	41,003,107	81,640,849
Deferred Outflows of Resources:				
Deferred outflows of resources - pension	561,272	-	87,610	648,882
Deferred charge on refunding	483,441	-	-	483,441
Total Deferred Outflows of Resources	1,044,713	-	87,610	1,132,323
Total Assets and Deferred Outflows of Resources	\$39,255,341	\$ 2,427,114	\$41,090,717	\$82,773,172

(Continued)

* - As of June 30, 2017

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
Liabilities, Deferred Inflows of Resources, and Net Position				
Liabilities:				
Accounts payable and other accrued expenses	\$ 1,665,537	\$ 73,897	\$ 47,656	\$ 1,787,090
Accrued payroll	24,964	27,595	-	52,559
Accrued vacation and other compensated absences	109,968	15,638	-	125,606
Interest payable	165,226	-	68,090	233,316
Current portion of long-term debt	800,000	-	5,595,702	6,395,702
Unearned revenue	222,047	-	-	222,047
Total current liabilities	2,987,742	117,130	5,711,448	8,816,320
Long-term debt, net of current portion	24,453,791	-	19,955,000	44,408,791
Unearned revenue	187,196	-	-	187,196
Net pension liability	482,478	-	195,335	677,813
Total Liabilities	28,111,207	117,130	25,861,783	54,090,120
Deferred Inflows of Resources:				
Deferred inflows of resources - pension	-	-	19,865	19,865
Total Deferred Inflows of Resources	-	-	19,865	19,865
Net Position:				
Net investment in capital assets	5,533,902	308,606	14,748,063	20,590,571
Restricted	-	2,086,907	-	2,086,907
Unrestricted	5,610,232	(85,529)	461,006	5,985,709
Total Net Position	11,144,134	2,309,984	15,209,069	28,663,187
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$39,255,341	\$ 2,427,114	\$41,090,717	\$82,773,172

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF ACTIVITIES - COMPONENT UNITS

YEAR ENDED DECEMBER 31, 2017

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	
Bethlehem Parking Authority	\$ 5,051,858	\$ 5,686,858	\$ -	\$ 4,971,031	\$ 5,606,031	\$ -	\$ -	\$ 5,606,031
Bethlehem Public Library	2,998,124	199,245	2,639,716	-	-	(159,163)	-	(159,163)
Bethlehem Redevelopment Authority *	7,925,477	-	72,641	12,567,778	-	-	4,714,942	4,714,942
Total Component Units	\$ 15,975,459	\$ 5,886,103	\$ 2,712,357	\$ 17,538,809	5,606,031	(159,163)	4,714,942	10,161,810
General Revenues:								
					10,901	225,128	6,940	242,969
					10,901	225,128	6,940	242,969
					5,616,932	65,965	4,721,882	10,404,779
					5,527,202	2,244,019	10,487,187	18,258,408
					\$ 11,144,134	\$ 2,309,984	\$ 15,209,069	\$ 28,663,187

* - Year ended June 30, 2017

The accompanying notes are an integral part of these financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

1. Summary of Significant Accounting Policies

The accounting methods and procedures adopted by the City of Bethlehem, Pennsylvania (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The following notes to the financial statements are an integral part of the City's financial statements.

Financial Reporting Entity

The City was incorporated in 1962 under the provisions of the constitution and general statutes of the Commonwealth of Pennsylvania (Commonwealth). The City is a third class city, as defined by the state statutes. The City operates under a mayor-council form of government and provides a full range of services, including public safety, roads, sanitation, health, culture and recreation, and general government services.

Basis of Presentation

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and employee benefit trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Benefits and refunds of the Employee Benefit Trust Fund are recognized when due and payable in accordance with the terms of the plans. Employer contributions to the Employee Benefit Trust Fund are recognized when due as required by applicable law.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pensions and other post-employment benefits, and judgments and claims, are recorded only when payment is due.

Property taxes, earned income taxes, host fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. In determining when to recognize intergovernmental revenues (grants and entitlements), the legal and contractual requirements of the individual programs are used as guidance. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The Non-Utility Capital Improvements Fund is the fund used to account for acquisition, construction, and improvement of capital assets.

The Debt Service Fund is the fund used to account for the non-utility debt payments.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

The City reports the following nonmajor governmental funds: 911 Fund, Community Development Block Grant Fund, and Liquid Fuels Fund.

The City reports the following major proprietary funds:

The Water and Sewer Funds are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing these services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Municipal Golf Fund is the City's nonmajor proprietary fund.

The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit on a cost-reimbursement basis. The Internal Service Fund accounts for the City's externally administered health insurance.

The City's fiduciary funds are the Employee Benefit Trust Fund and Agency Fund. The Employee Benefit Trust Fund is maintained to account for assets held by the City in a trustee capacity for individuals currently or previously employed by the City.

The Agency Fund is used to account for funds held in escrow for other parties. The Agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The Agency Fund accounts for the earned income taxes, payroll withholdings, and tax collections for the surrounding municipalities.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to citizens for services. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Budgetary Accounting Control

Formal budgetary integration is employed as a management control device during the year for all funds of the City. Annual operating budgets are legally adopted for the General Fund, Water Fund, Sewer Fund, Municipal Golf Fund, all Capital Projects Funds, 911 Fund, Community Development Block Grant Fund, and Liquid Fuels Fund.

Upon enactment of the budgets by City Council, any amendments are developed by individual City departments and presented to the Finance Committee of City Council. Amendments as approved by the Finance Committee are submitted to the City Council to be read in a public hearing and ratified. A ratified budget amendment becomes effective twenty days after being enacted. The Office of Budget and Finance can make intrafund budget transfers of up to five percent provided they do not alter total revenues or expenditures of such fund. Appropriations not reserved for encumbrances lapse at year-end.

Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and all certificates of deposit to be cash equivalents.

The investments in external investment pools are valued at amortized cost, which approximates fair value. All other investments of the City and its component units are stated at fair value. Fair value is determined based on the last reported sales price on the last business day of the year; securities for which no sale was reported on that date are valued at the last reported bid price. The City and its component units categorize their fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

Internal Balances

Internal balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the General, Water, and Sewer Funds are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the months following the close of the calendar year.

Property Taxes

Based upon assessed valuations provided by Lehigh and Northampton Counties, the City bills and collects its own property taxes. Delinquent taxes are turned over to an outside agency, which collects the taxes on behalf of the City.

The schedule for property taxes levied for 2017 is as follows:

January 1, 2017	original levy date
January 1, 2017 - March 31, 2017	2% discount period
April 1, 2017 - May 31, 2017	face payment period
June 1, 2017 - December 29, 2017	10% penalty period

In addition, City taxes may be paid in four installments due approximately February 6, April 3, June 5, and August 7 of the tax year with no discount period allowed. Any delinquent installment is subject to a penalty of 10%.

The City is permitted by the Third Class City Code to levy real estate taxes up to 25 mills on every dollar of assessed valuation for general City purposes. The City's 2017 millage was 8.61 for general purposes, 2.40 for public safety, 0.93 for 911, 0.15 for recreation, 3.74 for debt service, 0.55 for landfill debt, and 0.77 for library, for properties in Northampton County; and 2.73 for general purposes, 0.76 for public safety, 0.29 for 911, 0.05 for recreation, 1.18 for debt service, 0.17 for landfill debt, and 0.24 for library, for properties in Lehigh County.

Tax Abatements

The City's tax abatements are authorized by City Council ordinance. Under the Local Economic Revitalization Tax Assistance (LERTA) program, recipients are eligible for property tax abatement on certain improvements to deteriorated industrial, commercial, and other

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

business property and/or deteriorated residential property. The City's tax abatement agreements do not contain recapture provisions for non-compliance. There were no amounts received or receivable from other governments in association with the forgone taxes. The City did not make other commitments other than to reduce taxes as part of the tax abatement agreements.

During 2017, the City's LERTA property tax abatements totaled approximately \$1.24 million.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

Interfund Transactions

As a result of its operations, the City affects a variety of transactions between funds to finance operations. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2017, appropriate interfund receivables or payables have been established.

Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that the City would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. The City maintains a capitalization threshold of \$5,000 for all capital assets.

General infrastructure assets acquired prior to December 31, 2002 consist of streets and street lights, storm sewers, and bridges and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	25-50 years
Land improvements	20 years
Buildings and improvements	45 years
Equipment	5-20 years

Amortization of assets purchased under capital leases is included in depreciation expense.

Parking Authority

Capital assets of the Parking Authority are reported at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of 30 years for the parking garage and 3-10 years for all other capital assets. The cost of repairs and maintenance is charged to income as incurred; renewals and betterments over \$1,000 are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized as income for the period.

Redevelopment Authority

All capital assets of the Redevelopment Authority are capitalized at historical cost at the acquisition date. Donated capital assets are reported at acquisition value at the date of donation. Acquisition value is the price the Redevelopment Authority would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. The Redevelopment Authority maintains a capitalization threshold of \$25,000. All capital assets are depreciated, except for land, land improvements (excavation, fill, grading, landscaping), construction in progress, easements, and rights of way.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	40-50 years

Restricted Investments

Restricted investments represent resources set aside for the liquidation of specific obligations and capital acquisitions.

Bond Discounts, Bond Premiums, and Prepaid Bond Insurance

Bond discounts, bond premiums, and prepaid bond insurance are amortized over the term of the bonds using the straight-line method, which approximates the interest method.

Compensated Absences

The City's vacation policy provides that employees are to take unused vacation within a year following the year it was earned or the vacation time is lost to the employee, except that with the approval of the department head and the business administrator, employees may carry up to 30 days of vacation leave. In accordance with GAAP, the City accrues such benefits as they are earned. Employees, with the exception of police officers and firefighters, are permitted, under the City's present sick leave policy, to accumulate 200 days of sick leave to be paid to the employee when proper proof of illness is demonstrated. Police officers may accumulate up to 260 days of sick leave. Firefighters may accumulate up to 170 days of sick leave. Accumulated sick leave is not paid to an employee upon termination, except upon retirement. At that time, police and fire employees receive \$30 per day for accumulated sick leave, while all other employees receive \$15 per day for the first 170 days and \$20 per day for each day over 170 days. Employees that have up to twelve years of experience and voluntarily resign receive \$10 per day for accumulated sick leave up to a maximum of 50 days.

Termination Benefits

During the year ended December 31, 2016, employees who were age 55 and over and had five or more years with the City were given the option of either a \$10,000 payment or

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

medical benefits for two years at the going rate for active employees in their class of employment if they chose to retire. During the year ended December 31, 2016, sixteen employees participated in the early retirement incentive. For those employees who elected the \$10,000 payment, the payment was made in January 2017. For those who elected two years of medical coverage, the coverage runs from January 2017 through December 2018.

The termination benefit liability was calculated as follows:

- For 2017 medical coverage, the 2017 COBRA renewal rates as provided by the City's broker were used, including the 2% administrative fee.
- For 2018 medical coverage, the 2017 rates were used with a 7% inflationary increase.

Unearned Revenues

Unearned revenue may result from revenues being collected in advance of the fiscal year to which they apply or in advance of their legal due date.

Deferred Inflows and Outflows of Resources Related to Pensions

In conjunction with pension accounting requirements, the differences in the expected and actual experience, contributions subsequent to the measurement date, the changes in assumptions, and the difference between projected and actual earnings on pension plan investments for the City and its component units are recorded as deferred inflows or outflows of resources related to pensions on the government-wide and proprietary fund financial statements. These amounts are determined based on the actuarial valuations performed for the pension plans.

Net Position

In the government-wide and proprietary fund financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds at the end of the reporting period, the portion of the debt attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This category represents the net position of the City that is not restricted for any project or other purpose.

Fund Balance

In the fund financial statements, governmental funds report fund balance in categories based on the level of constraint placed upon the funds. These levels are as follows:

Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.

Assigned – This category represents intentions of the Business Administrator and/or the Director of Budget and Finance to use funds for specific purposes. Through a resolution of City Council, the Business Administrator and/or Director of Budget and Finance has been delegated the responsibility to assign funds.

Unassigned – This category represents all other funds not otherwise defined.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, assigned fund balance is applied first. Unassigned fund balance is applied last.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Pending Changes in Accounting Principles

In June of 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.”* This Statement addresses reporting by governments that provide other post-employment benefits (OPEB) to their employees and for governments that finance OPEB for employees of other governments. The provisions of GASB Statement No. 75 are effective for the City’s December 31, 2018 financial statements.

In November of 2016, the GASB issued Statement No. 83, *“Certain Asset Retirement Obligations.”* This Statement addresses accounting and financial reporting for certain asset retirement obligations. The provisions of GASB Statement No. 83 are effective for the City’s December 31, 2019 financial statements.

In January of 2017, the GASB issued Statement No. 84, *“Fiduciary Activities.”* This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of GASB Statement No. 84 are effective for the City’s December 31, 2019 financial statements.

In March of 2017, the GASB issued Statement No. 85, *“Omnibus 2017.”* This Statement addresses practice issues identified during implementation and application of certain GASB Statements related to a variety of topics, including blending component units, goodwill, fair value measurement and application, and post-employment benefits. The provisions of GASB Statement No. 85 are effective for the City’s December 31, 2018 financial statements.

In May of 2017, the GASB issued Statement No. 86, *“Certain Debt Extinguishment Issues.”* This Statement improves consistency in accounting and financial reporting for certain debt extinguishments. The provisions of GASB Statement No. 86 are effective for the City’s December 31, 2018 financial statements.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

In June of 2017, the GASB issued Statement No. 87, *“Leases.”* This statement requires reporting of certain lease liabilities that currently are not reported. The provisions of GASB Statement No. 87 are effective for the City’s December 31, 2020 financial statements.

In March of 2018, the GASB issued Statement No. 88, *“Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.”* This Statement improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of GASB Statement No. 88 are effective for the City’s December 31, 2019 financial statements.

In June of 2018, the GASB issued Statement No. 89, *“Accounting for Interest Cost Incurred Before the end of a Construction Period.”* This Statement improves financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities. The provisions of GASB Statement No. 89 are effective for the City’s December 31, 2020 financial statements.

The effect of implementation of these Statements has not yet been determined.

2. Reporting Entity

As required by GASB, the City has evaluated all related entities for possible inclusion in the financial reporting entity.

The following component unit has been included in the financial reporting entity as a blended component unit:

Bethlehem Authority

The Bethlehem Authority owns the water supply and distribution systems that service the City and nearby communities while serving as a financing authority for these systems. The City operates these systems. The Bethlehem Authority is governed by five board members who are appointed by the Mayor and approved by City Council. The water supply and distribution systems were acquired through the proceeds of water

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

revenue bonds which are guaranteed by the City. Operations are financed through user-based charges. Repayment of the bonds is financed through a lease between the City and the Bethlehem Authority. The City leases the systems for a fixed rental fee. The Bethlehem Authority does not issue separate audited financial statements.

The following component units have been included in the financial reporting entity as discretely presented component units:

Bethlehem Parking Authority

The Bethlehem Parking Authority (Parking Authority) acquires, constructs, and equips parking facilities in the City. The Parking Authority is governed by five board members, all appointed by the Mayor and approved by City Council. Also, the City may require the Parking Authority to transfer surpluses to the City. During the year ended December 31, 2017, the Parking Authority made contributions to the City's General Fund of \$550,000. Separate financial statements were issued by the Parking Authority and can be obtained by contacting the Parking Authority.

Bethlehem Area Public Library

The Bethlehem Area Public Library (Library) provides library services to the City and nearby communities. The Library is governed by eleven directors, seven of whom are appointed by City Council on the recommendation of the President of City Council. The remaining members are appointed by the governing boards of the municipalities of Fountain Hill, Hanover Township (Northampton County), and Bethlehem Township. The City supports the Library. The City's 2017 appropriation to the Library was \$1,315,934, which represented 43% of the Library's General Fund revenue. Title to the assets of the Library rests with the City directly or indirectly through the Board of Directors. The Library's main facility occupies, without charge, premises located in a building owned by the City. During the year ended December 31, 2017, the Library paid the City \$125,580 for utility and insurance costs. Separate financial statements were issued by the Library and can be obtained by contacting the Library.

Bethlehem Redevelopment Authority

The Bethlehem Redevelopment Authority (Redevelopment Authority) was incorporated under the provisions of the Pennsylvania Urban Redevelopment Act Number 385 of May 24, 1945, as amended. The Redevelopment Authority accounts for several cooperation

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

agreements with the City's Community Development Block Grant program and other funding sources wherein administration and other costs are provided by the Redevelopment Authority for general administrative, rehabilitation activities, and property acquisition and demolition. The Redevelopment Authority also accounts for the collection of financing district revenues from the various taxing bodies and pays for construction and construction-related costs associated with various projects within the designated Bethlehem Works Tax Increment Financing (TIF) District. The Redevelopment Authority is governed by five board members who are appointed by the Mayor and approved by City Council. Separate financial statements were issued by the Redevelopment Authority and can be obtained by contacting the Redevelopment Authority.

Related Organizations

Related organizations are not component units, yet there is some form of accountability, other than financial accountability, that exists between the primary government and the related organization because of the appointment authority. The following are related organizations to the City:

Bethlehem Housing Authority

The Bethlehem Housing Authority (Housing Authority) has five commissioners who are appointed to staggered, five-year terms by the Mayor with City Council approval. The Housing Authority paid approximately \$325,000 in public safety reimbursements and \$70,000 in lieu of taxes to the City during the year ended December 31, 2017.

Bethlehem Economic Development Corporation

The Bethlehem Economic Development Corporation (BEDCO) has seven board members who are pre-determined by their position within the City and the Lehigh Valley Economic Development Corporation. A board member will automatically cease to be on the board upon ceasing to hold office. Four of the seven board members are from the City. The City provided enterprise zone loans to BEDCO and, as of December 31, 2017, BEDCO owes the City \$794,875. There were no payments made on this loan during the year ended December 31, 2017. The loan receivables are recorded in the Community Development Block Grant Fund.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Bethlehem Revitalization and Improvement Authority

The Bethlehem Revitalization and Improvement Authority (BRIA) has five board members who are appointed by the Mayor with City Council approval.

3. Deposits and Investments

The City follows the third class city code for investment of City funds. Authorized types of investments for City funds shall be:

- a. United States Treasury bills.
- b. Short-term obligations of the United States government or its agencies or instrumentalities.
- c. Deposits in savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.
- d. Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- e. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments for city funds listed.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

- f. Certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured, however, for any amounts above the insured maximum, such certificates of deposit shall be collateralized by a pledge or assignment of assets of the institution, and such collateral may include loans (including interest in pools of loans) secured by first mortgage liens on real property. Certificates of deposit purchased from commercial banks shall be limited to an amount equal to twenty percent of a bank's total capital and surplus. Certificates of deposit purchased from savings and loan associations or savings banks shall be limited to an amount equal to twenty percent of an institution's assets minus liabilities.
- g. Short-term commercial paper issued by a public corporation.
- h. Banker's acceptances.
- i. Any investment authorized by 20 Pa. C.S. Ch. 73 (relating to fiduciaries' investments) shall be an authorized investment for any pension or retirement fund.

In making investment of City funds, the Council shall have authority to permit assets pledged as collateral under subsection (d)(3), to be pooled in accordance with the Act of August 6, 1971 (P.L. 281, No. 72), relating to pledges of assets to secure deposits of public funds.

Investments of the proprietary funds primarily represent debt sinking funds, escrow deposits, and other accounts required to be maintained under bond or trust indentures. These investments are held by fiscal agents and managed in accordance with the terms of the respective indentures. Other unrestricted investments of the proprietary funds are held by fiscal agents and are managed under the direction of City management. Investments of the Employee Benefit Trust Fund are held by a fiscal agent under trust agreements that authorize the trustee to invest in any form of property, at its discretion, without restriction to investments authorized for fiduciaries, provided that the investments of the trust shall be kept separate and apart from other City funds.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

A. Deposits

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2017, the City's book balance was \$50,015,044 and the bank balance was \$51,514,823. Of the bank balance, \$5,470,625 was covered by federal depository insurance and \$46,044,198 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

Reconciliation to total cash and cash equivalents:	
<hr/>	
Governmental activities:	
Unrestricted	\$ 23,799,994
Business-type activities:	
Unrestricted	14,740,961
Restricted	9,150,306
Fiduciary funds:	
Employee benefit trust fund	890,547
Agency fund	1,433,236
Total cash and cash equivalents	<u>\$ 50,015,044</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

B. Investments

The fair value of the investments of the City at December 31, 2017 was as follows:

Investments:	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Money market funds	\$ 16,909,027	\$ 16,909,027	\$ -	\$ -
U.S. Government obligations	16,026,193	16,026,193	-	-
U.S. Government agency obligations	3,429,586	3,429,586	-	-
Municipal bonds	266,821	-	266,821	-
Corporate bonds and notes	13,166,743	-	13,166,743	-
Equity mutual funds:				
Domestic	12,037,978	12,037,978	-	-
International	26,172,328	26,172,328	-	-
Equities:				
Information technology	10,054,186	10,054,186	-	-
Financials	9,789,368	9,789,368	-	-
Consumer staples	4,886,846	4,886,846	-	-
Industrials	9,444,479	9,444,479	-	-
Consumer discretionary	4,404,357	4,404,357	-	-
Health care	5,984,519	5,984,519	-	-
Energy	1,608,948	1,608,948	-	-
Materials	2,289,073	2,289,073	-	-
Telecommunications	1,313,469	1,313,469	-	-
Utilities	650,111	650,111	-	-
Other	702,800	702,800	-	-
Limited partnerships	11,962,748	-	-	11,962,748
Real estate equity fund	7,670,835	-	-	7,670,835
Total investments by fair value level	158,770,415	\$ 125,703,268	\$ 13,433,564	\$ 19,633,583
Investments measured at net asset value:				
External investment pool	1,150,501			
Real estate investment trusts	2,281,447			
Total investments measured at fair value	\$ 162,202,363			

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

<u>Reconciliation to total investments</u>	
Governmental activities:	
Unrestricted	\$ 43,551
Business-type activities:	
Restricted	5,898,006
Fiduciary funds:	
Employee Benefit Trust Fund	<u>156,260,806</u>
Total investments	<u>\$ 162,202,363</u>

The City's investments in money market funds, U.S. Government obligations, U.S. Government agency obligations, equity mutual funds, and equities are considered Level 1 based on active market quotes. The City's investments in municipal and corporate bonds and notes are considered Level 2 based on secondary market quotes.

Limited partnerships

At December 31, 2017, the City's Employee Benefit Trust Fund was invested in Hamilton Lane Co-Investment Fund III, LP, a limited partnership, in the amount of \$4,620,571. The partnership is a feeder fund in a master-feeder structure whereby the partnership invests all of its assets in Hamilton Lane Co-Investment Fund III Holdings, LP (Holdings). The partnership's investment activities are currently being conducted indirectly through its investment in Holdings, and Holdings' investment activities are currently being conducted indirectly through its investment in Hamilton Lane Co-Investment Fund III Holdings-2 LP (Holdings-2). Holdings-2's investment objective is to achieve substantial capital appreciation through equity and equity-related investments directly in companies alongside leading buyout and growth-capital financial sponsors. In order to estimate fair value, the partnership uses present value and other subjective techniques, which may include references to market multiples, valuations for corresponding investments prepared by the financial sponsor, valuations for comparable companies, public market or private transactions, subsequent developments concerning the companies to which the securities relate, results of operations, financial condition, cash flows, and projections of such companies provided to the general partner and such other factors as the general partner may deem relevant. Income, gains, and losses are generally allocated among the partners in proportion to each partner's contribution to the partnership's total investment capital in the portfolio company investment.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

At December 31, 2017, the City's Employee Benefit Trust Fund was invested in NB Crossroads Fund XX – Asset Allocation LP, a limited partnership, in the amount of \$7,342,177. The partnership was formed for the purpose of acquiring, holding, selling, and exchanging, either directly or indirectly, interest in limited partnerships or other pooled investment vehicles that are organized to make investments in large-cap buyout, mid-cap buyout, special situations, and venture/growth capital investment funds, as well as securities, including co-investments. The partnership is one of the constituent funds of NB Crossroads Fund XX and invests substantially all of its assets in NBFOF XX – Holdings LP; which in turn invests substantially all of its assets in the NB Master Holding Funds, a group of closed-ended investment partnerships that are formed as series limited partnerships. The Fund generally uses the net asset value (NAV) reported by the investments as a primary input in its valuation; however, adjustments to the reported NAV may be based on various factors, including, but not limited to, the attributes of the interest held, including rights and obligations, any restrictions or illiquidity on such interest, any potential clawbacks by the investments and the fair value of the investments' investment portfolio or other assets and liabilities. The valuation process for investments categorized in Level 3 of the fair value hierarchy is completed on a quarterly basis and is designed to subject the valuation of Level 3 investments to an appropriate level of consistency, oversight, and review. The general partner has the ultimate responsibility for the valuation process and the fair value of investments reported its financial statements. The general partner performs initial and ongoing investment monitoring and valuation assessments. In determining the fair value of investments, the General Partner reviews periodic investor reports and interim and annual audited financial statements received from the investments, reviews material quarter over quarter changes in valuation, and assesses the impact of macro market factors on the performance of the investments. Realized and unrealized profits and losses of the partnership are allocated pro rata to the limited partners in proportion to their respective partnership interest.

Real estate equity fund

At December 31, 2017, the City's Employee Benefit Trust Fund was invested in the Multi-Employer Property Trust, an open-end commingled real estate equity fund, in the amount of \$7,670,835. The fund invests in a diversified portfolio of institutional-quality real estate assets and 100 percent union-built new construction properties. The fund's real estate investments are stated at fair value as determined by the Trustees quarterly, utilizing independent third-party appraisals. Real estate investments are affected by, among other things, availability of capital, capitalization rates, discount rates, occupancy levels, rental rates, and interest and inflation rates. As a result, determining real estate investment values

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

involves many assumptions. The fund's investments in joint ventures are presented on a net basis and stated at estimated fair value, which is derived from the fund's equity in the net assets of the joint venture. Mortgages and other loans receivable are carried at fair value as estimated by the trustee quarterly utilizing independent pricing services, appraisals, available market data, or a discounted cash flow methodology.

External investment pool

The City uses Pennsylvania Local Government Investment Trust (PLGIT), an external investment pool, to ensure safety and maximize efficiency, liquidity, and yield for City funds. PLGIT was created to meet the investment needs of local governments, school districts, municipal authorities, and other types of governments in the Commonwealth. PLGIT's investment objective is to seek high current income, consistent with preservation of capital and maintenance of liquidity. PLGIT issues separately audited financial statements that are available to the public. Further information regarding PLGIT and its investment strategies can be found at www.plgit.com. The fair value of the City's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth provides external regulatory oversight for the external investment pool.

At December 31, 2017, the City held PLGIT/I-Class shares in the amount of \$1,150,501. PLGIT/I-Class shares require a minimum investment of \$50,000 and limits redemptions or exchanges to two per calendar month. However, there is no minimum investment period.

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Real estate investment trusts (REIT)

The following table summarizes the City's Employee Benefit Trust Fund investments in real estate investment trusts:

<u>Real Estate Investment Trusts</u>	<u>Fair Value</u>
Agree Realty Corporation	\$ 215,945
Apple Hospitality REIT, Inc.	89,127
AvalonBay Communities	71,364
CyrusOne, Inc.	244,013
Highwoods Properties, Inc.	224,360
Host Hotels and Resorts, Inc.	63,917
Monmouth Real Estate Investment Corporation	150,499
National Storage Affiliates	168,685
New Residential Investment Corporation	248,174
Physicians Realty Trust	157,143
Prologis, Inc.	132,246
Rexford Industrial Realty, Inc.	212,110
Stag Industrial	236,870
Weyerhaeuser	66,994
Total real estate investment trusts	<u>\$ 2,281,447</u>

Agree Realty Corporation focuses is on retail properties net leased to industry leading tenants.

Apple Hospitality REIT, Inc. invests in income-producing real estate, primarily in the lodging sector, in the United States of America.

AvalonBay Communities focuses on multifamily communities primarily in metropolitan areas of New England, New York, New Jersey, Mid-Atlantic, the Pacific Northwest, and California.

CyrusOne, Inc. focuses on enterprise-class, carrier-neutral, multi-tenant data center properties.

Highwoods Properties, Inc. focuses on properties primarily in business districts of Atlanta, Greensboro, Memphis, Nashville, Orlando, Pittsburgh, Raleigh, Richmond, and Tampa.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Host Hotels and Resorts, Inc. focuses on high-quality lodging real estate in the United States of America.

Monmouth Real Estate Investment Corporation focuses on modern, single-tenant, industrial buildings, leased primarily to investment-grade tenants or their subsidiaries on long-term net leases.

National Storage Affiliates focuses on self-storage properties located within the top 100 metropolitan statistical areas throughout the United States of America.

New Residential Investment Corporation focuses on residential real estate in the United States of America.

Physicians Realty Trust focuses on healthcare properties that are leased to physicians, hospitals, and healthcare delivery systems.

Prologis, Inc. focuses on high-quality logistics facilities in the world's busiest consumption markets.

Rexford Industrial Realty, Inc. focuses on industrial properties in Southern California infill markets.

Stag Industrial focuses on single-tenant, industrial properties through the United States of America.

Weyerhaeuser focuses on increasing energy and resource efficiency, reducing greenhouse gas emissions, reducing water consumption, and conserving natural resources.

There were no unfunded commitments or redemption restrictions associated with these REITs.

Custodial credit risk. Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The City does not have an investment policy for custodial credit risk. Of the City's investments, \$96,135,470 are held by the counterparty's trust department or agent in the City's name, \$4,791,056 are held by the counterparty's trust department or agent not in the name of the City, and the remaining

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

balance of \$61,275,837 is not exposed to custodial credit risk because the investments are not evidenced by securities in book entry or paper form.

Credit risk. The City does have a formal policy that limits the City's investment in fixed income assets to a rating of investment grade or better (Baa or BBB) for the Employee Benefit Trust Fund, but not for the City's general investments. The City's money market and fixed income investments had the following level of exposure to credit risk as of December 31, 2017:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 1,383,942	AAA
Money market funds	15,525,085	Unrated
U.S. Government obligations	9,437,180	AAA
U.S. Government obligations	6,589,013	AA+
U.S. Government agency obligations	2,529,573	AAA
U.S. Government agency obligations	22,472	AA+
U.S. Government agency obligations	877,541	Not rated
Municipal bonds	135,900	AA-
Municipal bonds	130,921	A+
Corporate bonds and notes	100,733	AAA
Corporate bonds and notes	421,281	AA
Corporate bonds and notes	574,336	AA-
Corporate bonds and notes	1,074,425	A+
Corporate bonds and notes	1,410,222	A
Corporate bonds and notes	2,735,033	A-
Corporate bonds and notes	20,051	A3
Corporate bonds and notes	3,910,391	BBB+
Corporate bonds and notes	2,290,133	BBB
Corporate bonds and notes	430,438	BBB-
Corporate bonds and notes	199,700	Unrated
External investment pool	1,150,501	AAA

Concentration of credit risk. The City does have a formal policy that limits the amount the City may invest in any one issuer to five percent for the Employee Benefit Trust Fund, but not for the City's general investments. At December 31, 2017, the City does not hold more than five percent of the City's investments in the any one issuer.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Interest rate risk. The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of the City's money market and fixed income investments and their related average maturities:

	Fair Value	Investment Maturities			2029 and beyond
		2018	2019-2023	2024-2028	
Money market funds	\$ 16,909,027	\$ 16,909,027	\$ -	\$ -	\$ -
U.S. Government obligations	16,026,193	2,742,810	11,280,204	1,999,002	4,177
U.S. Government agency obligations	3,429,586	2,530,904	898,682	-	-
Municipal bonds	266,821	-	130,921	135,900	-
Corporate bonds and notes	13,166,743	1,542,257	9,318,169	2,113,085	193,232
External investment pool	1,150,501	1,150,501	-	-	-
	<u>\$ 50,948,871</u>	<u>\$ 24,875,499</u>	<u>\$ 21,627,976</u>	<u>\$ 4,247,987</u>	<u>\$ 197,409</u>

C. Restricted Cash, Cash Equivalents, and Investments

Business-Type Activities

The City has restricted assets for the purpose of retiring long-term debt and related interest payments, and funding for certain capital and other projects.

Component Units

Parking Authority

As a component unit of the City, the Parking Authority follows the third class city code for investment of Parking Authority funds. Authorized investments for the Parking Authority are consistent with those presented for the City's investments.

A. Deposits

Custodial credit risk – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Parking Authority does not have a deposit policy for custodial credit risk. As of December 31, 2017, the Parking Authority's book

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

balance was \$2,073,544 and the bank balance was \$2,157,362. Of the bank balance at December 31, 2017, \$251,136 was covered by federal depository insurance and \$1,906,226 was collateralized under the Act No. 72, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

B. Investments

The Parking Authority's money market funds are considered Level 1 based on quoted market prices. The fair value of the Parking Authority's money market funds at December 31, 2017 was \$839,499.

Restricted investments are restricted for various purposes established by bond trust indentures.

At December 31, 2017, the Parking Authority had \$1,230 invested in the Commonwealth Treasury Department's INVEST Program (INVEST). The Parking Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for Parking Authority funds. INVEST was created to meet the investment needs of local governments, school districts, municipal authorities, and other types of governments in the Commonwealth. INVEST's investment objective is to seek current income while maintaining liquidity and a stable net asset value per share of \$1. Further information regarding INVEST and its investment strategies can be found at www.painvest.gov. The fair value of the Parking Authority's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth provides external regulatory oversight for the external investment pool.

The Parking Authority is invested in the INVEST Daily pool, which requires no minimum balance, no minimum initial investment, and has no minimum investment period.

Custodial credit risk – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Parking Authority does not have a formal policy for custodial credit risk. The Parking Authority's investments in money market funds are held by the financial institution, not in the Parking Authority's name.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Credit risk – The Parking Authority does not have a formal policy that would limit its investment choices with regard to credit risk. At December 31, 2017, all investments of the Parking Authority were rated AAA.

Interest rate risk – The Parking Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2017, the investments of the Parking Authority have an average weighted maturity of less than one year.

Library

The deposit and investment policy of the Library adheres to prudent business practice.

A. Deposits

Custodial credit risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. As of December 31, 2017, the Library's book balance was \$85,556 and the bank balance was \$85,243. The entire bank balance was covered by federal depository insurance.

B. Investments

The Library's investments in corporate bonds are considered Level 2 based on secondary market quotes. The Library's remaining investments are considered Level 1 based on active market quotes. The fair value of the investments of the Library at December 31, 2017 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 58,305
Corporate bonds	25,083
Exchange traded funds	107,620
Equities	1,832,944
Total investments	<u>\$ 2,023,952</u>

Custodial credit risk – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

collateral securities that are in possession of an outside party. The Library does not have an investment policy for custodial credit risk. The Library's investment in corporate bonds and equities are held by the financial institution, not in the Library's name. The Library's remaining investments are not exposed to custodial credit risk, because they are not evidenced by securities in book entry or paper form.

Credit risk – The Library does not have a formal policy that would limit its investment choices with regard to credit risk. The Library's investments had the following level of exposure to credit risk as of December 31, 2017:

	Fair Value	Rating
Money market funds	\$ 58,305	AA
Corporate bonds	25,083	A1
Exchange traded funds	107,620	Unrated

Concentration of credit risk – The Library places no limit on the amount the Library may invest in any one issuer. At December 31, 2017, no investments were held that were more than five percent of the Library's investments.

Interest rate risk – The Library does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of the Library's fixed income investments and their related average maturities:

	Fair Value	Investment Maturities		
		2018	2019-2023	2024-2028
Money market funds	\$ 58,305	\$ 58,305	\$ -	\$ -
Corporate bonds	25,083	-	25,083	-
Exchanged traded funds	107,620	-	63,925	43,695
Total	\$ 191,008	\$ 58,305	\$ 89,008	\$ 43,695

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Redevelopment Authority

The Redevelopment Authority Board of Directors and trustee are permitted to invest the Redevelopment Authority's funds as defined in the Local Government Unit Debt Act, the Municipality Authorities Act, and the related trust indenture. Authorized types of investments include the following:

1. U.S. Treasury Bills.
2. Short-term obligations of the U.S. Government and federal agencies.
3. Short-term commercial paper issued by a public corporation.
4. Banker's acceptances.
5. Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations, and credit unions.
6. General obligation bonds of the federal government, the Commonwealth or any state agency, or of any Pennsylvania political subdivision.
7. Shares of mutual funds whose investments are restricted to the above categories.

When making investments, the Redevelopment Authority Board of Directors and trustee (as governed by the trustee indenture) can combine monies from more than one fund under the Redevelopment Authority's control for the purchase of a single investment and join with other political subdivisions and municipal authorities in the purchase of a single investment.

A. Deposits

Custodial credit risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Redevelopment Authority does not have a formal deposit policy for custodial credit.

As of June 30, 2017, the Redevelopment Authority's book balance was \$2,850,059 and the bank balance was \$2,860,351. Of the bank balance at June 30, 2017, \$81,962 was covered by federal depository insurance and \$2,778,389 was collateralized under the Act, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

B. Investments

The Redevelopment Authority's investments are considered Level 1 based on quoted market prices. The fair value of the Redevelopment Authority's money market funds at June 30, 2017 was \$7,637,274.

Custodial credit risk - Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Redevelopment Authority does not have an investment policy for custodial credit risk. At June 30, 2017, the Redevelopment Authority was not exposed to custodial credit risk, because the investments held by the Redevelopment Authority are not evidenced by securities in book entry or paper form.

Credit risk - The Redevelopment Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Redevelopment Authority's money market funds were rated AAA as of June 30, 2017.

Concentration of credit risk - The Redevelopment Authority places no limit on the amount the Redevelopment Authority may invest in any one issuer.

Interest rate risk - The Redevelopment Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2017, the Redevelopment Authority's money market funds have a maturity of less than one year.

C. Restricted Cash, Cash Equivalents, and Investments

Certain funds are held in trust in order to comply with various restrictions imposed by debt indentures.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

4. Capital Assets

A summary of changes in capital assets follows:

	January 1, 2017	Additions and Transfers In	Disposals and Transfers Out	December 31, 2017
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,752,780	\$ -	\$ -	\$ 6,752,780
Construction in progress	1,326,817	4,872,338	(432,226)	5,766,929
Total capital assets not being depreciated	<u>8,079,597</u>	<u>4,872,338</u>	<u>(432,226)</u>	<u>12,519,709</u>
Capital assets being depreciated:				
Buildings and related improvements	33,457,079	89,736	-	33,546,815
Improvements other than buildings	48,208,655	1,298,728	-	49,507,383
Furniture, machinery, and equipment	45,195,105	2,479,163	(1,247,501)	46,426,767
Infrastructure	48,161,085	3,068,759	-	51,229,844
Total capital assets being depreciated	<u>175,021,924</u>	<u>6,936,386</u>	<u>(1,247,501)</u>	<u>180,710,809</u>
Less accumulated depreciation for:				
Buildings and related improvements	(26,714,128)	(1,176,581)	-	(27,890,709)
Improvements other than buildings	(35,705,757)	(1,678,699)	-	(37,384,456)
Furniture, machinery, and equipment	(34,307,112)	(2,965,290)	1,193,380	(36,079,022)
Infrastructure	(18,454,064)	(3,118,659)	-	(21,572,723)
Total accumulated depreciation	<u>(115,181,061)</u>	<u>(8,939,229)</u>	<u>1,193,380</u>	<u>(122,926,910)</u>
Total capital assets being depreciated, net	<u>59,840,863</u>	<u>(2,002,843)</u>	<u>(54,121)</u>	<u>57,783,899</u>
Governmental activities capital assets, net	<u>\$ 67,920,460</u>	<u>\$ 2,869,495</u>	<u>\$ (486,347)</u>	<u>\$ 70,303,608</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

	January 1, 2017	Additions and Transfers In	Disposals and Transfers Out	December 31, 2017
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,124,842	\$ -	\$ -	\$ 2,124,842
Construction in progress	2,747,836	247,508	(2,227,511)	767,833
Total capital assets not being depreciated	4,872,678	247,508	(2,227,511)	2,892,675
Capital assets being depreciated:				
Land improvements	1,100,349	-	-	1,100,349
Building and fixtures	13,904,106	64,968	-	13,969,074
Improvements other than buildings	234,625,427	6,024,873	(1,551)	240,648,749
Furniture, machinery, and equipment	4,676,275	182,936	(6,499)	4,852,712
Vehicles	4,809,142	678,299	(101,342)	5,386,099
Office equipment	115,998	-	(7,245)	108,753
Total capital assets being depreciated	259,231,297	6,951,076	(116,637)	266,065,736
Less accumulated depreciation for:				
Land improvements	(1,046,160)	(26,002)	-	(1,072,162)
Building and fixtures	(13,106,622)	(158,817)	-	(13,265,439)
Improvements other than buildings	(134,574,781)	(8,925,533)	1,551	(143,498,763)
Furniture, machinery, and equipment	(4,443,204)	(88,566)	6,499	(4,525,271)
Vehicles	(4,042,007)	(232,759)	(65,645)	(4,340,411)
Office equipment	(115,026)	(971)	7,244	(108,753)
Total accumulated depreciation	(157,327,800)	(9,432,648)	(50,351)	(166,810,799)
Total capital assets being depreciated, net	101,903,497	(2,481,572)	(166,988)	99,254,937
Business-type activities capital assets, net	\$ 106,776,175	\$ (2,234,064)	\$ (2,394,499)	\$ 102,147,612

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Depreciation expense was charged to governmental activities as follows:

Administrative	\$ 83,897
Community development	121,749
Parks and public property	1,881,662
Public works	4,440,300
Police	1,503,111
Fire	672,314
Library	236,196
	<u>\$ 8,939,229</u>

Depreciation expense was charged to business-type activities as follows:

Water Fund	\$ 5,583,724
Sewer Fund	3,694,612
Municipal Golf Fund	154,312
	<u>\$ 9,432,648</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

	January 1, 2017	Additions	Disposals	December 31, 2017
Parking Authority:				
Capital assets, not being depreciated:				
Land	\$ 1,852,044	\$ -	\$ -	\$ 1,852,044
Construction in progress	5,621,050	10,710,652	-	16,331,702
Total capital assets, not being depreciated	7,473,094	10,710,652	-	18,183,746
Capital assets, being depreciated:				
Parking garages	27,097,400	517,304	-	27,614,704
Furniture and fixtures	1,726,787	153,294	(9,380)	1,870,701
Automobiles	483,038	125,391	-	608,429
Leasehold and parking lot improvements	21,860	4,385	-	26,245
Total capital assets, being depreciated	29,329,085	800,374	(9,380)	30,120,079
Less accumulated depreciation	(15,961,172)	(967,488)	9,380	(16,919,280)
Total capital assets, being depreciated, net	13,367,913	(167,114)	-	13,200,799
Total capital assets, net	\$ 20,841,007	\$ 10,543,538	\$ -	\$ 31,384,545

During the year ended December 31, 2017, the Parking Authority incurred \$291,132 in interest expense, excluding capitalized interest of \$441,609.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

	January 1, 2017	Additions	Disposals	December 31, 2017
Library:				
Capital assets, not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Total capital assets, not being depreciated	5,000	-	-	5,000
Capital assets, being depreciated:				
Buildings and related improvements	302,290	9,387	-	311,677
Furniture, machinery, and equipment	859,558	-	-	859,558
Total capital assets, being depreciated	1,161,848	9,387	-	1,171,235
Less accumulated depreciation	(804,558)	(63,071)	-	(867,629)
Total capital assets, being depreciated, net	357,290	(53,684)	-	303,606
Total capital assets, net	\$ 362,290	\$ (53,684)	\$ -	\$ 308,606

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

	July 1, 2016	Additions	Disposals	June 30, 2017
Redevelopment Authority:				
Capital assets, not being depreciated:				
Construction in progress	\$ 921,840	\$ 19,541	\$ -	\$ 941,381
Total capital assets, not being depreciated	921,840	19,541	-	941,381
Capital assets, being depreciated:				
Buildings	31,267,155	-	-	31,267,155
Total capital assets, being depreciated	31,267,155	-	-	31,267,155
Less accumulated depreciation	(1,120,148)	(645,125)	-	(1,765,273)
Total capital assets, being depreciated, net	30,147,007	(645,125)	-	29,501,882
Total capital assets, net	\$ 31,068,847	\$ (625,584)	\$ -	\$ 30,443,263

5. Interfund Receivable and Payables Balances

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2017 is as follows:

	Due From Other Funds	Due To Other Funds
Governmental funds:		
General Fund	\$ 647,385	\$ 1,605,466
Non-Utility Capital Improvements Fund	23,500	65,570
Other Non-Major Governmental Funds	-	20,776
Proprietary funds:		
Sewer Fund	55,000	-
Other Non-Major Enterprise Fund	10,570	650,109
Agency Fund	1,605,466	-
Total	\$ 2,341,921	\$ 2,341,921

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Interfund balances are primarily for reimbursement of expenditures paid on behalf of another fund and interfund loans for cash flow purposes. The amount due to the Agency Fund from the General Fund is not expected to be entirely paid back in the subsequent year.

6. Interfund Transfers

Interfund transfers for the year ended December 31, 2017 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ 2,699,598	\$ 8,598,542
Non-Utility Capital Improvements Fund	34,758	131,721
Debt Service Fund	9,148,439	-
Other Non-Major Governmental Funds	1,485,000	578,488
Proprietary funds:		
Water Fund	-	754,140
Sewer Fund	-	3,200,726
Other Non-Major Enterprise Fund	13,400	117,578
Total	<u>\$ 13,381,195</u>	<u>\$ 13,381,195</u>

Transfers are used to (1) fulfill budgetary transfer requirements, and (2) move receipts restricted to debt service from the funds collecting the receipts as debt service payments become due.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

7. Long-Term Obligations

Bonds and Notes Payable

A summary of long-term bonds and notes payable of the City at December 31, 2017 and principal and interest maturities through the next five years and thereafter, respectively, are as follows:

	Governmental Activities	Business-type Activities		Total
		Water Fund	Sewer Fund	
Outstanding at beginning of year	\$ 110,301,000	\$ 91,293,847	\$ 24,507,123	\$ 115,800,970
Issuance of debt	35,310,000	-	5,365,700	5,365,700
Accretion of capital appreciation bonds	-	1,876,242	-	1,876,242
Repayment of debt	(31,089,000)	(5,965,980)	(1,564,133)	(7,530,113)
	114,522,000	87,204,109	28,308,690	115,512,799
Plus unamortized bond premium	1,729,083	3,866,202	46,391	3,912,593
Less unamortized bond discount	(297,058)	-	(100,735)	(100,735)
Outstanding at end of year	<u>\$ 115,954,025</u>	<u>\$ 91,070,311</u>	<u>\$ 28,254,346</u>	<u>\$ 119,324,657</u>

	Discretely Presented Component Units	
	Parking Authority	Redevelopment Authority
Outstanding at beginning of year	\$ 24,923,584	\$ 29,840,000
Issuance of debt	3,161,005	565,702
Repayment of debt	(2,597,496)	(4,855,000)
	25,487,093	25,550,702
Plus unamortized bond premium	35,499	-
Less unamortized bond discount	(268,801)	-
Outstanding at end of year	<u>\$ 25,253,791</u>	<u>\$ 25,550,702</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Year	Governmental Activities			Water Fund		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 5,495,000	\$ 4,565,964	\$ 10,060,964	\$ 6,218,451	\$ 2,302,974	\$ 8,521,425
2019	5,863,000	4,415,377	10,278,377	6,371,316	2,151,496	8,522,812
2020	6,587,000	4,243,098	10,830,098	6,556,891	1,962,674	8,519,565
2021	6,786,000	4,022,042	10,808,042	6,759,416	1,759,347	8,518,763
2022	7,051,000	3,761,664	10,812,664	5,681,668	2,839,766	8,521,434
2023-2027	37,665,000	14,585,613	52,250,613	24,270,972	18,333,091	42,604,063
2028-2032	36,425,000	7,154,273	43,579,273	31,345,395	6,624,318	37,969,713
2033-2034	8,650,000	633,657	9,283,657	-	-	-
Totals	\$ 114,522,000	\$ 43,381,688	\$ 157,903,688	\$ 87,204,109	\$ 35,973,666	\$ 123,177,775

Year	Sewer Fund		
	Principal	Interest	Total
2018	\$ 1,484,975	\$ 543,870	\$ 2,028,845
2019	1,531,928	592,791	2,124,719
2020	1,548,204	598,757	2,146,961
2021	1,435,704	589,160	2,024,864
2022	1,462,158	586,620	2,048,778
2023-2027	7,912,721	2,328,542	10,241,263
2028-2032	9,003,966	1,227,198	10,231,164
2033-2037	3,929,034	233,497	4,162,531
Totals	\$ 28,308,690	\$ 6,700,435	\$ 35,009,125

Year	Parking Authority			Fiscal Year	Redevelopment Authority		
	Principal	Interest	Total		Principal	Interest *	Total
2018	\$ 800,000	\$ 686,226	\$ 1,486,226	2018	\$ 5,595,702	\$ 875,772	\$ 6,471,474
2019	820,000	670,189	1,490,189	2019	4,910,000	804,527	5,714,527
2020	2,647,093	647,738	3,294,831	2020	15,045,000	580,009	15,625,009
2021	970,000	600,167	1,570,167				
2022	990,000	578,331	1,568,331				
2023-2027	5,360,000	2,494,210	7,854,210				
2028-2032	4,500,000	1,749,580	6,249,580				
2033-2037	2,920,000	1,240,050	4,160,050				
2038-2042	3,385,000	774,900	4,159,900				
2043-2046	3,095,000	235,650	3,330,650				
Totals	\$ 25,487,093	\$ 9,677,041	\$ 35,164,134		\$ 25,550,702	\$ 2,260,308	\$ 27,811,010

* - Interest due on the Tax Increment Revenue Bonds, Series of 2010, is based on the interest rate in effect at June 30, 2017 of 3.42% through December 31, 2017 and the maximum rate of 6% thereafter through maturity.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Total principal and interest for the primary government due through maturity is \$316,090,588.

Under the terms of its respective debt agreements, the City is required to maintain certain balances in restricted trust accounts, to make timely payments to the trustee or to a sinking fund for principal and interest, and to insure and maintain assets acquired with the proceeds of the debt.

During the year ended December 31, 2017, the City issued General Obligation Bonds, Series A of 2017 (2017A Bonds) in the aggregate principal amount of \$10,660,000, General Obligation Bonds, Series B of 2017 (2017B Bonds) in the aggregate principal amount of \$5,555,000, General Obligation Bonds, Series C of 2017 (2017C Bonds) in the aggregate principal amount of \$5,130,000, and General Obligation Bonds, Series D of 2017 (2017D Bonds) in the aggregate principal amount of \$365,000. Proceeds of the 2017A Bonds were used to advance refund the City's Series A of 2011 Bonds, advance refund a portion of the City's Series A of 2013 Bonds, prepay a portion of the City's Series C of 2010 Note, and to pay the costs and expenses related to the issuance of the 2017A Bonds. The advance refunding and prepayment decreased the City's total debt service by \$1,244,198 through the year 2032 and resulted in an economic gain (difference between present values of the old and new debt service payments) in the amount of \$1,238,271. Proceeds of the 2017B Bonds will be used for various capital projects of the City related to non-utility projects, fund capitalized interest, and to pay the costs and expenses related to the issuance of the 2017B Bonds. Proceeds of the 2017C Bonds will be used for various capital projects of the City related to sewer projects, fund capitalized interest, and to pay the costs and expenses related to the issuance of the 2017C Bonds. Proceeds of the 2017D Bonds will be used for the acquisition of blighted properties within the City, fund capitalized interest, and to pay the costs and expenses related to the issuance of the 2017D Bonds.

During the year ended December 31, 2017, the City issued General Obligation Bonds, Series E of 2017 (2017E Bonds) in the aggregate principal amount of \$18,730,000. Proceeds of the 2017E Bonds were used to advance refund all of the Bethlehem Authority's Series A of 2011 Bonds and to pay the costs and expenses related to the issuance of the 2017E Bonds. The advance refunding decreased the City's total debt service by \$1,742,310 through the year 2028 and resulted in an economic gain (difference between present values of the old and new debt service payments) in the amount of \$1,647,164.

During the year ended December 31, 2017, the City funded the outstanding balance of the City's Series A of 2011 Bonds, a portion of the City's Series A of 2013 Bonds, and the

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

outstanding balance of the Bethlehem Authority's Series A of 2011 Bonds by irrevocably placing in trust, direct obligations of the United States of America sufficient to satisfy the semi-annual interest payments and bond redemption requirements. These bonds are considered to be extinguished for financial reporting purposes and are excluded from the City's financial statements. The balance outstanding on the advance refunded portions of the City's Series A of 2011 Bonds, City's Series A of 2013 Bonds, and Bethlehem Authority's Series A of 2011 Bonds at December 31, 2017 was \$7,860,000, zero, and \$17,340,000, respectively.

The City has guaranteed the Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 2014 for the Bethlehem Authority, a blended component unit of the City. The full amount of the Guaranteed Parking System Revenue Bonds, Series A of 2015, Series B of 2015, Series A of 2016, and Series B of 2016, issued by the Parking Authority, are guaranteed by the City for the full term of the bonds. The reimbursement obligation of the Parking Authority to the City for payments made under the Guaranty Agreement shall be subordinate to debt service payments on the bonds, reimbursement to and rights of the bond insurer, and replenishment of the debt service reserve account. The City's legal authority and limits for extending the guarantees and types of obligations guaranteed is pursuant to the provisions of the Pennsylvania Local Government Unit Debt Act. The guarantees extend through the year ending December 31, 2046 and have a total amount outstanding at December 31, 2017 of \$73,530,000.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Long-term obligations payable at December 31, 2017 are as follows:

Governmental Activities:	<u>Current Portion</u>	<u>Balance at December 31, 2017</u>
General Obligation Bonds, Series A of 2005, due in annual installments of \$15,000 to \$20,000 through October 2020; interest rates vary from 3.70% to 4.00%.	\$ 20,000	\$ 60,000
General Obligation Notes, Series of 2007, due in annual installments of \$273,000 to \$356,000 through August 2022; interest rates fixed at 3.65% through August 2017 and variable through maturity. The interest rate at December 31, 2017 is 0.31175%.	320,000	1,687,000
General Obligation Notes, Series C of 2010, due in annual installments of \$5,000 to \$1,800,000 through August 2020; interest rate of 3.55%.	1,370,000	3,610,000
General Obligation Refunding Notes, Series B of 2011, due in annual installments of \$5,000 to \$1,600,000 through December 2032; interest rate of 6.50%.	5,000	6,775,000
General Obligation Bonds, Series A of 2013, due in annual installments of \$115,000 to \$380,000 through October 2033; interest rates vary from 0.70% to 3.50%.	245,000	4,825,000
Federally Taxable General Obligation Refunding Notes, Series B of 2013, due in annual installments of \$20,000 to \$840,000 through October 2026; interest rates vary from 1.688% to 4.643%.	620,000	6,465,000
General Obligation Notes, Series A of 2014, due in annual installments of \$5,000 to \$630,000 through October 2024; interest rates vary from 0.75% to 4.00%.	250,000	1,840,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Governmental Activities:	<u>Current Portion</u>	<u>Balance at December 31, 2017</u>
General Obligation Bonds, Series B of 2014, due in annual installments of \$175,000 to \$1,740,000 through November 2034; interest rates vary from 0.80% to 5.146%.	990,000	22,215,000
General Obligation Bonds, Series C of 2014, due in annual installments of \$1,025,000 to \$2,035,000 through November 2034; interest rates vary from 0.80% to 5.146%.	1,055,000	24,635,000
General Obligation Bonds, Series A of 2015, due in annual installments of \$30,000 to \$1,275,000 through August 2028; interest rates vary from 1.00% to 3.125%.	30,000	5,185,000
General Obligation Bonds, Series B of 2015, due in annual installments of \$250,000 to \$365,000 through August 2024; interest rates vary from 0.28% to 2.50%.	325,000	2,415,000
General Obligation Bonds, Series A of 2017, due in annual installments of \$185,000 to \$1,960,000 through December 2032; interest rates vary from 1.15% to 3.25%.	185,000	10,660,000
General Obligation Bonds, Series B of 2017, due in annual installments of \$35,000 to \$460,000 through December 2034; interest rates vary from 2.00% to 4.00%.	35,000	5,555,000
General Obligation Bonds, Series D of 2017, due in annual installments of \$40,000 to \$165,000 through December 2020; interest rates vary from 1.687% to 2.342%.	40,000	365,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Governmental Activities:	<u>Current Portion</u>	<u>Balance at December 31, 2017</u>
General Obligation Bonds, Series E of 2017, due in annual installments of \$5,000 to \$3,230,000 through December 2028; interest rates vary from 0.80% to 5.00%.	<u>5,000</u>	<u>18,230,000</u>
Total Governmental Activities	<u>\$ 5,495,000</u>	<u>\$ 114,522,000</u>

Governmental activities debt is expected to be liquidated by the General Fund and 911 Fund.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Business-Type Activities: Water Fund:	<u>Current Portion</u>	<u>Balance at December 31, 2017</u>
Bethlehem Authority Capital Appreciation Bonds, Series of 1998, due in annual installments of \$425,000 to \$7,320,000 from 2018 to 2028. The interest rates vary from 5.25% to 5.35%.	\$ 409,381	\$ 37,039,039
1998 Pennvest loan payable in monthly installments of \$116,147, including interest at 3.20% through 2018.	347,070	347,070
General Obligation Note, Series of 2007, due in annual installments of \$41,000 to \$69,000 through August 2022; interest rates fixed at 3.65% through August 2017 and variable through maturity. The interest rate at December 31, 2017 is 0.31175%.	62,000	328,000
Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 2014, due in annual installments of \$15,000 to \$7,625,000 through November 15, 2032; interest rates vary from 2.00% to 5.00%.	<u>5,400,000</u>	<u>49,490,000</u>
Total Water Fund	<u>6,218,451</u>	<u>87,204,109</u>
Sewer Fund:		
General Obligation Bonds, Series A of 2005, due in annual installments of \$100,000 to \$125,000 through October 2020; interest rates vary from 3.25% to 4.00%.	115,000	360,000
General Obligation Bonds, Series of 2012, due in annual installments of \$285,000 to \$430,000 through October 1, 2032; interest rates vary from 0.650% to 3.375%.	300,000	5,330,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Business-Type Activities: Sewer Fund:	<u>Current Portion</u>	<u>Balance at December 31, 2017</u>
2012 Pennvest loan payable in monthly installments of \$45,546, including interest at 1.51% through April 2019, followed by monthly installments of \$50,697, including interest at 3.018% through July 2032.	425,043	7,858,546
2012 Pennvest loan payable in monthly installments vary from \$416 to \$49,379, including interest at 1.00% through July 2021, followed by monthly installments of \$52,122, including interest at 1.743% through May 2035.	499,932	9,490,144
General Obligation Bonds, Series B of 2015, due in annual installments of \$140,000 to \$395,000 through August 2018; interest rates vary from 0.28% to 2.00%.	140,000	140,000
General Obligation Bonds, Series C of 2017, due in annual installments of \$5,000 to \$360,000 through December 2037; interest rates vary from 2.00% to 4.00%.	<u>5,000</u>	<u>5,130,000</u>
Total Sewer Fund	<u>1,484,975</u>	<u>28,308,690</u>
Total Business-Type Activities	<u>\$ 7,703,426</u>	<u>\$ 115,512,799</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Component Units: Parking Authority:	<u>Current Portion</u>	<u>Balance at December 31, 2017</u>
Guaranteed Parking System Revenue Bonds, Series A of 2015, due in annual installments of \$60,000 to \$100,000, maturing in October 2022. Interest rates range from 1.091% to 3.319%. Secured by future revenues of the Parking Authority.	\$ 95,000	\$ 455,000
Guaranteed Parking System Revenue Bonds, Series B of 2015, due in annual installments of \$90,000 to \$715,000, maturing in October 2030. Interest rates range from 0.75% to 3.25%. Secured by future revenues of the Parking Authority.	700,000	8,170,000
Guaranteed Parking System Revenue Bonds, Series A of 2016, due in annual installments of \$5,000 to \$440,000, maturing in October 2025. Interest rates range from 1.442% to 3.025%. Secured by future revenues of the Parking Authority.	5,000	2,275,000
Guaranteed Parking System Revenue Bonds, Series B of 2016, due in annual installments of \$275,000 to \$810,000, maturing in October 2046. Interest rates range from 2.00% to 3.00%. Secured by future revenues of the Parking Authority.	-	13,140,000
Grant Anticipation Note, Series of 2016, maturing in December 2019, in the amount of \$6,200,000. Interest rate of 1.75%. Secured by the Parking Authority's interest in the RACP grant for the New Street Garage. Secured by a grant from the Commonwealth.	-	1,447,093
Total Parking Authority	<u>\$ 800,000</u>	<u>\$ 25,487,093</u>

In October 2017, the Parking Authority entered into a Grant Anticipation Note, Series of 2017, in the amount of \$1,000,000. Commencing on June 15, 2018, semi-annual payments of interest only are due June 15th and December 15th of each year. One final payment of outstanding principal and interest is due on or before December 15, 2020. The interest rate is fixed at 1.75%. The Note is secured by proceeds of a grant from the

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Commonwealth related to the Polk Street Garage. At December 31, 2017, no funds had been drawn down on this Note.

Redevelopment Authority:	<u>Current Portion</u>	<u>Balance at June 30, 2017</u>
TIF Bonds, Series of 2010, due in annual installments of \$2,235,000 to \$2,605,000 through December 2019, with a final payment of \$5,690,000 due in June 2020; interest rates fixed at 3.42% through December 2017; thereafter, rates are variable, with a 6.00% cap.	\$ 2,645,000	\$ 13,400,000
TIF Bonds, Series of 2012, due in annual installments, amortizing over approximately 7.5 years, with final maturity to occur on or before June 1, 2020; interest rate at 2.98%.	1,470,000	7,190,000
TIF Bonds, Series of 2013, due in annual installments, amortizing over approximately 7 years, with final maturity to occur on or before June 1, 2020; interest rate at 2.98%.	480,000	2,335,000
TIF Bonds, Series of 2015, due in annual installments, amortizing over approximately 5 years, with final maturity to occur on or before June 1, 2020; interest rate at 2.65%.	435,000	2,060,000
Subordinated Federally Taxable TIF Bonds, Series of 2016, with final maturity to occur on or before June 1, 2018; interest rate at 3.60%.	<u>565,702</u>	<u>565,702</u>
Total Redevelopment Authority	<u><u>\$ 5,595,702</u></u>	<u><u>\$ 25,550,702</u></u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Other Changes in Long-Term Debt

The following represents changes in long-term liabilities, other than bond and note issues:

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017
Governmental activities:				
Accrued vacation and other compensated absences	\$ 4,331,412	\$ -	\$ (80,771)	\$ 4,250,641
Capital leases	5,862,197	301,202	(1,063,078)	5,100,321
	<u>\$ 10,193,609</u>	<u>\$ 301,202</u>	<u>\$ (1,143,849)</u>	<u>\$ 9,350,962</u>
Business-type activities:				
Accrued vacation and other compensated absences	\$ 801,592	\$ -	\$ (2,248)	\$ 799,344
Capital leases	254,815	306,954	(226,935)	334,834
	<u>\$ 1,056,407</u>	<u>\$ 306,954</u>	<u>\$ (229,183)</u>	<u>\$ 1,134,178</u>

Capitalized Lease Obligations Payable

The City has agreements for the lease of lighting equipment, other equipment, and vehicles, which are classified as capital leases. As of December 31, 2017, the net book value of the equipment and vehicles held under capital leases and included in capital assets was \$5,482,925 for governmental activities and \$481,643 for business-type activities.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

As of December 31, 2017, future minimum payments were as follows:

Year	Governmental Activities	Business-Type Activities
2018	\$ 1,153,319	\$ 198,571
2019	814,964	100,859
2020	731,663	49,623
2021	734,732	-
2022	759,488	-
2023-2026	1,541,805	-
Total commitment under capital leases	5,735,971	349,053
Less amount representing interest	635,650	14,219
Present value of future minimum lease payments	5,100,321	334,834
Less current portion	996,398	189,213
Long-term portion	\$ 4,103,923	\$ 145,621

Parking Authority

The Parking Authority has entered into multiple capital lease agreements for parking equipment and vehicles. Amortization of the leased equipment and vehicles is included in depreciation expense.

Capital lease activity for the year ended December 31, 2017 was as follows:

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017
Capital leases	\$ 219,534	\$ -	\$ (219,534)	\$ -

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

8. Pension Plans

Plan Descriptions and Administration

The City has three single-employer defined benefit plans covering Police, Firemen, and certain non-uniformed employees (Officers' and Employees' Plan). The Police Plan is governed by the Bethlehem Police Pension Fund Association, comprised of the Mayor, the Director of Accounts and Finance, the Director of Public Safety, the Director of Streets and Public Improvements, the Director of Park and Public Property, the City Treasurer, and one member of the Police Department to be selected by a majority vote of the members of the Police Department who are contributors to the Police Pension Fund. The Firemen Plan is governed by the Board of Managers consisting of the Mayor, the Director of Accounts and Finance, the Director of Public Safety, the City Controller, the Chief of the Fire Department of the City, and two paid members of the Fire Department to be chosen by the members of the paid Fire Department. The Officers' and Employees' Plan is governed by the Officers' and Employees' Retirement Board consisting of the Mayor, the City Controller, the Director of Accounts and Finance, and two representatives selected by the employees.

The plans provide for retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living adjustments are provided at the discretion of the Police, Firemen, and Officers' and Employees' Retirement Boards. Benefit provisions and their amendments are authorized by the separate Pension Boards for the Police, Firemen, and Officers' and Employees' Plans. Contributions to the plans are governed by ordinances and collective bargaining agreements. These plans do not issue separate reports.

The City also participates in a pension plan administered by the Pennsylvania Municipal Retirement System (PMRS) covering the remainder, and larger group, of non-uniformed employees. Benefit provisions and their amendments are authorized by Pennsylvania State Act 15 for the PMRS plan.

PMRS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR) which may be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968.

The Officers' and Employees' Pension Plan (O&E) was closed for eligibility as of January 1, 1964 and was replaced by the PMRS plan. The O&E plan is still active for those retirees who

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

were participants prior to January 1, 1964 and elected not to transfer to PMRS. During the year ended December 31, 2017, the City purchased annuities for all retired O&E members in the amount of \$6,067,780. The City is no longer responsible for meeting the retirement obligations for these members and, as such, has presented this amount as benefits paid in the employee benefit trust fund. The insurance company is obligated to pay the remaining retirement benefits for these retired O&E members.

Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plans and funded through the MMO and/or investment earnings.

Pension expenditures/expenses are allocated between governmental and business-type activities based on the proportion of active employees representing participants in each of these Plans.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

The combining information as of the year ended December 31, 2017 for the plans is as follows:

	Police Pension Fund	Firemen Pension Fund	Officers' and Employees' Pension Fund	Employee Benefit Trust Fund Total
Assets				
Cash and cash equivalents	\$ 512,324	\$ 371,923	\$ 6,300	\$ 890,547
Interest and dividends receivable	200,101	149,263	1,764	351,128
Investments	89,895,415	65,260,031	1,105,360	156,260,806
Total Assets	\$ 90,607,840	\$ 65,781,217	\$ 1,113,424	\$ 157,502,481
Net Position				
Restricted for employees' retirement benefits	\$ 90,607,840	\$ 65,781,217	\$ 1,113,424	\$ 157,502,481
Total Net Position	\$ 90,607,840	\$ 65,781,217	\$ 1,113,424	\$ 157,502,481
	Police Pension Fund	Firemen Pension Fund	Officers' and Employees' Pension Fund	Employee Benefit Trust Fund Total
Additions:				
Employee contributions	\$ 812,201	\$ 617,367	\$ -	\$ 1,429,568
Employer contributions	4,463,427	2,595,844	-	7,059,271
Investment income	1,174,476	880,215	53,811	2,108,502
Realized and unrealized gains, net	10,694,473	7,793,283	604,011	19,091,767
Investment expense	(346,310)	(253,238)	(22,841)	(622,389)
Total additions	16,798,267	11,633,471	634,981	29,066,719
Deductions:				
Benefits paid	6,848,745	5,015,911	6,562,548	18,427,204
Administrative costs	18,241	13,894	3,643	35,778
Total deductions	6,866,986	5,029,805	6,566,191	18,462,982
Change in Net Position	9,931,281	6,603,666	(5,931,210)	10,603,737
Net Position:				
Beginning of year	80,676,559	59,177,551	7,044,634	146,898,744
End of year	\$ 90,607,840	\$ 65,781,217	\$ 1,113,424	\$ 157,502,481

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Plan Memberships

Membership related to the Police, Firemen, and O&E Plans at December 31, 2017 and membership related to the PMRS Plan at December 31, 2016 consisted of the following:

	Police	Firemen	O&E	PMRS
	All Full-time Members of the Police Force	All Full-time Members of the Fire Department	Closed 01/01/64	All Full-time Employees Not Previously Covered
Covered Employees				
Inactive plan members or beneficiaries currently receiving benefits	176	125	-	333
Inactive plan members entitled to but not yet receiving benefits	-	-	-	8
Active plan members	141	102	-	309
Total	317	227	-	650

Benefit Provisions – Police

Members Hired Before January 1, 2012

Retirement Benefit - A member is eligible for normal retirement after completion of 20 years of vesting service. The normal retirement pension is payable monthly during the member's lifetime, with payments continuing after the member's death to the surviving spouse or to dependent children under the age of 18 equal to 100% of the amount payable to the member at the time of the member's death. The amount of monthly pension is equal to 60% of average monthly compensation after 20 years of benefit service, increasing by 2% per additional year of benefit service, up to a maximum of 70% of average monthly compensation after 25 or more years of benefit service; plus a service increment equal to 1/40th of such pension amount per year of benefit service completed by the member in excess of 20 years, up to an additional \$100 per month. Average monthly compensation is equal to the higher of 1/12th of the average annual compensation over the highest five

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

consecutive calendar years of employment or the monthly salary of the member at retirement.

Disability Benefit – If an active member is disabled in the line of duty, the member is eligible for a monthly disability pension equal to the benefit based upon the normal retirement benefit formula. If an active member who has completed ten years of benefit service, but less than 15 years of benefit service, is disabled outside the line of duty, the member is eligible for a monthly disability pension equal to 30% of average monthly compensation. If an active member who has completed 15 years of benefit service, but less than 21 years of benefit service, is disabled outside of the line of duty, the member is eligible for a monthly disability pension equal to 60% of average monthly compensation. If an active member who has completed 21 or more years of benefit service is disabled outside of the line of duty, the member is eligible for a monthly disability pension equal to the benefit based upon the normal retirement benefit formula. The disability benefit is payable upon discontinuance of any workers' compensation benefits being paid to the member.

Death Benefit – If an active member dies prior to retirement, a death benefit is payable to the member's surviving spouse or to dependent children under the age of 18 equal to 100% of the benefit the member would have been receiving had the member been retired at the time of the member's death.

Members Hired On or After January 1, 2012

Retirement Benefit - A member is eligible for normal retirement after completion of 20 years of vesting service. The normal retirement pension is payable monthly during the member's lifetime, with payments continuing after the member's death to the surviving spouse or to dependent children under the age of 18 equal to 100% of the amount payable to the member at the time of the member's death. The amount of monthly pension is equal to 50% of average monthly compensation, plus a service increment equal to 1/40th of such pension amount per year of benefit service completed by the member in excess of 20 years, up to an additional \$100 per month. Average monthly compensation is equal to the higher of 1/12th of the average annual compensation over the highest five consecutive calendar years of employment or the monthly salary of the member at retirement.

Disability Benefit – If an active member is disabled in the line of duty, the member is eligible for a monthly disability pension equal to the benefit based upon the normal retirement benefit formula. If an active member who has completed ten years of benefit service, but less than 15 years of benefit service, is disabled outside the line of duty, the member is

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

eligible for a monthly disability pension equal to 30% of average monthly compensation. If an active member who has completed 15 years of benefit service, but less than 21 years of benefit service, is disabled outside of the line of duty, the member is eligible for a monthly disability pension equal to 50% of average monthly compensation. If an active member who has completed 21 or more years of benefit service is disabled outside of the line of duty, the member is eligible for a monthly disability pension equal to the benefit based upon the normal retirement benefit formula. The disability benefit is payable upon discontinuance of any workers' compensation benefits being paid to the member.

Death Benefit – If an active member dies prior to retirement, a death benefit is payable to the member's surviving spouse or to dependent children under the age of 18 equal to 100% of the benefit the member would have been receiving had the member been retired at the time of the member's death.

Benefit Provisions – Firemen

Members Hired Before October 24, 2011

Retirement Benefit - A member is eligible for normal retirement after completion of 20 years of vesting service. The normal retirement pension is payable monthly during the member's lifetime, with payments continuing after the member's death to the surviving spouse or to dependent children under the age of 18 equal to 100% of the amount payable to the member at the time of the member's death. The amount of monthly pension is equal to 60% of average monthly compensation after 20 years of benefit service, increasing by 2% per additional year of benefit service, up to a maximum of 70% of average monthly compensation after 25 or more years of benefit service; plus a service increment equal to 1/40th of such pension amount per year of benefit service completed by the member in excess of 20 years, up to an additional \$100 per month. Average monthly compensation is equal to the higher of 1/12th of the average annual compensation over the highest five consecutive calendar years of employment or the monthly salary of the member at retirement.

Disability Benefit – If an active member is disabled in the line of duty, the member is eligible for a monthly disability pension equal to the benefit based upon the normal retirement benefit formula based upon a minimum of 20 years of benefit service. If an active member who has completed ten years of benefit service, but less than 15 years of benefit service, is disabled outside the line of duty, the member is eligible for a monthly disability pension equal to 30% of average monthly compensation. If an active member who has completed 15

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

years of benefit service, but less than 21 years of benefit service, is disabled outside of the line of duty, the member is eligible for a monthly disability pension equal to the benefit based upon the normal retirement benefit formula based upon a minimum of 20 years of benefit service.

Death Benefit – If an active member dies prior to retirement, a death benefit is payable to the member’s surviving spouse or to dependent children under the age of 18 equal to 100% of the benefit the member would have been receiving had the member been retired at the time of the member’s death.

Deferred Retirement Option Plan (DROP) Benefit – An active member who has attained age 57 and completed 20 years of vesting service may elect to participate in the deferred retirement option plan for a period of not more than 36 months. The member’s monthly pension shall be calculated as of the member’s date of participation in the DROP and shall be accumulated with 3.0% annual interest, compounded monthly, and distributed in a lump sum at retirement. As of December 31, 2017, there was one participant in the DROP. As of December 31, 2017, the balance held by the Firemen Plan for the DROP totaled \$129,757.

Members Hired On or After October 24, 2011

Retirement Benefit - A member is eligible for normal retirement after completion of 20 years of vesting service. The normal retirement pension is payable monthly during the member’s lifetime, with payments continuing after the member’s death to the surviving spouse or to dependent children under the age of 18 equal to 100% of the amount payable to the member at the time of the member’s death. The amount of monthly pension is equal to 50% of average monthly compensation, plus a service increment equal to 1/40th of such pension amount per year of benefit service completed by the member in excess of 20 years, up to an additional \$100 per month. Average monthly compensation is equal to the higher of 1/12th of the average annual compensation over the highest five consecutive calendar years of employment or the monthly salary of the member at retirement.

Disability Benefit – If an active member is disabled in the line of duty, the member is eligible for a monthly disability pension equal to the benefit based upon the normal retirement benefit formula based on a minimum of 20 years of benefit service. If an active member who has completed ten years of benefit service, but less than 15 years of benefit service, is disabled outside the line of duty, the member is eligible for a monthly disability pension equal to 30% of average monthly compensation. If an active member who has completed 15 years of benefit service, but less than 21 years of benefit service, is disabled outside of the

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

line of duty, the member is eligible for a monthly disability pension equal to the benefit based upon the normal retirement benefit formula based upon a minimum of 20 years of benefit service.

Death Benefit – If an active member dies prior to retirement, a death benefit is payable to the member's surviving spouse or to dependent children under the age of 18 equal to 100% of the benefit the member would have been receiving had the member been retired at the time of the member's death.

Benefit Provisions – O&E

Retirement Benefit - A member is eligible for normal retirement after attainment of age 60 and completion of 20 years of service. The pension is 2.5% for each year of service up to a maximum of 65% of average annual salary for the current year or any five years of service, whichever is higher. The pension is paid in monthly installments. In the event of voluntary termination before age 60 but after 12 years of service, member contributions will be continued until contributions have been made for 20 years or until age 55, if later, and the pension will start at age 60. In the event of involuntary termination after age 60 with at least 12 but not less than 20 years of service, a pro rata pension will be paid based on the ratio of service completed to 20 years. In the event of involuntary termination before age 60 with 12 but less than 20 years of service, a pro rata pension will be paid starting at age 60. In the event of involuntary termination before age 60 with more than 20 years of service, the full pension is paid starting at age 60.

Disability Benefit – A member who is permanently disabled so as to be unable to perform the duties of the member's position and who has completed 15 years of service is entitled to the full pension.

Benefit Provisions – PMRS

Retirement Benefit - A member is eligible for normal retirement after attainment of age 55 if hired before October 4, 2013 and age 65 if hired on or after October 4, 2013. A member is 100% vested after 12 years of service. The pension benefit is equal to 2% times credited service times final average salary, but in no event is the basic benefit greater than 80% of final average salary if hired before October 4, 2013 and 65% if hired on or after October 4, 2013. Final average salary is based upon the final five years of annualized salary.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Disability Benefit – In the instance of a service-related disability, a 50% disability benefit is provided to a member who is unable to perform gainful employment regardless of age or service. In the instance of a non-service related disability, a 30% disability benefit is provided to a member who has at least 10 years of service and who is unable to perform gainful employment.

Death Benefit – If a member is eligible to retire at time of death, the beneficiary receives the present value of the accrued benefit. At retirement, the member may select a survivor benefit.

Contributions

Pennsylvania Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act of the Commonwealth (as amended) (Act 205), requires that annual contributions be based upon the Minimum Municipal Obligation (MMO), which is based on the plans' biennial actuarial valuation. According to Act 205, actuarial valuations may be made biennially and the most recent valuations for all of the City's plans were completed as of January 1, 2017. The MMO includes the normal cost, estimated administrative expenses and an amortization of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10 percent of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds that must be used for pension funding. Any financial requirements established by the MMO which exceed state and member contributions must be funded by the employer.

Police and firemen are required to contribute 7% and 8% of covered payroll, respectively, plus \$1 per month to their respective pension plans. Effective July 1, 2015, police hired on or after January 1, 2012 contribute 5% of covered payroll, plus \$1 per month. The O&E Plan requires contributions of 3% of salary for single coverage, 3½% of salary up to the Social Security taxable wage base plus 5% of salary in excess of the Social Security taxable wage base for joint coverage, and 5% for dual coverage from participants. The PMRS plan requires contributions of 7.5% of covered payroll.

For the year ended December 31, 2017, the City made its annual required contribution of \$4,463,427, \$2,595,844, and \$0 for the City's Police, Firemen, and O&E Plans, respectively. During the year ended December 31, 2016, the City contributed its annual required contribution of \$1,177,999 for the City's PMRS plan. The MMO for the year ended December 31, 2016 was \$1,177,559. During the year ended December 31, 2017, the City

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

contributed its annual required contribution of \$1,181,049 for the City's PMRS plan. The 2017 contribution is reported as a deferred outflow of resources at December 31, 2017.

Changes in Net Pension Liability - Police

The changes in the net pension liability for the City for the year ended December 31, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016	\$ 108,125,194	\$ 80,676,559	\$ 27,448,635
Changes for the year:			
Service cost	2,114,272	-	2,114,272
Interest	8,420,015	-	8,420,015
Differences between expected and actual experience	3,269,690	-	3,269,690
Changes in assumptions	2,182,081	-	2,182,081
Contributions - employer	-	4,463,427	(4,463,427)
Contributions - employees	-	812,201	(812,201)
Net investment income	-	11,522,639	(11,522,639)
Benefit payments, including refunds	(6,848,745)	(6,848,745)	-
Administrative expense	-	(18,241)	18,241
Net changes	9,137,313	9,931,281	(793,968)
Balances at December 31, 2017	\$ 117,262,507	\$ 90,607,840	\$ 26,654,667
Plan fiduciary net position as a percentage of the total pension liability			77.3%

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Changes in Net Pension Liability - Firemen

The changes in the net pension liability for the City for the year ended December 31, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016	\$ 72,781,372	\$ 59,177,551	\$ 13,603,821
Changes for the year:			
Service cost	1,468,765	-	1,468,765
Interest	5,733,824	-	5,733,824
Differences between expected and actual experience	3,339,533	-	3,339,533
Changes in assumptions	1,635,967	-	1,635,967
Contributions - employer	-	2,595,844	(2,595,844)
Contributions - employees	-	617,367	(617,367)
Net investment income	-	8,420,260	(8,420,260)
Benefit payments, including refunds	(5,015,911)	(5,015,911)	-
Administrative expense	-	(13,894)	13,894
Net changes	7,162,178	6,603,666	558,512
Balances at December 31, 2017	\$ 79,943,550	\$ 65,781,217	\$ 14,162,333
Plan fiduciary net position as a percentage of the total pension liability			82.3%

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Changes in Net Pension Liability (Asset) – O&E

The changes in the net pension liability (asset) for the City for the year ended December 31, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2016	\$ 4,812,241	\$ 7,044,634	\$ (2,232,393)
Changes for the year:			
Interest	105,005	-	105,005
Differences between expected and actual experience	1,375,308	-	1,375,308
Changes in assumptions	269,994	-	269,994
Net investment income	-	634,981	(634,981)
Benefit payments, including refunds	(6,562,548)	(6,562,548)	-
Administrative expense	-	(3,643)	3,643
Net changes	(4,812,241)	(5,931,210)	1,118,969
Balances at December 31, 2017	\$ -	\$ 1,113,424	\$ (1,113,424)
Plan fiduciary net position as a percentage of the total pension liability			N/A

The net pension asset of the O&E plan is allocated between governmental activities and business-type activities in the amounts of \$712,591 and \$400,833, respectively, at December 31, 2017.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Changes in Net Pension Liability - PMRS

The changes in the net pension liability for the City for the year ended December 31, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	\$ 135,720,808	\$ 121,861,953	\$ 13,858,855
Changes for the year:			
Service cost	2,561,288	-	2,561,288
Interest	7,409,285	-	7,409,285
Differences between expected and actual experience	1,849,458	-	1,849,458
Changes in assumptions	3,737,933	-	3,737,933
Contributions - employer	-	1,177,999	(1,177,999)
Contributions - employees	-	1,657,679	(1,657,679)
Net investment income	-	10,428,786	(10,428,786)
Transfers	1,242	1,242	-
Benefit payments, including refunds	(7,233,675)	(7,233,675)	-
Administrative expense	-	(365,238)	365,238
Net changes	8,325,531	5,666,793	2,658,738
Balances at December 31, 2017 (based on the measurement date of December 31, 2016)	\$ 144,046,339	\$ 127,528,746	\$ 16,517,593
Plan fiduciary net position as a percentage of the total pension liability			88.5%

The net pension liability of the PMRS plan is allocated between governmental activities and business-type activities in the amounts of \$10,571,259 and \$5,946,334, respectively, at December 31, 2017.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Actuarial Assumptions – Police, Firemen, and O&E

The net pension liability was measured as of December 31, 2017 and was determined by rolling forward liabilities from the January 1, 2017 actuarial valuation. The January 1, 2017 actuarial valuations for the Police, Firemen, and O&E Plans utilized the entry age normal cost method. The actuarial assumptions for the three City Plans included (a) investment rate of return of 7.5%, (b) projected salary increases of 4.5% per year, (c) inflation component of 3.0%, and (d) IRS 2017 Static Combined Table for Small Plans. The net pension liability for the O&E Plan has been adjusted to reflect the purchase of annuities to satisfy the liabilities of all members during the year ended December 31, 2017. With this exception, no significant events or changes occurred between the valuation date and the fiscal year-ends.

Change in Actuarial Assumptions - In the January 1, 2017 actuarial valuations, the mortality tables were updated from the RP2000 Table to the IRS 2017 Static Combined Table for Small Plans.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Actuarial Assumptions – PMRS

The total pension liability was determined by an actuarial valuation performed on January 1, 2017 with liabilities measured at December 31, 2016, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:

Investment rate of return	5.25%
Projected salary increases	2.8% - 7.05%*
* includes inflation rate of 3%	
Cost-of-living adjustments	2.8%, subject to plan limitations

Actuarial assumptions based on PMRS Experience Study for the period January 1, 2009 to December 31, 2013

Preretirement mortality:

Males: RP 2000 Male Non-Annuitant table projected 15 years with Scale AA
Females: RP 2000 Female Non-Annuitant table projected 15 years with Scale AA and then set back 5 years

Postretirement mortality:

Males: RP 2000 Male Annuitant table projected 5 years with Scale AA
Females: RP 2000 Female Annuitant table projected 10 years with Scale AA

Changes in Actuarial Assumptions – The actuarial assumptions noted above were used for the prior measurement date of December 31, 2015 except for investment return assumption for municipal assets decreased from 5.50% to 5.25%.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Investment Policy – Police, Firemen, and O&E

The Police, Firemen, and O&E Plans' investment policy, most recently amended in 2009, outlines the goals and objectives of the Funds as well as specifies the target asset allocation, guidelines for the selection of investment managers, permissible securities, and the criteria for evaluating investment performance of the Funds. The benefit obligations for the Funds are long-term in nature and the investment of the assets should also have a long-term focus. The investment objectives for the Funds' assets are to:

- Achieve a positive rate of return over the long term sufficient to meet the Funds' actuarial interest rate and provide for payment of benefit obligations and expenses in perpetuity in a secure and prudent fashion.
- Maintain a prudent risk level that balances growth with the need to preserve capital.
- Diversify the Funds' assets so as to minimize the risk of large losses or excessive fluctuations in market value from year to year.
- Achieve investment results over the long term that competes favorably with other pension funds' and appropriate market indices.

The Plans' policies in regard to the allocation of invested assets are established and may be amended by the respective pension Board.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

This policy specifies the allocation of each asset class to be held by the Police, Firemen, and O&E Plans:

Asset Class	Target Percentage	Acceptable Range
Equities:		
Large Cap Growth	10%	+/- 5%
Large Cap Core	10%	+/- 5%
Large Cap Value	10%	+/- 5%
Small Cap Core	8%	+/- 5%
Small Cap Value	2%	+/- 1%
Foreign Equities	10%	+/- 5%
Total Equities	50%	+/- 10%
Fixed Income:		
Intermediate Fixed (Cash flow manager)	20%	+/- 5%
Intermediate Fixed	18%	+/- 5%
High Yield	3%	+/- 2%
Total Fixed Income	41%	+/- 10%
Alternate Investments:		
Real Estate	3%	+/- 2%
Managed Futures	3%	+/- 2%
Life Settlement	3%	+/- 2%
Total Alternate Investments	9%	+/- 3%

Long-Term Expected Rate of Return - Police, Firemen, and O&E

The long-term expected rates of return on the Police, Firemen, and O&E Plans investments were determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the Police, Firemen, and O&E Plans as of December 31, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	40.0%	5.5% - 7.5%
International equity	14.0%	4.5% - 6.5%
Fixed income	37.0%	1.0% - 3.0%
Alternative investments	9.0%	5.5% - 7.5%
	<u>100.0%</u>	

Long-Term Expected Rate of Return – PMRS

The PMRS System's (System) long-term expected rate of return on plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole, and at different levels of probability or confidence. There are four steps to the method used by the System and an in-depth description of the process, including the anticipated rate of return by asset class, can be found at www.pMrs.state.pa.us. Based on the four-part analysis, the PMRS Board established the System's long-term expected rate of return at 7.5%. The rationale for the difference between the System's long-term expected rate of return and the discount rate can be found at www.pMrs.state.pa.us.

Rate of Return - The money-weighted rate of return expresses investment performance, net of investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2017, the annual money-weighted rate of return on Police, Firemen, and O&E Plan investments, net of investment expense, was 14.27%.

Concentrations - The City does have a formal policy that limits the amount the City may invest in any one issuer to five percent for each individual Plan. At December 31, 2017, the City does not hold more than five percent of each individual Plans' investments in any one issuer.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Discount Rate – Police, Firemen, and O&E

The discount rate used to measure the total pension liability for the Police, Firemen, and O&E Plans as of December 31, 2017 was 7.5%. The Plans' fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Act 205. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

Discount Rate – PMRS

The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities' total pension liability as of December 31, 2016 was 5.25%. The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required, used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System's long-term expected rate of return will be used in the depletion testing of the projected cash flows. Based on those assumptions, the PMRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Sensitivity of the Net Pension Liability (Asset) Changes in the Discount Rate – The following presents the net pension liability (asset) of the Police, Firemen, O&E, and PMRS Plans calculated using the discount rate described above, as well as what the Plan’s net pension liabilities (assets) would be if they were calculated using a discount rate that is one-percentage-point lower or higher than the current rates:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Police	\$ 41,434,609	\$ 26,654,667	\$ 14,333,237
Firemen	\$ 23,793,137	\$ 14,162,333	\$ 6,082,707
O&E	\$ (1,113,424)	\$ (1,113,424)	\$ (1,113,424)
	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
PMRS	\$ 33,122,381	\$ 16,517,593	\$ 2,436,636

Pension Expense, Deferred Outflows of Resources, and Deferred Outflows of Resources Related to Pensions

For the year ended December 31, 2017, the City recognized pension expense of \$11,241,551 in the governmental activities and \$2,338,312 in the business-type activities.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

At December 31, 2017, the City reported deferred outflows of resources related to pensions from the following sources:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<u>Deferred Outflows of Resources:</u>		
Net difference between projected and actual earnings on pension plan investments	\$ 1,387,407	\$ 615,106
Differences between expected and actual experience	10,178,239	562,378
Changes in assumptions	6,098,687	1,505,692
City contributions subsequent to the measurement date	756,054	424,995
Total deferred outflows of resources	<u>\$ 18,420,387</u>	<u>\$ 3,108,171</u>
<u>Deferred Inflows of Resources:</u>		
Net difference between projected and actual earnings on pension plan investments	\$ 4,756,478	\$ 40,344
Total deferred inflows of resources	<u>\$ 4,756,478</u>	<u>\$ 40,344</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

The differences in the City's expected and actual experience and changes in assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. City contributions subsequent to the measurement date will be recorded as a reduction to the pension liability during the year ending December 31, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2018	\$ 3,615,918	\$ 1,026,436
2019	3,615,919	1,026,438
2020	1,513,538	877,520
2021	(351,971)	(287,562)
2022	1,995,081	-
Thereafter	2,519,370	-
	<u>\$ 12,907,855</u>	<u>\$ 2,642,832</u>

Component Units' Pension Plans

Plan Description and Administration

Library

Effective January 1, 2013, the Library is no longer a part of the City's PMRS pension plan. The Library will pay the City \$165,444 per year for ten years as part of an agreement to assist the City in meeting unfunded pension plan obligations on retired or fully vested Library employees. During the year ended December 31, 2017, the Library paid \$165,444 to PMRS on behalf of the City for the fifth of the ten payments. Alternatively, the Library offers a 457(b) plan to all remaining and new employees.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Parking Authority

The Parking Authority pension plan is a single-employer defined benefit pension plan controlled by the provisions of a resolution dated October 2, 2013 adopted pursuant to Act 15 of 1974. The Parking Authority pension plan participates in the PMRS.

Prior to January 1, 2013, the Parking Authority participated in the City's PMRS plan. Based on an actuarial calculation, the City transferred approximately \$2.3 million in cash and investments from its pension plan to the Parking Authority's plan during the year ended December 31, 2013. The Parking Authority will pay the City \$188,592 per year for ten years as part of a verbal agreement to assist the City in meeting unfunded pension plan obligations on retired or fully vested Parking Authority employees. During the year ended December 31, 2017, the Parking Authority paid \$188,592 to PMRS on behalf of the City for the fifth of the ten payments.

Redevelopment Authority

The Redevelopment Authority's pension plan is a defined benefit pension plan adopted pursuant to Act 15 of 1974. The plan participates in the PMRS.

Benefit Provisions

Parking Authority

Act 205 grants the authority to establish and amend the benefit terms to the Parking Authority's Board of Directors.

All full-time employees are required to participate in the Parking Authority's pension plan.

Normal Benefit – Active members are eligible for normal retirement at age of 55. The basic annual benefit is equal to 2% times credited service times the final average salary but in no event is the basic benefit greater than 80% of final average salary. The final annual salary is the annual average compensation earned and paid during the member's final five years of employment. A member is 100% vested after 12 years of service.

Early Retirement Benefit – Early retirement may be taken any time after eight years of service, if the member is involuntarily terminated, or after 20 years of service, if the member voluntarily leaves. The benefit will be actuarially reduced for each year or partial year prior to normal retirement age that early retirement takes place.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Survivor Benefit – If a member is eligible to retire at the time of death, their beneficiary receives the present value of the accrued benefit.

Disability Benefit – In the instance of a service related disability, a 50% disability benefit is provided to a member who is unable to perform gainful employment. In the instance of a non-service related disability, a 30% disability benefit is provided to a member who has at least 10 years of service and who is unable to perform gainful employment.

Cost-of-Living Adjustments – The Parking Authority has the option to award post-retirement adjustments based on investment performance. Currently, the adjustment is not available.

Redevelopment Authority

Act 205 grants the authority to establish and amend the benefit terms to the Redevelopment Authority's Board.

All full-time employees are required to participate in PMRS. A member is 100% vested after 12 years of service.

Normal Retirement – Members who retire at age 55 are entitled to a basic annual retirement benefit that shall be equal to 2.5% of the member's final average salary multiplied by all years of credited service, but in no event is the basic benefit greater than 50% of final average salary. The final average salary is the annual average compensation earned and paid during the member's final five years of employment.

Early Retirement – Early retirement is available for any member who has been involuntarily terminated after eight years of service or who has separated voluntarily after twenty years of credited service. Early retirement benefits will be actuarially reduced for each year or partial year thereof that early retirement takes place prior to age 55.

Survivor Benefit – If a member is eligible to retire at the time of death, their beneficiary receives the present value of the member's accrued benefit.

Disability Benefit – In the instance of a service related disability, a 50% disability benefit is provided to a member who is unable to perform gainful employment regardless of age or service, offset by available worker's compensation benefits. In the instance of a non-service related disability, a 30% disability benefit is provided to a member who has at least 10 years of service and who is unable to perform gainful employment.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Cost-of-Living Adjustments – The Redevelopment Authority has the option to award post-retirement adjustments based on investment performance.

Plan Membership

Parking Authority

Membership of the Parking Authority’s pension plan consisted of the following at the most recent actuarial valuation date of December 31, 2016:

Active employees	20
Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	-
Total	<u>29</u>

Redevelopment Authority

Membership of the Redevelopment Authority’s pension plan consisted of the following at the most recent actuarial valuation date of December 31, 2016:

Active employees	2
Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	-
Total	<u>5</u>

Contributions

Parking Authority

The Parking Authority’s funding policy is to fund the minimum pension plan requirement computed in accordance with Act 205. The Parking Authority’s funding policy requires that annual contributions be based upon the Parking Authority pension plan’s MMO, which are actuarially determined rates that should result in the accumulation of assets that are sufficient to pay benefits when due. Active employees are required to contribute an amount equal to 7.50% of compensation. During the year ended December 31, 2016, the Parking Authority made a contribution of \$64,855. The MMO for the year ended December 31, 2016 was \$64,835. During the year ended December 31, 2017, the Parking Authority made a

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

contribution of \$66,979. The MMO for the year ended December 31, 2017 was \$66,979. The 2017 contribution is reported as a deferred outflow of resources at December 31, 2017.

Redevelopment Authority

The Redevelopment Authority's funding policy is to fund the minimum pension plan requirement computed in accordance with Act 205. The Redevelopment Authority's funding policy requires that annual contributions be based upon the Redevelopment Authority pension plan MMO, which are actuarially determined rates that should result in the accumulation of assets that are sufficient to pay benefits when due. All full-time employees are required to contribute five and a half percent of their annual covered salary. The MMO for the year ended December 31, 2016 was \$27,449. During the year ended June 30, 2016, the Redevelopment Authority made a contribution to the Redevelopment Authority pension plan in the amount of \$27,339. The MMO for the year ended December 31, 2017 was \$30,522. During the year ended June 30, 2017, the Redevelopment Authority made a contribution to the Redevelopment Authority pension plan in the amount of \$29,754.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Changes in the Net Pension Liability

Parking Authority

The changes in the net pension liability of the Parking Authority for the year ended December 31, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	\$ 2,521,026	\$ 2,424,095	\$ 96,931
Changes for the year:			
Service cost	135,799	-	135,799
Interest	143,736	-	143,736
Changes in assumptions	88,483	-	88,483
Differences between expected and experience	355,416	-	355,416
Contributions - employer	-	64,855	(64,855)
Contributions - employees	-	71,208	(71,208)
Net investment income	-	209,374	(209,374)
Benefit payments, including refunds	(88,057)	(88,057)	-
Administrative expense	-	(7,550)	7,550
Net changes	635,377	249,830	385,547
Balances at December 31, 2017 (based on the measurement date of December 31, 2016)	\$ 3,156,403	\$ 2,673,925	\$ 482,478
Plan fiduciary net position as a percentage of the total pension liability			84.7%

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation performed on January 1, 2017, with liabilities measured at December 31, 2016, using the actuarial assumptions consistent with that presented for the City’s PMRS pension plan, applied to all periods in the measurement.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Changes in Actuarial Assumptions – The changes in actuarial assumptions for the Parking Authority’s pension plan are consistent with those presented for the City’s PMRS pension plan.

Long-Term Expected Rate of Return – The System’s long-term expected rate of return on plan investments for the Parking Authority’s pension plan is consistent with that presented for the City’s PMRS pension plan.

Discount Rate – The System’s discount rate for the Parking Authority’s pension plan is consistent with that presented for the City’s PMRS pension plan.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Parking Authority pension plan calculated using the discount rates described above, as well as what the Parking Authority pension plan’s net pension liability would be if they were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rates:

1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
<u>\$ 876,253</u>	<u>\$ 482,478</u>	<u>\$ 149,475</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Redevelopment Authority

The changes in the net pension liability of the Redevelopment Authority for the year ended June 30, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2016 (based on the measurement date of December 31, 2015)	\$ 953,572	\$ 777,814	\$ 175,758
Changes for the year:			
Service cost	23,110	-	23,110
Interest	51,724	-	51,724
Differences between expected and actual experience	38,737	-	38,737
Changes in assumptions	24,749	-	24,749
Contributions - employer	-	27,449	(27,449)
Contributions - employees	-	9,191	(9,191)
Net investment income	-	84,414	(84,414)
Benefit payments, including refunds	(73,458)	(73,458)	-
Administrative expense	-	(2,311)	2,311
Net changes	64,862	45,285	19,577
Balances at June 30, 2017 (based on the measurement date of December 31, 2016)	\$ 1,018,434	\$ 823,099	\$ 195,335
Plan fiduciary net position as a percentage of the total pension liability			80.8%

Actuarial Assumptions – The total pension liability was based on the actuarial valuation performed on January 1, 2017 with liabilities measured at December 31, 2016, using the actuarial assumptions consistent with that presented for the City’s PMRS pension plan, applied to all periods in the measurement.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Changes in Actuarial Assumptions – The changes in actuarial assumptions for the Redevelopment Authority’s pension plan are consistent with those presented for the City’s PMRS pension plan.

Long-Term Expected Rate of Return – The System’s long-term expected rate of return on plan investments for the Redevelopment Authority’s pension plan is consistent with that presented for the City’s PMRS pension plan.

Discount Rate – The System’s discount rate for the Redevelopment Authority’s pension plan is consistent with that presented for the City’s PMRS pension plan.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Redevelopment Authority pension plan calculated using the discount rates described above, as well as what the Redevelopment Authority pension plan’s net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rates:

1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
<u>\$ 304,251</u>	<u>\$ 195,335</u>	<u>\$ 101,684</u>

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

Parking Authority

For the year ended December 31, 2017, the Parking Authority recognized pension expense of \$223,935.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

At December 31, 2017, the Parking Authority reported deferred outflows of resources related to pension from the following sources:

Differences between expected and actual experience	\$	365,774
Authority contributions subsequent to the measurement date		66,979
Changes in assumptions		119,392
Net difference between projected and actual earnings on pension plan investments		<u>9,127</u>
Total	\$	<u>561,272</u>

The differences in the Parking Authority's expected and actual experience and changes in assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Parking Authority contributions subsequent to the measurement date will be recorded as a reduction to the pension liability during the year ending December 31, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	
2018	\$ 151,148
2019	151,147
2020	104,322
2021	<u>87,676</u>
	<u>\$ 494,293</u>

Redevelopment Authority

For the year ended June 30, 2017, the Redevelopment Authority recognized pension expense of \$45,194.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

At June 30, 2017, the Redevelopment Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 34,002	\$ -
Changes in assumptions	30,716	-
Authority contributions subsequent to the measurement date	22,892	-
Net difference between projected and actual earnings on pension plan investments	-	19,865
Total	\$ 87,610	\$ 19,865

The differences in the Redevelopment Authority's expected and actual experience and change in assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Redevelopment Authority contributions subsequent to the measurement date will be recorded as a reduction to the pension liability during the year ending June 30, 2018. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

Year ending June 30,	
2018	\$ 22,380
2019	17,429
2020	12,898
2021	(7,854)
	\$ 44,853

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

9. Post-Employment Benefits Other Than Pensions

Plan Descriptions

In addition to pension benefits described in Note 8, the City provides certain post-retirement healthcare benefits to its retirees through one single-employer, defined benefit OPEB plan. However, within this one plan, there are three groups of employees with different types of benefits. The plan does not issue a separate report.

Police:

Article XI of the Collective Bargaining Agreement between the City and the Fraternal Order of Police, Star Lodge #20, effective January 1, 2015, establishes retirees' eligibility for post-retirement medical benefits. Article VII Section D of the personnel manual establishes retirees' eligibility for post-retirement life-insurance benefits.

Eligibility: Any police officer who retires after completion of 20 years of service. Any employee who retires under the disability provision may begin coverage no earlier than age 41, regardless of service.

Any employee hired on or after January 1, 2012 shall not be entitled to any City-funded retiree healthcare upon retirement.

Benefits: The City will provide medical and prescription drug coverage for the retiree and spouse until Medicare eligibility. The City's maximum monthly contribution for health insurance coverage for each retiree was \$380 as of January 1, 2016 with an increase to \$400 as of January 1, 2017. If the retiree dies, his or her spouse will be covered and the City will contribute to coverage for the spouse until Medicare eligibility, unless the spouse remarries or has a job in which health insurance coverage is normally granted. If the retiree reaches Medicare eligibility prior to his or her spouse, the spouse may continue coverage and the City will contribute to coverage for the spouse until Medicare eligibility.

The City will provide each retiree \$1,500 of post-retirement life insurance coverage upon retirement. The City will also make available an additional \$1,000 of coverage at the employee's expense, if the employee paid for an additional \$30,000 of life insurance coverage while an active employee. Employees retiring on or after January 1, 2013 will

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

only be eligible to purchase post-retirement life insurance coverage upon retirement in any amount that they are eligible for at a non-group rate.

Firefighters:

Article X of the Collective Bargaining Agreement between the City and the Local 735 of the International Association of Firefighters (AFL-CIO), effective January 1, 2015, establishes retirees' eligibility for post-retirement medical benefits. Article VII Section D of the personnel manual establishes retirees' eligibility for post-retirement life-insurance benefits.

Eligibility: Any firefighter who retires after completion of 20 years of service and after attainment of age 38. Any employee who retires under the disability provision may begin coverage no earlier than age 38, regardless of service.

Any firefighter hired on or after October 24, 2011 shall not be entitled to any City-funded retiree healthcare upon retirement.

Benefits: The City will provide medical and prescription drug coverage for the retiree and spouse until Medicare eligibility. The City's maximum monthly contribution for health insurance coverage for each retiree was \$380 as of January 1, 2016 with an increase to \$400 as of January 1, 2017. If the retiree dies, his or her spouse will be covered and the City will contribute to coverage for the spouse until Medicare eligibility, unless the spouse remarries or has a job in which health insurance coverage is normally granted. If the retiree reaches Medicare eligibility prior to his or her spouse, the spouse may continue coverage and the City will contribute to coverage for the spouse until Medicare eligibility. An employee who retires prior to age 38 shall be eligible to enter the plan at the contribution rate equal to the negotiated rate for contributions.

The City will provide each retiree \$1,500 of post-retirement life insurance coverage upon retirement. The City will also make available an additional \$1,000 of coverage at the employee's expense, if the employee paid for an additional \$30,000 of life insurance coverage while an active employee. Employees retiring on or after January 1, 2013 will only be eligible to purchase post-retirement life insurance coverage upon retirement in any amount that they are eligible for at a non-group rate.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Non-uniformed union and non-union employees:

Article IX of the Collective Bargaining Agreement between the City and the Service Employees International Union (SEIU), Local 32BJ, Mid-Atlantic District, effective January 1, 2016, establishes retirees' eligibility for post-retirement medical benefits. Article VII Section D of the personnel manual establishes retirees' eligibility for post-retirement life-insurance benefits.

Eligibility: Any non-uniformed union or non-union employee who retires after completion of 20 years of service and after attainment of age 55. Any employee who retires under the disability provision may begin coverage after 20 years of service.

Any non-uniformed union or non-union employee hired on or after October 4, 2013 shall not be entitled to any City-funded retiree healthcare upon retirement.

Benefits: The City will provide medical and prescription drug coverage for the retiree and spouse until Medicare eligibility. The City's maximum monthly contribution for health insurance coverage for each retiree is \$280. If the retiree dies, his or her spouse will be covered and the City will contribute to coverage for the spouse until Medicare eligibility, unless the spouse remarries or has a job in which health insurance coverage is normally granted. If the retiree reaches Medicare eligibility prior to his or her spouse, the spouse may continue coverage and the City will contribute to coverage for the spouse until Medicare eligibility.

The City will provide each retiree who has completed 12 years of service with \$1,500 of post-retirement life insurance coverage upon retirement. The City will also make available an additional \$1,000 of coverage at the employee's expense, if the employee paid for an additional \$30,000 of life insurance coverage while an active employee. Employees retiring on or after January 1, 2013 will only be eligible to purchase post-retirement life insurance coverage upon retirement in any amount that they are eligible for at a non-group rate.

Funding Policy and Annual OPEB Costs

The City's contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2017, the City contributed \$879,720 to the OPEB plan.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Police:

Police would pay any additional premiums above the City's contribution of \$400. For the year ended December 31, 2017, police retirees contributed \$180,312 toward the cost of their plans.

Firefighters:

Firefighters would pay any additional premiums above the City's contribution of \$400. For the year ended December 31, 2017, firefighter retirees contributed \$135,924 toward the cost of their plans.

Non-uniformed union and non-union employees:

Non-uniformed union and non-union retirees would pay any additional premiums above the City's contribution of \$280. For the year ended December 31, 2017, non-uniformed union and non-union retirees contributed \$314,873 toward the cost of their plans.

The City's annual OPEB cost (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revision, as actual results are compared to past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of the valuation and on the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Information as of the latest actuarial valuation follows:

Valuation date	1/1/2016
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Interest rate	4.5%
Projected salary increases	4.5%
Medical inflation:	
2016	6.5%
2017	6.0%
2018-2020	5.5%
2021-2075	5.4% - 3.8%
Amortization method	Level dollar, open period
Amortization period	30 years

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB costs and net OPEB obligations to the Plan for the year ended December 31, 2017 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 1,217,927	\$ 236,539	\$ 1,454,466
Interest on net OPEB obligation	212,167	45,330	257,497
Adjustment to ARC	(298,540)	(52,752)	(351,292)
Annual OPEB cost	1,131,554	229,117	1,360,671
Contribution made	(718,684)	(161,036)	(879,720)
Change in Net OPEB obligation	412,870	68,081	480,951
Net OPEB obligation, beginning	4,723,900	998,257	5,722,157
Net OPEB obligation, ending	<u>\$ 5,136,770</u>	<u>\$ 1,066,338</u>	<u>\$ 6,203,108</u>

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2017	\$ 1,360,671	64.7%	\$ 6,203,108
2016	1,369,399	61.1%	5,722,157
2015	1,405,626	66.1%	5,189,728

Funded Status and Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2016	\$ -	\$ 14,029,782	\$ 14,029,782	0.00%	\$ 34,115,963	41.12%

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

10. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The City provides a 1% matching contribution to the plan up to 4% contributed by the participants. The City contributed \$210,164 to the plan during 2017. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

11. Commitment and Contingencies

Federal and State Grants

Under the terms of federal and state grants, periodic audits are required and certain costs may be disallowed as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

Litigation

The City is defending a number of lawsuits, the outcome of which, in the opinion of management, will not materially affect the financial position of the City.

Risk Management

The City 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. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages in 2017. Settlement amounts have not exceeded insurance coverages for the current year or three prior years.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Construction

The City is committed in various construction contracts in the total amount of approximately \$2.2 million at December 31, 2017. Subsequent to year-end, the City entered into construction contracts for approximately \$3,081,000.

At December 31, 2017, the Parking Authority has construction commitments in the amount of approximately \$5.6 million. The total amount incurred under these contracts as of December 31, 2017 was approximately \$5.3 million.

Violations of Finance-Related Legal and Contractual Provisions

In past years, the City advanced itself earned income tax (EIT) receipts that were being held on behalf of other governments and owed approximately \$1.6 million back to the EIT account at December 31, 2017. Beginning January 1, 2011, Keystone Collections Group is collecting the City's EIT funds; therefore, the City can no longer advance or borrow EIT. Also, as of December 31, 2017, the City has \$1,494,289 in outstanding claims to other municipalities. The City is awaiting payment and/or responses which can be used towards the shortfall. There are additional claims that still need to be processed, both from the City to other municipalities and from other municipalities to the City.

Tax Incremental Financing Project

The City, along with the Redevelopment Authority, agreed to participate in a TIF Project to finance a portion of costs associated with various redevelopment of the Bethlehem Steel site. Some of the larger projects include the Steelstacks Plaza, Levitt Pavilion, Festival Center Plaza, Hoover-Mason Trestle, and various parking lots. The City has agreed to pay to the Redevelopment Authority specified portions of the incremental real estate tax revenues created by the Project for payment of the debt service on the TIF Bonds and loans. The outstanding principal amount of the TIF Bonds and loans is approximately \$25.551 million at June 30, 2017. During the year ended December 31, 2017, City tax revenues collected and remitted directly to the TIF were approximately \$1.46 million.

ArtsQuest Lease

During the year ended June 30, 2011, the Redevelopment Authority entered into a lease agreement with ArtsQuest. The Redevelopment Authority has leased to ArtsQuest certain property, including the Levitt Pavilion, the Bethlehem Landing Building, and the Improved

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Plazas. The initial term of the lease expires on June 1, 2020, unless terminated earlier. The initial term can be extended for one additional 10-year term upon written agreement by both parties. If the initial term is extended for an additional 10-year renewal period, the lease is then subject to two additional 10-year renewals, which will automatically renew unless one party provides a written termination notice to the other at least one year in advance of the applicable renewal date. ArtsQuest is to surrender the assets upon the termination of this lease, in as good order and condition as they are at the start of the lease, ordinary wear and tear and depreciation excepted. Consideration for the lease was \$1.

Armory Rental Agreement

During the year ended June 30, 2014, the Redevelopment Authority entered into a rental agreement with the Commonwealth. The Commonwealth has leased to the Redevelopment Authority a parcel of land and two structures for a term of one year beginning on July 1, 2014. The rental of the premises will be \$1 per year for the first year. The rental agreement is to automatically remain in full force and effect for four additional one-year terms unless either party gives the other party notice of intent to terminate. After July 1, 2015, the rent shall be \$3,600 per year, which is due and payable by September 30 of the year to which it applies. All rental payments are to be credited toward the purchase price of \$272,000, if and when the Redevelopment Authority or the City elects to purchase the property. The Redevelopment Authority is responsible for payment of all utilities and other payments provided under the rental agreement.

During the year ended June 30, 2017, the Redevelopment Authority elected to purchase the property and entered into an agreement to sell the property for the purchase price of \$347,000. The closing on the purchase from the Commonwealth and simultaneous sale to the developers took place in August 2018.

12. Compliance

Under the debt agreements, the Redevelopment Authority has covenanted to submit its audited financial statements to the trustee within 180 days of the end of its fiscal year. The financial statements were not completed by the required date.

Additionally, the 2010 debt agreement requires the Redevelopment Authority to submit an annual budget to the trustee within 30 days of final approval. The budget was not remitted to the trustee by the required date.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

13. Letter of Credit Note

In October 2015, the City established a standby letter of credit with TD Bank in the amount of \$800,000. In June 2016, the letter of credit was reduced to \$400,000. The beneficiary on this letter of credit is Pennsylvania Manufacturers' Association Insurance Company (PMA). According to the terms of the letter of credit, the beneficiary may, at any time, draw upon this letter of credit, up to the full amount. Commission fees on this letter of credit are paid by the City at a rate of 1%. The letter of credit automatically renews for a one-year period on October 15 of each year, unless written notification of termination is received 60 days prior to the expiration date. At December 31, 2017, there were no amounts borrowed under the letter of credit. On September 13, 2018, the letter of credit was reduced to \$50,000.

14. Credit Risk and Market Risk

The City uses its authority to levy certain general purpose taxes. Major taxing revenue sources include real estate, earned income, mercantile, and business privilege taxes. These taxes account for approximately 92% of the total taxes collected by the City in 2017. Although the City has a diversified taxing base, its citizens' ability to honor their taxing obligations is substantially dependent upon the general economic condition of the region.

The fair value of the City's investments is subject to fluctuations in the prevailing market prices of those investments.

15. Negative Net Position

Municipal Golf Fund

The Municipal Golf Fund had a deficit net position of \$776,210 at December 31, 2017. In 2018, the City came to an agreement with SEIU to eliminate three union positions from the golf course in order to improve financial performance. A non-union position was also eliminated. These eliminations are occurring at various points through March 31, 2019; therefore, the full effect will not be realized until 2019. The City also renegotiated the lease with the restaurant at the golf course for 2019. Annual lease payments will increase by approximately \$45,000 in 2019.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

16. Conduit Debt

Redevelopment Authority

In December 2016, the Redevelopment Authority approved issuance of Revenue Bonds (ArtsQuest Project) Series 2016 in an aggregate principal amount not to exceed \$7.5 million. The Redevelopment Authority then entered into a loan agreement with ArtsQuest and an assignment to PNC Community Development Company, LLC. The Revenue Bonds Series 2016 are secured by the gross revenues of ArtsQuest. The purpose of the Revenue Bonds Series 2016 is to refinance certain taxable debt obligations held by ArtsQuest.

In January 2017, the Redevelopment Authority entered into a single bond issue for which it has limited liability. The Redevelopment Authority serves as a financing conduit. Although the Redevelopment Authority is a party to the trust indenture with the associated Trustee, the agreement is structured such that there is no recourse against the Redevelopment Authority in the case of default. As such, the corresponding debt is not reported in the Redevelopment Authority's balance sheet or statement of net position. At June 30, 2017, the conduit debt balance outstanding is \$6,450,873.

17. Restatements

During the year ended December 31, 2017, the City discovered that the restrictions placed on advance funding from a local municipality were mistakenly characterized as advances for capital construction as opposed to advances for debt service. As such, the City had overestimated the amount of revenue to recognize against the advance in prior years. In order to properly reflect the use of the advance funding, beginning net position has been reduced in the Sewer Fund and Business-type Activities by \$1,458,965, from the previously reported net position of \$12,109,020 and \$13,366,876, respectively, to \$10,650,055 and \$11,907,911, respectively. Had the revenue been recognized in accordance with the debt service restriction during the year ended December 31, 2016, the change in net position of the Sewer Fund and the Business-type Activities would have been decreased by \$1,493,434, from \$1,876,172 and \$3,964,555, respectively, to \$382,738 and \$2,471,121, respectively.

During the year ended December 31, 2017, the City discovered that a receivable for a reimbursement of expenses/expenditures incurred in prior years was not recorded. In order to properly reflect the revenues related to the expenses/expenditures eligible for reimbursement, beginning net position in the Governmental Activities and fund balance for

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

the Non-Utility Capital Improvement Fund has been increased by \$110,482, from the previously reported net position of (\$69,165,357) and fund balance of \$2,319,365, to (\$69,054,875) and \$2,429,847, respectively. Had the revenue been recognized in the year the expenses/expenditures were incurred during the year ended December 31, 2016, the change in net position of the Governmental Activities and the change in fund balance of the Non-Utility Capital Improvement Fund would be the same as previously reported.

18. Subsequent Events

In September 2018, the City approved a bank loan in the amount of \$1,800,000 for capital improvements for the golf course. The draw down loan will have fixed rate of 3.5% for the term of the loan.

Parking Authority

In April 2018, the Parking Authority entered into a Promissory Note in the amount of \$600,000. Commencing on December 1, 2018, semi-annual payments of interest only are due June 1st and December 1st of each year. One final payment of outstanding principal and interest is due on or before April 30, 2021. The interest rate is fixed at 2.75%. The Note is secured by revenue, receipts, and money derived from or in connection with the parking system of the Parking Authority.

According to the 2018 to 2020 union contract, Parking Authority employees hired after January 1, 2018 will be enrolled in a defined contribution pension plan. The Parking Authority will contribute 4% of each employees' wages and employees will contribute 3.5% of their wages. Vesting will occur 20% in year three and an additional 20% per year, until fully vested in year seven.

Redevelopment Authority

In September 2017, the Redevelopment Authority approved the expenditure of \$800,000 in TIF funding for eligible site development and site remediation expenses and that payments for the work will be made in three annual installments as follows: \$300,000 in September 2017, \$350,000 in July 2018, and \$150,000 in July 2019.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF BETHLEHEM, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (BUDGETARY BASIS) GENERAL FUND

YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 39,240,193	\$ 39,240,193	\$ 40,165,554	\$ 925,361
Licenses and permits	3,020,025	3,020,025	2,959,744	(60,281)
Intergovernmental	7,233,800	7,747,708	6,528,084	(1,219,624)
Departmental earnings	7,331,775	7,331,775	7,365,348	33,573
Fines and forfeitures	420,000	420,000	378,721	(41,279)
Investment income	40,000	40,000	104,024	64,024
Municipal recreation	540,000	540,000	465,302	(74,698)
Host fees	9,825,000	9,825,000	9,751,426	(73,574)
Other operating revenues	1,133,080	1,133,080	1,055,151	(77,929)
Miscellaneous	1,917,600	1,917,600	1,365,260	(552,340)
Total revenues	<u>70,701,473</u>	<u>71,215,381</u>	<u>70,138,614</u>	<u>(1,076,767)</u>
Expenditures:				
Current:				
General government	989,684	1,002,689	981,505	21,184
Administration	1,987,006	1,987,046	1,804,804	182,242
Community development	5,663,110	6,159,713	5,460,270	699,443
Parks and public property	786,369	791,059	746,316	44,743
Public works	9,581,482	9,608,717	8,955,469	653,248
Police	14,525,219	14,645,374	14,236,799	408,575
Fire	10,889,532	10,915,612	10,641,437	274,175
General	19,971,680	19,799,290	17,943,291	1,855,999
Civic	164,969	163,454	143,422	20,032
Library	1,315,934	1,315,934	1,315,934	-
Debt service:				
Principal	2,560,000	2,560,000	2,160,000	400,000
Interest	3,255,200	3,255,200	3,210,152	45,048
Total expenditures	<u>71,690,185</u>	<u>72,204,088</u>	<u>67,599,399</u>	<u>4,604,689</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(988,712)</u>	<u>(988,707)</u>	<u>2,539,215</u>	<u>3,527,922</u>
Other Financing Sources (Uses):				
Transfers in	2,953,527	2,953,527	2,944,715	(8,812)
Transfers out	(1,964,815)	(1,964,820)	(1,964,815)	5
Total other financing sources (uses)	<u>988,712</u>	<u>988,707</u>	<u>979,900</u>	<u>(8,807)</u>
Net Change in Fund Balance	-	-	3,519,115	3,519,115
Fund Balance:				
Beginning of the year, budgetary basis	-	-	6,557,442	6,557,442
End of the year, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,076,557</u>	<u>\$ 10,076,557</u>

See accompanying notes to budgetary comparison schedule.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2017

1. Budgetary Basis of Accounting

The City of Bethlehem prepares its budget for the General Fund on the cash basis of accounting.

2. Adjustment to Convert From Budgetary Basis to GAAP – General Fund

Adjustments necessary to convert the results of operations and fund balances on the budgetary basis to the GAAP basis are as follows:

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Budgetary basis	\$ 73,083,329	\$ 69,564,214
Other fund borrowings	135,000	-
Accrual adjustments:		
Receivables:		
Beginning of year	(11,224,141)	-
End of year	12,103,206	-
Due from/to:		
Beginning of year	8,923,299	6,770,034
End of year	(8,902,142)	(6,631,658)
Accrued liabilities:		
Beginning of year	-	(2,407,561)
End of year	-	2,491,354
Unearned and unavailable revenues:		
Beginning of year	2,161,685	-
End of year	(2,376,906)	-
Agency transactions	198,574	-
Reclassifications	1,613,214	1,613,214
GAAP basis	<u>\$ 75,715,118</u>	<u>\$ 71,399,597</u>

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CHANGES IN THE POLICE PENSION PLAN'S NET PENSION LIABILITY AND RELATED RATIOS

	2017*	2016	2015	2014
Total Pension Liability:				
Service cost	\$ 2,114,272	\$ 2,132,733	\$ 2,040,893	\$ 2,051,464
Interest	8,420,015	7,764,382	7,503,420	6,976,913
Differences between expected and actual experience	3,269,690	-	4,010,737	-
Changes in assumptions	2,182,081	-	-	-
Benefit payments, including refunds	<u>(6,848,745)</u>	<u>(6,328,562)</u>	<u>(5,984,760)</u>	<u>(6,032,142)</u>
Net Changes in Total Pension Liability	9,137,313	3,568,553	7,570,290	2,996,235
Total Pension Liability - Beginning	<u>108,125,194</u>	<u>104,556,641</u>	<u>96,986,351</u>	<u>93,990,116</u>
Total Pension Liability - Ending (a)	<u><u>\$ 117,262,507</u></u>	<u><u>\$ 108,125,194</u></u>	<u><u>\$ 104,556,641</u></u>	<u><u>\$ 96,986,351</u></u>
Plan Fiduciary Net Position:				
Contributions - employer	\$ 4,463,427	\$ 4,430,587	\$ 4,298,925	\$ 3,520,610
Contributions - employee	812,201	846,396	823,385	817,800
Net investment income	11,522,639	6,264,754	414,168	3,608,964
Benefit payments, including refunds	(6,848,745)	(6,328,562)	(5,984,760)	(6,032,142)
Administrative expense	<u>(18,241)</u>	<u>(32,879)</u>	<u>(18,920)</u>	<u>(7,400)</u>
Net Change in Plan Fiduciary Net Position	9,931,281	5,180,296	(467,202)	1,907,832
Plan Fiduciary Net Position - Beginning	<u>80,676,559</u>	<u>75,496,263</u>	<u>75,963,465</u>	<u>74,055,633</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 90,607,840</u></u>	<u><u>\$ 80,676,559</u></u>	<u><u>\$ 75,496,263</u></u>	<u><u>\$ 75,963,465</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 26,654,667</u></u>	<u><u>\$ 27,448,635</u></u>	<u><u>\$ 29,060,378</u></u>	<u><u>\$ 21,022,886</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>77.27%</u>	<u>74.61%</u>	<u>72.21%</u>	<u>78.32%</u>
Employee Covered Payroll	<u><u>\$ 11,580,766</u></u>	<u><u>\$ 12,453,621</u></u>	<u><u>\$ 11,756,420</u></u>	<u><u>\$ 11,524,100</u></u>
Net Pension Liability as a Percentage of Employee Covered Payroll	<u>230.16%</u>	<u>220.41%</u>	<u>247.19%</u>	<u>182.43%</u>

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - POLICE PENSION PLAN

	2017*	2016	2015	2014	2013	2012	2011	2010	2009	2008
Schedule of City Contributions										
Actuarially determined contribution	\$ 4,463,427	\$ 4,430,587	\$ 4,298,925	\$ 3,520,610	\$ 3,494,690	\$ 2,520,216	\$ 2,534,484	\$ 1,921,109	\$ 1,847,708	\$ 1,713,031
Contributions in relation to the actuarially determined contributions	<u>4,463,427</u>	<u>4,430,587</u>	<u>4,298,925</u>	<u>3,520,610</u>	<u>3,494,690</u>	<u>2,520,217</u>	<u>2,614,322</u>	<u>2,091,038</u>	<u>1,938,673</u>	<u>1,713,031</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ (79,838)</u>	<u>\$ (169,929)</u>	<u>\$ (90,965)</u>	<u>\$ -</u>
Employee covered payroll	<u>\$ 11,580,766</u>	<u>\$ 12,453,621</u>	<u>\$ 11,756,420</u>	<u>\$ 11,524,100</u>						
Contributions as a percentage of employee covered payroll	<u>38.54%</u>	<u>35.58%</u>	<u>36.57%</u>	<u>30.55%</u>						
Investment Returns										
Annual money-weighted rate of return, net of investment expense	<u>14.27%</u>	<u>8.75%</u>	<u>0.84%</u>	<u>5.73%</u>						
Methods and assumptions used to determine contribution rate for the year ended December 31, 2017:										
Actuarial valuation date:	January 1, 2015									
Actuarial cost method:	Entry age normal									
Amortization method:	Level dollar closed									
Remaining amortization period:	15 years									
Asset valuation method:	Market value of assets as determined by the trustee									
Inflation:	3.00%									
Salary increases:	4.50%									
Investment rate of return:	7.50%									
Retirement age:	Attainment of age 57 and completion of 20 years of service									
Mortality	RP2000 Table. This table does not include projected mortality improvements									
Change in benefit terms:	Effective July 1, 2015, members hired on or after January 1, 2012, contribute 5% of compensation, plus \$1 per month									

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CHANGES IN THE FIREMEN PENSION PLAN'S NET PENSION LIABILITY AND RELATED RATIOS

	2017*	2016	2015	2014
Total Pension Liability:				
Service cost	\$ 1,468,765	\$ 1,355,990	\$ 1,297,598	\$ 1,290,085
Interest	5,733,824	5,213,255	5,067,577	4,837,270
Differences between expected and actual experience	3,339,533	-	1,257,475	-
Changes in assumptions	1,635,967	-	-	-
Benefit payments, including refunds	<u>(5,015,911)</u>	<u>(4,335,057)</u>	<u>(4,563,169)</u>	<u>(4,629,623)</u>
Net Changes in Total Pension Liability	7,162,178	2,234,188	3,059,481	1,497,732
Total Pension Liability - Beginning	<u>72,781,372</u>	<u>70,547,184</u>	<u>67,487,703</u>	<u>65,989,971</u>
Total Pension Liability - Ending (a)	<u>\$ 79,943,550</u>	<u>\$ 72,781,372</u>	<u>\$ 70,547,184</u>	<u>\$ 67,487,703</u>
Plan Fiduciary Net Position:				
Contributions - employer	\$ 2,595,844	\$ 2,550,742	\$ 2,683,110	\$ 2,223,040
Contributions - employee	617,367	644,461	570,801	572,480
Net investment income	8,420,260	4,634,719	269,203	2,701,705
Benefit payments, including refunds	(5,015,911)	(4,335,057)	(4,563,169)	(4,629,623)
Administrative expense	<u>(13,894)</u>	<u>(22,991)</u>	<u>(14,450)</u>	<u>(6,900)</u>
Net Change in Plan Fiduciary Net Position	6,603,666	3,471,874	(1,054,505)	860,702
Plan Fiduciary Net Position - Beginning	<u>59,177,551</u>	<u>55,705,677</u>	<u>56,760,182</u>	<u>55,899,480</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 65,781,217</u>	<u>\$ 59,177,551</u>	<u>\$ 55,705,677</u>	<u>\$ 56,760,182</u>
Net Pension Liability - Ending (a-b)	<u>\$ 14,162,333</u>	<u>\$ 13,603,821</u>	<u>\$ 14,841,507</u>	<u>\$ 10,727,521</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>82.28%</u>	<u>81.31%</u>	<u>78.96%</u>	<u>84.10%</u>
Employee Covered Payroll	<u>\$ 7,639,322</u>	<u>\$ 8,021,606</u>	<u>\$ 6,860,596</u>	<u>\$ 7,065,479</u>
Net Pension Liability as a Percentage of Employee Covered Payroll	<u>185.39%</u>	<u>169.59%</u>	<u>216.33%</u>	<u>151.83%</u>

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - FIREMEN PENSION PLAN

	2017*	2016	2015	2014	2013	2012	2011	2010	2009	2008
Schedule of City Contributions										
Actuarially determined contribution	\$ 2,595,844	\$ 2,550,742	\$ 2,683,110	\$ 2,223,040	\$ 2,245,105	\$ 1,492,988	\$ 1,672,843	\$ 1,136,780	\$ 1,174,242	\$ 1,018,719
Contributions in relation to the actuarially determined contributions	<u>2,595,844</u>	<u>2,550,742</u>	<u>2,683,110</u>	<u>2,223,040</u>	<u>2,245,105</u>	<u>1,492,989</u>	<u>1,701,818</u>	<u>1,227,791</u>	<u>1,214,739</u>	<u>1,018,719</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ (28,975)</u>	<u>\$ (91,011)</u>	<u>\$ (40,497)</u>	<u>\$ -</u>
Employee covered payroll	<u>\$ 7,639,322</u>	<u>\$ 8,021,606</u>	<u>\$ 6,860,596</u>	<u>\$ 7,065,479</u>						
Contributions as a percentage of employee covered payroll	<u>33.98%</u>	<u>31.80%</u>	<u>39.11%</u>	<u>31.46%</u>						
Investment Returns										
Annual money-weighted rate of return, net of investment expense	<u>14.27%</u>	<u>8.75%</u>	<u>0.84%</u>	<u>5.73%</u>						
Methods and assumptions used to determine contribution rate for the year ended December 31, 2017:										
Actuarial valuation date:	January 1, 2015									
Actuarial cost method:	Entry age normal									
Amortization method:	Level dollar closed									
Remaining amortization period:	11 years									
Asset valuation method:	Market value of assets as determined by the trustee									
Inflation:	3.00%									
Salary increases:	4.50%									
Investment rate of return:	7.50%									
Retirement age:	Attainment of age 57 and completion of 20 years of service									
Mortality	RP2000 Table. This table does not include projected mortality improvements									
Change in benefit terms:	None since January 1, 2015									

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CHANGES IN THE OFFICERS' AND EMPLOYEES' PENSION PLAN'S NET PENSION ASSET AND RELATED RATIOS

	2017*	2016	2015	2014
Total Pension Liability:				
Interest	\$ 105,005	\$ 364,258	\$ 398,088	\$ 444,150
Differences between expected and actual experience	1,375,308	-	(128,970)	-
Changes in assumptions	269,994	-	-	-
Benefit payments, including refunds	<u>(6,562,548)</u>	<u>(817,601)</u>	<u>(880,698)</u>	<u>(977,981)</u>
Net Changes in Total Pension Liability	(4,812,241)	(453,343)	(611,580)	(533,831)
Total Pension Liability - Beginning	<u>4,812,241</u>	<u>5,265,584</u>	<u>5,877,164</u>	<u>6,410,995</u>
Total Pension Liability - Ending (a)	<u><u>\$ -</u></u>	<u><u>\$ 4,812,241</u></u>	<u><u>\$ 5,265,584</u></u>	<u><u>\$ 5,877,164</u></u>
Plan Fiduciary Net Position:				
Contributions - employer	\$ -	\$ -	\$ 698,515	\$ 1,040,430
Net investment income	634,981	582,408	45,544	338,756
Benefit payments, including refunds	(6,562,548)	(817,601)	(880,698)	(977,981)
Administrative expense	<u>(3,643)</u>	<u>(6,332)</u>	<u>(1,811)</u>	<u>(5,000)</u>
Net Change in Plan Fiduciary Net Position	(5,931,210)	(241,525)	(138,450)	396,205
Plan Fiduciary Net Position - Beginning	<u>7,044,634</u>	<u>7,286,159</u>	<u>7,424,609</u>	<u>7,028,404</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,113,424</u></u>	<u><u>\$ 7,044,634</u></u>	<u><u>\$ 7,286,159</u></u>	<u><u>\$ 7,424,609</u></u>
Net Pension Asset - Ending (a-b)	<u><u>\$ (1,113,424)</u></u>	<u><u>\$ (2,232,393)</u></u>	<u><u>\$ (2,020,575)</u></u>	<u><u>\$ (1,547,445)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>N/A</u>	<u>146.39%</u>	<u>138.37%</u>	<u>126.33%</u>
Employee Covered Payroll	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Pension Asset as a Percentage of Employee Covered Payroll	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - OFFICERS' AND EMPLOYEES' PENSION PLAN

	2017*	2016	2015	2014	2013	2012	2011	2010	2009	2008
Schedule of City Contributions										
Actuarially determined contribution	\$ -	\$ -	\$ 698,515	\$ 1,040,430	\$ 1,051,497	\$ 432,314	\$ 455,998	\$ 467,762	\$ 622,663	\$ 379,382
Contributions in relation to the actuarially determined contributions	-	-	698,515	1,040,430	1,051,497	432,315	458,902	487,529	648,841	379,382
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ (2,904)	\$ (19,767)	\$ (26,178)	\$ -
Employee covered payroll	\$ -	\$ -	\$ -	\$ -						
Contributions as a percentage of employee covered payroll	N/A	N/A	N/A	N/A						
Investment Returns										
Annual money-weighted rate of return, net of investment expense	14.27%	8.75%	0.84%	5.73%						
Methods and assumptions used to determine contribution rate for the year ended December 31, 2016:										
Actuarial valuation date:	January 1, 2015									
Actuarial cost method:	Entry age normal									
Amortization method:	Level dollar closed									
Remaining amortization period:	N/A years									
Asset valuation method:	Market value of assets as determined by the trustee									
Inflation:	3.00%									
Salary increases	4.50%									
Investment rate of return	7.50%									
Mortality	RP2000 Table. This table does not include projected mortality improvements									
Change in benefit terms:	None since January 1, 2015									

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CHANGES IN THE CITY'S PENNSYLVANIA MUNICIPAL RETIREMENT SYSTEM PENSION PLAN'S NET PENSION LIABILITY AND RELATED RATIOS

	2017*	2016	2015
Total Pension Liability:			
Service cost	\$ 2,561,288	\$ 2,610,686	\$ 2,788,823
Interest	7,409,285	7,143,983	6,983,880
Transfers	1,242	8,868	408,927
Changes in assumptions	3,737,933	2,482,253	-
Benefit payments, including refunds	(7,233,675)	(7,502,216)	(7,143,060)
Differences between expected and actual experience	1,849,458	-	425,849
Net Changes in Total Pension Liability	8,325,531	4,743,574	3,464,419
Total Pension Liability - Beginning	135,720,808	130,977,234	127,512,815
Total Pension Liability - Ending (a)	\$ 144,046,339	\$ 135,720,808	\$ 130,977,234
Plan Fiduciary Net Position:			
Contributions - employer	\$ 1,177,999	\$ 1,118,126	\$ 28,582,658
Contributions - employee	1,657,679	1,539,086	1,625,488
Net investment income	10,428,786	8,161	4,481,780
Transfers	1,242	8,868	408,927
Benefit payments, including refunds	(7,233,675)	(7,502,216)	(7,143,060)
Administrative expense	(365,238)	(301,278)	(229,161)
Net Change in Plan Fiduciary Net Position	5,666,793	(5,129,253)	27,726,632
Plan Fiduciary Net Position - Beginning	121,861,953	126,991,206	99,264,574
Plan Fiduciary Net Position - Ending (b)	\$ 127,528,746	\$ 121,861,953	\$ 126,991,206
Net Pension Liability - Ending (a-b)	\$ 16,517,593	\$ 13,858,855	\$ 3,986,028
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.53%	89.79%	96.96%
Employee Covered Payroll	\$ 22,036,333	\$ 20,428,871	\$ 20,610,195
Net Pension Liability as a Percentage of Employee Covered Payroll	74.96%	67.84%	19.34%

* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS - CITY'S PENNSYLVANIA MUNICIPAL RETIREMENT SYSTEM PENSION PLAN

	2017*	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 1,177,559	\$ 1,117,586	\$ 821,609	\$ 4,033,848	\$ 2,939,785	\$ 3,041,355	\$ 3,428,478	\$ 3,349,700	\$ 3,263,683	\$ 3,168,307
Contributions in relation to the actuarially determined contributions	<u>1,177,999</u>	<u>1,118,126</u>	<u>1,172,109</u>	<u>4,033,848</u>	<u>2,939,785</u>	<u>3,041,355</u>	<u>3,428,478</u>	<u>3,349,700</u>	<u>3,263,683</u>	<u>3,168,307</u>
Contribution deficiency (excess)	<u>\$ (440)</u>	<u>\$ (540)</u>	<u>\$ (350,500)</u>	<u>\$ -</u>						
Employee covered payroll	<u>\$ 22,036,333</u>	<u>\$ 20,428,871</u>	<u>\$ 20,610,195</u>							
Contributions as a percentage of employee covered payroll	<u>5.35%</u>	<u>5.47%</u>	<u>5.69%</u>							

* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

Methods and assumptions used to determine contribution rates:

Actuarial valuation date:	January 1, 2013
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar closed
Remaining amortization period:	Based on periods in Act 205
Asset valuation method:	Based on the municipal reserves
Underlying inflation rate:	3.00%
Projected salary increases:	Age related scale with merit and inflation component
Investment rate of return:	5.5%
Cost-of-living adjustment increase:	3.00%
Pre-retirement mortality:	Males: RP 2000 with 1 year set back Females: RP 2000 with 5 year set back
Post-retirement mortality:	Males and females: Sex distinct RP 2000 Combined Healthy Mortality

Changes in actuarial assumptions:

The December 31, 2015 assumptions were based on the PMRS Experience Study for the period covering January 1, 2009 through December 31, 2013 issued by the actuary in July 2015 first effective.

The December 31, 2016 investment return assumption for municipal assets decreased from 5.50% to 5.25%.

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CHANGES IN THE BETHLEHEM PARKING AUTHORITY PENSION PLAN'S NET PENSION LIABILITY AND RELATED RATIOS

	<u>2017*</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability:			
Service cost	\$ 135,799	\$ 142,903	\$ 158,054
Interest	143,736	135,565	131,874
Changes in assumptions	88,483	72,908	-
Benefit payments, including refunds	(88,057)	(300,495)	(84,529)
Differences between expected and actual experience	355,416	-	162,885
Net Changes in Total Pension Liability	<u>635,377</u>	<u>50,881</u>	<u>368,284</u>
Total Pension Liability - Beginning	<u>2,521,026</u>	<u>2,470,145</u>	<u>2,101,861</u>
Total Pension Liability - Ending (a)	<u><u>\$ 3,156,403</u></u>	<u><u>\$ 2,521,026</u></u>	<u><u>\$ 2,470,145</u></u>
Plan Fiduciary Net Position:			
Contributions - employer	\$ 64,855	\$ 59,568	\$ 64,369
Contributions - employee	71,208	74,413	68,403
Net investment income (loss)	209,374	181,173	(98,056)
Benefit payments, including refunds	(88,057)	(300,495)	(84,529)
Administrative expense	(7,550)	(5,984)	(5,978)
Net Change in Plan Fiduciary Net Position	<u>249,830</u>	<u>8,675</u>	<u>(55,791)</u>
Plan Fiduciary Net Position - Beginning	<u>2,424,095</u>	<u>2,415,420</u>	<u>2,471,211</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 2,673,925</u></u>	<u><u>\$ 2,424,095</u></u>	<u><u>\$ 2,415,420</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 482,478</u></u>	<u><u>\$ 96,931</u></u>	<u><u>\$ 54,725</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>84.71%</u>	<u>96.16%</u>	<u>97.78%</u>
Employee Covered Payroll	<u><u>\$ 949,433</u></u>	<u><u>\$ 992,174</u></u>	<u><u>\$ 901,337</u></u>
Net Pension Liability as a Percentage of Employee Covered Payroll	<u>50.82%</u>	<u>9.77%</u>	<u>6.07%</u>

* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Parking Authority is presenting information for those years only for which information is available.

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF BETHLEHEM PARKING AUTHORITY CONTRIBUTIONS

	2017	2016	2015	2014	2013 **
Actuarially determined contribution	\$ 64,835	\$ 59,488	\$ 64,309	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	64,855	59,568	64,369	-	-
Contribution deficiency (excess)	\$ (20)	\$ (80)	\$ (60)	\$ -	\$ -
Employee covered payroll	\$ 949,433	\$ 992,174	\$ 901,337		
Contributions as a percentage of employee covered payroll	6.83%	6.00%	7.14%		

* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Parking Authority is presenting information for those years only for which information is available.

** Prior to January 1, 2013, the Parking Authority participated in the City's PMRS plan. During the year ended December 31, 2013, the Parking Authority adopted their own PMRS pension plan.

Methods and assumptions used to determine contribution rates:

Actuarial valuation date:	January 1, 2015
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar closed
Remaining amortization period:	Based on periods in Act 205
Asset valuation method:	Based on the municipal reserves
Underlying inflation rate:	3.00%
Projected salary increases:	Age related scale with merit and inflation component
Investment rate of return:	5.5%
Cost-of-living adjustment increase:	3.00%
Pre-retirement mortality:	Males: RP 2000 with 1 year set back Females: RP 2000 with 5 year set back
Post-retirement mortality:	Males and females: Sex distinct RP 2000 Combined Healthy Mortality

Changes in actuarial assumptions:

The December 31, 2015 assumptions were based on the PMRS Experience Study for the period covering January 1, 2009 through December 31, 2013 issued by the actuary in July 2015 first effective.

The December 31, 2016 investment return assumption for municipal assets decreased from 5.50% to 5.25%.

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CHANGES IN THE BETHLEHEM REDEVELOPMENT

AUTHORITY PENSION PLAN'S NET PENSION LIABILITY

AND RELATED RATIOS

	2017*	2016	2015
Total Pension Liability:			
Service cost	\$ 23,110	\$ 22,509	\$ 21,777
Interest	51,724	50,385	49,383
Benefit payments, including refunds	(73,458)	(73,458)	(73,458)
Differences between expected and actual experience	38,737	-	19,796
Changes in assumptions	24,749	24,308	-
Net Changes in Total Pension Liability	64,862	23,744	17,498
Total Pension Liability - Beginning	953,572	929,828	912,330
Total Pension Liability - Ending (a)	<u>\$ 1,018,434</u>	<u>\$ 953,572</u>	<u>\$ 929,828</u>
Plan Fiduciary Net Position:			
Contributions - employer	\$ 27,449	\$ 27,007	\$ 18,097
Contributions - employee	9,191	8,592	8,304
Net investment income	84,414	19,218	50,638
Benefit payments, including refunds	(73,458)	(73,458)	(73,458)
Administrative expense	(2,311)	(1,918)	(1,746)
Net Change in Plan Fiduciary Net Position	45,285	(20,559)	1,835
Plan Fiduciary Net Position - Beginning	777,814	798,373	796,538
Plan Fiduciary Net Position - Ending (b)	<u>\$ 823,099</u>	<u>\$ 777,814</u>	<u>\$ 798,373</u>
Net Pension Liability - Ending (a-b)	<u>\$ 195,335</u>	<u>\$ 175,758</u>	<u>\$ 131,455</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>80.82%</u>	<u>81.57%</u>	<u>85.86%</u>
Employee Covered Payroll	<u>\$ 167,105</u>	<u>\$ 156,218</u>	<u>\$ 156,502</u>
Net Pension Liability as a Percentage of Employee Covered Payroll	<u>116.89%</u>	<u>112.51%</u>	<u>84.00%</u>

* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Redevelopment Authority is presenting information for those years only for which information is available.

CITY OF BETHLEHEM, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF BETHLEHEM REDEVELOPMENT AUTHORITY CONTRIBUTIONS

	2017*	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 27,449	\$ 27,007	\$ 18,486	\$ 17,598	\$ -	\$ -	\$ -	\$ -	\$ 7,581	\$ 7,194
Contributions in relation to the actuarially determined contributions	<u>27,449</u>	<u>27,007</u>	<u>18,097</u>	<u>17,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,581</u>	<u>7,194</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employee covered payroll	<u>\$ 167,105</u>	<u>\$ 156,218</u>	<u>\$ 156,502</u>							
Contributions as a percentage of employee covered payroll	<u>16.43%</u>	<u>17.29%</u>	<u>11.56%</u>							

* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Redevelopment Authority is presenting information for those years only for which information is available.

Methods and assumptions used to determine contribution rates:

Actuarial valuation date:	January 1, 2015
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar closed
Remaining amortization period:	Based on periods in Act 205
Asset valuation method:	Based on the municipal reserves
Underlying inflation rate:	3.00%
Projected salary increases:	Age related scale with merit and inflation component
Investment rate of return:	5.5%
Cost-of-living adjustment increase:	3.00%
Pre-retirement mortality:	Males: RP 2000 with 1 year set back Females: RP 2000 with 5 year set back
Post-retirement mortality:	Males and females: Sex distinct RP 2000 Combined Healthy Mortality

Changes in actuarial assumptions:

The December 31, 2015 assumptions were based on the PMRS Experience Study for the period covering January 1, 2009 through December 31, 2013 issued by the actuary in July 2015 first effective.

The December 31, 2016 investment return assumption for municipal assets decreased from 5.50% to 5.25%.

CITY OF BETHLEHEM, PENNSYLVANIA

POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

YEAR ENDED DECEMBER 31, 2017

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2012	\$ -	\$ 14,378,843	\$ 14,378,843	0.0%	\$ 37,649,864	38.2%
1/1/2014	-	14,376,729	14,376,729	0.0%	36,047,643	39.9%
1/1/2016	-	14,029,782	14,029,782	0.0%	34,115,963	41.1%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2012	\$ 1,478,726	56.7%
2013	1,478,726	61.5%
2014	1,482,894	60.6%
2015	1,482,894	62.7%
2016	1,454,466	57.5%
2017	1,454,466	60.5%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Valuation date	January 1, 2016
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Interest rate	4.5%
Projected salary increases	4.5%
Medical inflation:	
2016	6.5%
2017	6.0%
2018-2020	5.5%
2021-2075	5.4% - 3.8%
Amortization method	Level dollar, open period
Amortization period	30 years

SUPPLEMENTARY INFORMATION

CITY OF BETHLEHEM, PENNSYLVANIA

COMBINING BALANCE SHEET - OTHER NON-MAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2017

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
Assets				
Cash and cash equivalents	\$ 2,492,331	\$ 3,278,779	\$ 1,068,726	\$ 6,839,836
Receivables:				
Loans	-	1,321,504	-	1,321,504
Due from other governments	617,977	143,669	-	761,646
Total Assets	\$ 3,110,308	\$ 4,743,952	\$ 1,068,726	\$ 8,922,986
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and other accrued expenses	\$ 5,033	\$ 126,428	\$ 105,399	\$ 236,860
Accrued payroll	33,149	4,241	-	37,390
Accrued vacation and other compensated absences	11,380	8,949	-	20,329
Due to other funds	-	20,776	-	20,776
Unearned revenues	-	4,583,558	-	4,583,558
Total Liabilities	49,562	4,743,952	105,399	4,898,913
Fund Balance:				
Restricted for:				
Public works	-	-	963,327	963,327
Police	3,060,746	-	-	3,060,746
Total Fund Balance	3,060,746	-	963,327	4,024,073
Total Liabilities and Fund Balance	\$ 3,110,308	\$ 4,743,952	\$ 1,068,726	\$ 8,922,986

CITY OF BETHLEHEM, PENNSYLVANIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - OTHER NON-MAJOR GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2017

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
Revenues:				
Intergovernmental revenues	\$ 2,564,719	\$ 2,066,481	\$ 2,035,496	\$ 6,666,696
Investment income	12,547	9,713	8,159	30,419
Other	-	152,426	-	152,426
Total revenues	2,577,266	2,228,620	2,043,655	6,849,541
Expenditures:				
Current:				
Public works	-	-	1,478,902	1,478,902
Police	2,323,306	-	-	2,323,306
Program expenditures	-	2,228,620	-	2,228,620
Total expenditures	2,323,306	2,228,620	1,478,902	6,030,828
Excess of Revenues Over Expenditures	253,960	-	564,753	818,713
Other Financing Sources (Uses):				
Transfers in	1,485,000	-	-	1,485,000
Transfers out	(578,488)	-	-	(578,488)
Total other financing sources (uses)	906,512	-	-	906,512
Net Change in Fund Balance	1,160,472	-	564,753	1,725,225
Fund Balance:				
Beginning of year	1,900,274	-	398,574	2,298,848
End of year	<u>\$ 3,060,746</u>	<u>\$ -</u>	<u>\$ 963,327</u>	<u>\$ 4,024,073</u>