

City of Bethlehem, Pennsylvania

Financial Statements and Supplementary
Information

Year Ended December 31, 2010 with
Independent Auditor's Report

CITY OF BETHLEHEM, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2010

TABLE OF CONTENTS

Independent Auditor's Report

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

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets	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 Assets	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 Assets – Proprietary Funds	10
Statement of Cash Flows – Proprietary Funds	11
Statement of Fiduciary Net Assets	13
Statement of Changes in Fiduciary Net Assets	14
Balance Sheet – Component Units	15

CITY OF BETHLEHEM, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2010

TABLE OF CONTENTS

(Continued)

Statement of Activities – Component Units	17
Notes to Financial Statements	18
Required Supplementary Information:	
Budgetary Comparison Schedule – Budget and Actual (Budgetary Basis) – General Fund	71
Notes to Budgetary Comparison Schedule	72
Schedules of Funding Progress - Pensions	73
Schedules of Contributions from Employer and Other Contributing Entities - Pensions	74
Note to Required Supplementary Pension Information	75
Schedule of Funding Progress, Schedule of Employer Contributions, and Notes to Required Supplementary Information – Post-Employment Benefits Other Than Pensions	76
Supplementary Information:	
Other Non-major Governmental Funds:	
Combining Balance Sheet	77
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	78

Independent Auditor's Report

The Honorable John B. Callahan, Mayor, and
Honorable Members of City Council
City of Bethlehem, Pennsylvania

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Bethlehem Redevelopment Authority, which represent \$2,401,927, \$6,710,928, (\$4,309,001), \$547,148, and \$835,773, respectively, of the assets, liabilities, net assets, revenues, and expenses of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Bethlehem Redevelopment Authority, is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Bethlehem Area Public Library and the Bethlehem Parking Authority were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2011, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) and the required supplementary information listed in the table of contents on pages i through xiv and 71 through 76 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining non-major 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maher Duessel

Harrisburg, Pennsylvania
September 26, 2011

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, 2010 and 2009. 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 assets decreased by \$8,098,035 in 2010 and by \$6,662,821 in 2009.

In the City's governmental activities, net assets decreased by \$6,251,098 in 2010 and by \$4,946,729 in 2009. In 2010, the decrease in net assets is the result of an increase of \$3,130,942 in general expenditures along with decreases in revenue from taxes of \$2,185,840 and departmental earnings of \$1,580,465. In 2009, the decrease in net assets is the result of an increase of \$3,225,356 in police and fire expenditures along with an increase in deferred revenue of \$2,200,937. Deferred revenue represents funds received by the City, but not yet earned.

In the City's business-type activities, net assets decreased by \$1,846,937 in 2010 and decreased by \$1,716,092 in 2009. In 2010, the decrease is the result of increasing expenditures including a \$269,522 increase in salaries, wages, and fringe benefits, a \$368,292 increase in utilities, a \$271,048 increase in department contracts, and a \$234,381 increase in service charges. In 2009, the decrease is the result of a decrease in sewer tapping fee revenues and increasing expenditures including a \$901,486 increase in depreciation expense for 2009.

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.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

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 *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 balances 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 balances for the general fund, the debt service fund, and the

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

non-utility capital improvement 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 9-12 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 13-14.

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 15-17.

General Fund Budgetary Highlights

The General Fund expenditure budget for fiscal year 2010 was approximately \$71.0 million. This was an increase of \$1.3 million over the previous year amended budget. There were no material amendments to the 2010 budget. Actual expenditures were approximately \$1.9 million less than budgeted due to continued revenue decline from the effects of the economy. Budgeted expenditures were cut or delayed due to current economic conditions.

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 18-70 of this report.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Other Information. Required supplementary information can be found on pages 71-76 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 77-78 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities exceeded assets at the close of the end of December 31, 2010 by \$27,396,327 and \$19,298,292 in 2009.

The City's net assets 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's Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Current assets	\$ 21,192,267	\$ 17,553,677	\$ 7,910,291	\$ 7,421,847	\$ 29,102,558	\$ 24,975,524
Capital assets	55,456,928	56,110,246	100,545,275	103,056,231	156,002,203	159,166,477
Other assets	3,821,910	4,308,271	17,346,731	18,741,103	21,168,641	23,049,374
Total assets	\$ 80,471,105	\$ 77,972,194	\$ 125,802,297	\$ 129,219,181	\$ 206,273,402	\$ 207,191,375
Current liabilities	\$ 40,177,391	\$ 32,567,079	\$ 9,550,759	\$ 8,412,585	\$ 49,728,150	\$ 40,979,664
Noncurrent liabilities	73,461,813	72,322,116	110,479,766	113,187,887	183,941,579	185,510,003
Total liabilities	\$ 113,639,204	\$ 104,889,195	\$ 120,030,525	\$ 121,600,472	\$ 233,669,729	\$ 226,489,667
Net assets:						
Invested in capital assets, net of related debt	\$ 29,749,300	\$ 29,488,800	\$ 1,719,923	\$ 2,982,508	\$ 31,469,223	\$ 32,471,308
Restricted	423,573	479,712	-	-	423,573	479,712
Unrestricted	(63,340,972)	(56,885,513)	4,051,849	4,636,201	(59,289,123)	(52,249,312)
Total net assets (deficit)	\$ (33,168,099)	\$ (26,917,001)	\$ 5,771,772	\$ 7,618,709	\$ (27,396,327)	\$ (19,298,292)

Current liabilities in Governmental Activities increased approximately \$7.6 million. This was due to cash flow issues which increased net pooled cash position by \$2.6 million, due to agency fund of \$2.3 million, and accounts payable by \$1.9 million.

Noncurrent liabilities in Business-type Activities decreased approximately \$2.7 million. This was due to various refundings of debt in the Water and Sewer funds, net of current year payments.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

City's Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Program revenues:						
Charges for services	\$ 10,531,890	\$ 10,885,621	\$ 32,047,172	\$ 31,219,875	\$ 42,579,062	\$ 42,105,496
Operating grants and contributions	9,598,763	9,164,593	-	-	9,598,763	9,164,593
Capital grants	589,097	2,205,877	313,380	-	902,477	2,205,877
General revenues:						
Taxes	27,912,940	30,076,399	-	-	27,912,940	30,076,399
Investment earnings	109,492	132,683	443,383	636,044	552,875	768,727
Unrestricted grants	12,553,931	9,037,540	-	-	12,553,931	9,037,540
Total revenues	61,296,113	61,502,713	32,803,935	31,855,919	94,100,048	93,358,632
Expenses:						
General government	745,701	847,987	-	-	745,701	847,987
Administrative	1,636,332	1,777,301	-	-	1,636,332	1,777,301
Community development	6,068,627	5,681,316	-	-	6,068,627	5,681,316
Parks and public property	4,270,200	4,054,344	-	-	4,270,200	4,054,344
Public works	7,956,564	8,672,992	-	-	7,956,564	8,672,992
Police	16,525,305	17,023,080	-	-	16,525,305	17,023,080
Fire	11,126,064	10,653,641	-	-	11,126,064	10,653,641
General expenditures	15,606,883	12,475,941	-	-	15,606,883	12,475,941
Civic	137,448	101,182	-	-	137,448	101,182
Library	925,683	1,215,372	-	-	925,683	1,215,372
Program expenditures	2,672,637	2,765,411	-	-	2,672,637	2,765,411
Interest on long-term debt	3,574,047	3,813,358	-	-	3,574,047	3,813,358
Water fund	-	-	20,095,066	19,343,443	20,095,066	19,343,443
Sewer Fund	-	-	9,408,839	10,029,777	9,408,839	10,029,777
Other non-major fund	-	-	1,448,687	1,566,308	1,448,687	1,566,308
Total expenses	71,245,491	69,081,925	30,952,592	30,939,528	102,198,083	100,021,453
Change in net assets before transfers	(9,949,378)	(7,579,212)	1,851,343	916,391	(8,098,035)	(6,662,821)
Transfers	3,698,280	2,632,483	(3,698,280)	(2,632,483)	-	-
Change in net assets	(6,251,098)	(4,946,729)	(1,846,937)	(1,716,092)	(8,098,035)	(6,662,821)
Net assets:						
Beginning	(26,917,001)	(21,970,272)	7,618,709	9,334,801	(19,298,292)	(12,635,471)
Ending	\$ (33,168,099)	\$ (26,917,001)	\$ 5,771,772	\$ 7,618,709	\$ (27,396,327)	\$ (19,298,292)

Unrestricted grants in Governmental Activities increased approximately \$3.5 million. This was the result of an increase in the casino host fee of \$3.5 million.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Taxes in Governmental Activities decreased approximately \$2.2 million. This was due to a decrease in earned income tax of \$2.0 million.

Governmental activities. Governmental activities decreased the City's net assets by \$6,251,098. Key elements of this decrease are as follows:

- In 2010, the decrease in net assets is the result of an increase of \$3,130,942 in general expenditures along with decreases in revenue from taxes of \$2,185,840 and Departmental earnings of \$1,580,465.

Business-type activities. Business-type activities decreased the City's net assets by \$1,846,937. Key elements of this change are as follows:

- In 2010, the decrease is the result of increasing expenditures including a \$269,522 increase in salaries, wages, and fringe benefits, a \$368,292 increase in utilities, a \$271,048 increase in department contracts, and a \$234,381 increase in service charges.

Financial Analysis of the Major Funds

General Fund

Revenues of the general fund totaled \$53,715,256 for the year ended December 31, 2010. The following represents a summary of general fund revenue, for the years ended December 31, 2010 and 2009 by source, along with changes from 2009:

	2010	2009	Change From 2009 to 2010	Percentage Change
Taxes	\$ 27,457,670	\$ 29,643,510	\$ (2,185,840)	-7.37%
Licenses and permits	1,803,116	1,858,966	(55,850)	-3.00%
Intergovernmental revenues	7,005,410	8,573,933	(1,568,523)	-18.29%
Fines and forfeitures	569,920	531,092	38,828	7.31%
Departmental earnings	5,744,600	7,325,065	(1,580,465)	-21.58%
Other charges	657,230	890,107	(232,877)	-26.16%
Municipal recreation	379,298	457,700	(78,402)	-17.13%
Investment income	2,475	7,156	(4,681)	-65.41%
Host fee	8,757,801	5,251,032	3,506,769	66.78%
Other	1,337,736	1,546,885	(209,149)	-13.52%
Total	\$ 53,715,256	\$ 56,085,446	\$ (2,370,190)	-4.23%

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Host Fee increased \$3,506,769 from 2009 to 2010. The increase was due to the casino opening in May 2009 and therefore the City only received a partial host fee in 2009.

Taxes decreased \$2,185,840 from 2009 to 2010. The decrease was due to several factors including decreases in earned income, deed transfer, local services, and business privilege taxes as a result of the continuing effects of the economy and strained cash flow position of the City.

Departmental earnings decreased \$1,580,465 from 2009 to 2010. The decrease was largely due to the 9-1-1 Fund being consolidated into the General Fund in 2009 but shown separately as a special revenue fund on the financial statements beginning in 2010.

Intergovernmental revenues decreased \$1,568,523 from 2009 to 2010. The decrease was related to receipt of a police technology grant in the amount of \$1,202,005 in 2009.

Other charges decreased \$232,877 from 2009 to 2010. The decrease was due to receiving \$126,750 less in reimbursements and contributions from the Parking Authority along with \$56,051 less in reimbursements from the School District.

General fund expenditures totaled \$56,409,432, which represents an increase of \$1,467,538, or 2.7% from 2009. The following represents a summary of general fund expenditures for the years ended December 31, 2010 and 2009, by function, along with changes from 2009:

	2010	2009	Change From 2009 to 2010	Percentage Change
General governmental	\$ 686,276	\$ 790,685	\$ (104,409)	-13.20%
Administrative	1,446,173	1,538,213	(92,040)	-5.98%
Community development	5,486,374	5,455,713	30,661	0.56%
Parks and public property	2,971,231	2,746,333	224,898	8.19%
Public works	4,788,843	4,713,291	75,552	1.60%
Police	13,447,266	16,050,762	(2,603,496)	-16.22%
Fire	10,496,522	9,703,503	793,019	8.17%
General expenditures	15,606,883	12,475,941	3,130,942	25.10%
Civic	137,448	101,182	36,266	35.84%
Library	1,194,000	1,194,000	-	0.00%
Debt service - principal	142,662	166,878	(24,216)	-14.51%
Debt service - interest	5,754	5,393	361	6.69%
Total	\$ 56,409,432	\$ 54,941,894	\$ 1,467,538	2.67%

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

The increase in General fund expenditures is the result of the following:

- General expenditures increased by \$3,130,942 due to several factors. Medical insurance increased by \$2,163,043 as the City paid more of its current and prior year claims in 2010 in an effort to get current on medical invoices. Workmen's compensation increased by \$583,152 due to an increase in the number and severity of claims during 2010.
- Police expenses decreased by \$2,603,496 due to the 9-1-1 Fund being consolidated into the General Fund in 2009 but shown separately as a special revenue fund on the financial statements beginning in 2010.
- Fire expenses increased by \$793,019 due to salary and other contractual increases. Salaries increased by \$455,399 in 2010.
- Parks and public property increased by \$224,898 due to several factors. Salaries increased by \$104,192 and electric increased \$83,519 in 2010.

Other Non-Major Governmental Funds

The Other Non-Major Governmental Funds revenues are derived from specific sources and are designated 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.

Pension Trust Fund

At December 31, 2010, the fund balance - reserved for employees' retirement pension benefits was \$115,056,122. In 2004, the City issued a pension bond to fund the unfunded liability as of December 31, 2004. The average interest rate all inclusive with costs of the pension bond is 5.5%. The Fund returned 13.68% in 2010.

Capital Assets

The City's investment in capital assets for its government and business-type activities as of December 31, 2010 amounted to \$55,456,928 and \$100,545,275 (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 \$688,613 towards the installation of a new trunking radio system.
- The City spent \$514,345 to purchase a new fire truck.
- The City spent \$359,705 towards the construction of a skate park.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

- The City spent \$316,544 towards Phase I and II of the Greenway.
- The City spent \$265,652 on a Vac-All for the Streets Department.

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

- The City spent \$792,963 to implement organic capacity improvements at the wastewater treatment plant.
- The City spent \$349,981 on engineering, maintenance, and retrofit work on the Northeast Standpipe.
- The City spent \$252,900 on the design of conversion of secondary digester into a primary digester.
- The City spent \$205,250 on the design of a sludge thickener building along with installation of a gravity belt thickener.

Additional information on the City's capital assets can be found at Note 4 on pages 38-41.

Long-Term Debt

The City's net nonelectoral debt of \$59,823,030, less deductions of \$28,830,298 as of February 8, 2011, is well below the legal limit of \$140,721,903, by \$80,898,873. Additional information on the City's long-term debt can be found at Note 8 on pages 44-54 of this report.

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

Economic Outlook

While the effects of the down worldwide economy still remains and access to credit still limited, the City has continued to see a mix of projects come to fruition, though at a slower pace than they had been in more prosperous times. A number of major projects were completed, as other large projects remained delayed or moved at a slower pace. However, progress in many areas still continued, including an increase in business interest.

During 2011, there were \$180 million in major projects that were completed, or slated for completion within the calendar year. This includes projects such as Greenway Phase I –III, portions of Route 412, PBS39, ArtsQuest Performing Arts Center, Glemser Technology, Sands Hotel, Levitt Pavillion, 21st Century Town Square, Ben Franklin Technology, STEPS Building, and Plaza on 8th.

There are also a number of new projects in the pipeline. Noteworthy are the plans submitted by Liberty Property Trust for a 1.35 million-square-foot warehouse for 107 acre parcel of Lehigh Valley Industrial Park VII land on Commerce Center Boulevard. This will be the largest proposed reuse to date on the Former Bethlehem Steel lands, and is estimated to bring 500 new

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

jobs to the City. The project will join other successful projects in LVIP VII like Cigars International, U.S. Cold Storage, Brandenburg Industrial Services, RMS, Synchronoss Technologies, L VIP headquarters and Spillman Farmer Architects, where over 2,400 jobs have been created to date in less than a decade.

The Sands Casino Resort Bethlehem has created 1,600 direct jobs in the last 26 months in the City of Bethlehem. The opening of the Sands Hotel this year brought 100 jobs via the completion of its 300-room, 11-story luxury hotel—the largest full service luxury hotel in the valley. They have also resumed construction on their 50,000 SF (3,600 seat) flexible multi-purpose event center and 200,000 SF (35-store) retail space slated to open in late 2011. Hundreds of constructions jobs have been and will continue to be filled while the project progresses.

The SteelStacks arts and cultural campus celebrated the opening of the ArtsQuest Center. The \$25.8 million, 65,000-square-foot project created more than hundred seventy construction workers and is employing well over 100 full time staff. PBS 39-WL VT is finishing its final construction touch ups for PBS39 Public Media and Education Center, its \$17 million, 30,000-square-foot project in 2010. Their official opening will be before the end of the 2011 summer.

Infrastructure and site work also continued at Majestic Bethlehem Center, a 441-acre master planned intermodal business park. Total project cost is estimated at \$500 million. It is expected to create 8 million square feet of mixed office/manufacturing warehouse space phased over the next 10 years and lead to the creation of more than 3,000 jobs, and potentially reaching as many as 5,000 jobs.

The City continued its effort to attract technology businesses which bring high-paying and family-sustaining jobs to the community. Through the Enterprise Zone program, the City is developing a fourth technology center similar to those built in the mid-1990s and early-2000s, and anticipates an opening in the fall of 2011. The center will likely be smaller than its predecessors and is not designed to have a single tenant grow to eventually take over the property. TechVentures2, the \$17 million, 47,000-square-foot expansion of Ben Franklin Technology Partners Tech Ventures incubator, is another effort to encourage high tech business in Bethlehem, and should be completed before the end of 2011. The project will provide space for 40 companies who will employ 200 people and provide 20 internships.

Long seen as a symbol of stability, security and community growth, commercial banks have been suffering in the world market. However, three have moved forward with plans to open branches in Bethlehem. PNC Bank opened two LEED certified branches, one in Bethlehem's SouthSide on Hayes Street, and the other on the north side at Plaza on 8th. TD Bank also started construction on their branch along Broadway on the site of a former Getty gas station and convenience store. The 3,000-square-foot building could lead to the creation of 15 jobs.

The downtown business districts continued to see a shuffling of businesses as merchants adjusted to the changing economic climate, some retiring, some expanding, and some, new to the City. Several new businesses like Tapas on Main, Stations, and the Wooden Match replaced older

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

businesses in the Northside Business District. West Broad Street is undergoing a resurgence with the opening of the Mint and the Christmas City Veterinary Hospital replacing some closed businesses.

Overall, the City has continued to see the growth in the diversity of its business community. This should lead to the creation of new jobs and new tax ratables.

The following is a list of other major development projects:

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Residential		Status as of July 2011
Applebutter Village	5,200,000	Plans Submitted
Bethlehem Fields	32,000,000	Construction Completed
Cherokee Court Condos	1,800,000	Plans Approved
Claremont Development	500,000	Plans Approved
1210 Eaton Ave Development	1,350,000	Plan Submitted
Elliotte Ave Development	3,600,000	Plans Submitted
Evans St. Apartments	3,000,000	Plans Approved
Evans St. Townhomes	3,000,000	Construction Completed
Glenwood Subdivision	900,000	Plans Submitted
Habitat for Humanity 9th & Williams	1,200,000	Under Construction
Henn - Kelchner Road Condos	2,100,000	Plans Submitted
Homestead Court Condos	3,300,000	Construction Completed
Linden St Condos	2,500,000	Construction Completed?
Mary Street Townhouses	500,000	Construction Completed
Miga-Glenwood	900,000	Plans Submitted
Minsi Ridge	4,050,000	Under Construction
Mountain Park Condominiums	6,000,000	Under Construction
Negrao Apartments	1,500,000	Under Construction
Overlook at Saucon Creek	3,000,000	Under Construction
Packer Ave Apartments	500,000	Construction Completed
Park View Commons	3,000,000	Under Construction
Riverview Heights	5,000,000	Under Construction
Rose Hill Court Condos	750,000	Plans Approved
Saucon Square Condominiums	3,500,000	Under Construction
Silk Mill Apartments	13,000,000	Phase II Plans Approved
Stever Mills on Creek Rd.	15,000,000	Under Construction
Villas at Saucon Valley	12,000,000	Under Construction
Residential Subtotal	129,150,000	
Residential/Senior		
Alexandria Manor	2,010,000	Plans Approved
Bethlehem Manor	12,500,000	Under Construction
Central Park West	5,500,000	Under Construction
Cottages @ Monocacy Manor	4,500,000	Under Construction
Lengyel Apartments	1,600,000	Plans Approved
Moravian Village	12,900,000	Plans Submitted
Turnberry Mews	10,000,000	Under Construction
Residential/Senior Subtotal	49,010,000	

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

		Status as of July 2011
Institutional		
Ben Franklin Tech Expansion	17,000,000	Under Construction
Brookside Drug, Alc & Psych Facility	13,130,000	Plans Submitted
Lehigh University Science & Env Building	65,000,000	Construction Completed
Moravian Administrative Center@ Monocacy	1,032,500	Construction Completed
Northampton Community College South Bethlehe	17,000,000	Construction Completed
Institutional Subtotal	113,162,500	
Mixed-Use		
Plaza on 8th Mixed Use/Commercial	25,000,000	Under Construction
SteelStacks Campus	57,500,000	Under Construction / Portions Complete
NMIH	26,000,000	Under Construction
Farr Building	5,500,000	Under Construction
Martin Tower	300,000,000	Plans Approved
409-411 Wyandotte Mixed Use	750,000	Plans Approved
Mixed-Use Subtotal	414,750,000	
Industrial		
LBT Warehouse	74,250,000	Plans Approved
Majestic Bethlehem Center	500,000,000	Under Construction
Patriot Distribution	11,770,000	Under Construction
Industrial Subtotal	586,020,000	
Commercial		
Big Woody's	409,650	Under Construction
Christmas City Veterinary Hospital	861,000	Construction Completed
Eaton Pointe	5,119,500	Under Construction
Freedom Lawn Care	533,500	Plans Approved
Flat Iron	1,000,000	Construction Completed
Glemser Technologies	2,250,000	Construction Completed
Main Street Depot / Donavan	700,000	Construction Completed
The Mint	700,000	Construction Completed
One East Broad	17,000,000	Construction Completed
One West Fourth	2,000,000	Under Construction / Portions Complete
Polk St. North Building	18,000,000	Plans Approved
PNC Bank @ Hayes St	750,000	Construction Completed
Sands Hotel	30,000,000	Construction Completed
Sands Retail / Event Center	30,000,000	Under Construction
Stefko Grocery	1,830,000	Plans Approved
Tapas on Main	257,000	Construction Completed
TD Bank @ Five-Points	585,800	Under Construction
Third and Taylor Office Building	9,750,000	Plans Approved
The Wooden Match	N/A	Under Construction
Commercial Subtotal	121,746,450	
Grand Total	\$ 1,413,838,950	

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

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 ASSETS

DECEMBER 31, 2010

Assets	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Current assets:					
Cash and cash equivalents	\$ 9,507,387	\$ 1,326,430	\$ 10,833,817	\$ 1,029,481	\$ 11,863,298
Investments	106,177	84,254	190,431	640,399	830,830
Receivables (net of allowance for uncollectibles):					
Taxes	941,341	-	941,341	-	941,341
Accounts	489,122	5,646,631	6,135,753	711,134	6,846,887
Pledges	-	-	-	51,995	51,995
Other	1,029,735	-	1,029,735	5,300	1,035,035
Accrued interest	-	8,042	8,042	-	8,042
Due from other governments	9,431,254	-	9,431,254	-	9,431,254
Due from component unit	35,117	-	35,117	-	35,117
Internal balances	(347,866)	347,866	-	-	-
Inventories	-	497,068	497,068	-	497,068
Prepaid assets	-	-	-	24,712	24,712
Total current assets	21,192,267	7,910,291	29,102,558	2,463,021	31,565,579
Noncurrent assets:					
Loans receivable	2,550,275	-	2,550,275	-	2,550,275
Restricted cash and cash equivalents	-	1,681,231	1,681,231	-	1,681,231
Restricted investments	-	12,819,926	12,819,926	1,376,525	14,196,451
Capital assets, not being depreciated	10,217,316	4,271,161	14,488,477	4,468,963	18,957,440
Capital assets, net	45,239,612	96,274,114	141,513,726	13,630,502	155,144,228
Other assets	1,271,635	2,845,574	4,117,209	1,838,413	5,955,622
Total noncurrent assets	59,278,838	117,892,006	177,170,844	21,314,403	198,485,247
Total Assets	80,471,105	125,802,297	206,273,402	23,777,424	230,050,826

(Continued)

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

<u>Liabilities</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
Current liabilities:					
Net pooled cash position	6,644,915	-	6,644,915	-	6,644,915
Accounts payable and other accrued expenses	9,241,466	2,277,188	11,518,654	1,408,364	12,927,018
Accrued payroll	1,594,701	321,731	1,916,432	199,215	2,115,647
Accrued vacation and other compensated absences	961,800	657,047	1,618,847	493,227	2,112,074
Claims payable	4,396,027	-	4,396,027	-	4,396,027
Interest payable	751,563	405,607	1,157,170	127,286	1,284,456
Escrow liabilities	18,210	-	18,210	-	18,210
Current portion of long-term debt	5,920,000	5,680,807	11,600,807	1,099,802	12,700,609
Current portion of capital lease obligations	197,576	44,801	242,377	-	242,377
Due to agency fund	3,906,747	163,578	4,070,325	-	4,070,325
Due to primary government	-	-	-	35,117	35,117
Deferred revenue	6,544,386	-	6,544,386	337,185	6,881,571
Total current liabilities	40,177,391	9,550,759	49,728,150	3,700,196	53,428,346
Noncurrent liabilities:					
Accrued vacation and other compensated absences, net of current portion	2,977,854	-	2,977,854	-	2,977,854
Accrued sick pay	-	150,486	150,486	-	150,486
Long-term debt, net of current portion	68,274,578	109,863,250	178,137,828	17,676,559	195,814,387
Capital lease obligation, net of current portion	161,599	37,297	198,896	-	198,896
Other post-employment benefit liability	2,047,782	428,733	2,476,515	-	2,476,515
Deferred revenue	-	-	-	490,507	490,507
Total noncurrent liabilities	73,461,813	110,479,766	183,941,579	18,167,066	202,108,645
Total Liabilities	113,639,204	120,030,525	233,669,729	21,867,262	255,536,991
Net Assets					
Invested in capital assets, net of related debt	29,749,300	1,719,923	31,469,223	4,426,459	35,895,682
Restricted	423,573	-	423,573	1,376,525	1,800,098
Unrestricted	(63,340,972)	4,051,849	(59,289,123)	(3,892,822)	(63,181,945)
Total Net Assets	\$ (33,168,099)	\$ 5,771,772	\$ (27,396,327)	\$ 1,910,162	\$ (25,486,165)

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

Function/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 745,701	\$ -	\$ -	\$ -
Administrative	1,636,332	555,314	-	-
Community development	6,068,627	2,872,840	5,426,206	308,990
Parks and public property	4,270,200	551,780	972,677	96,747
Public works	7,956,564	1,235,354	1,551,527	81,238
Police	16,525,305	2,464,357	1,648,353	102,122
Fire	11,126,064	2,852,245	-	-
General expenditures	15,606,883	-	-	-
Civic	137,448	-	-	-
Library	925,683	-	-	-
Program expenditures	2,672,637	-	-	-
Interest on long-term debt	3,574,047	-	-	-
Total governmental activities	71,245,491	10,531,890	9,598,763	589,097
Business-type activities:				
Water Fund	20,095,066	18,436,291	-	24,272
Sewer Fund	9,408,839	12,181,385	-	289,108
Other non-major funds	1,448,687	1,429,496	-	-
Total business-type activities	30,952,592	32,047,172	-	313,380
Total primary government	\$ 102,198,083	\$ 42,579,062	\$ 9,598,763	\$ 902,477
Component units:				
Bethlehem Parking Authority	\$ 3,924,642	\$ 3,881,172	\$ -	\$ -
Bethlehem Public Library	3,817,218	271,965	2,959,692	-
Bethlehem Redevelopment Authority	835,773	-	-	543,654
Total component units	\$ 8,577,633	\$ 4,153,137	\$ 2,959,692	\$ 543,654

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 Assets
 Net Assets:
 Beginning of year
 End of year

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

Net (Expense) Revenue and
Changes in Net Assets

Primary Government				Total
Governmental Activities	Business-Type Activities	Total	Component Units	Reporting Entity
\$ (745,701)	\$ -	\$ (745,701)	\$ -	\$ (745,701)
(1,081,018)	-	(1,081,018)	-	(1,081,018)
2,539,409	-	2,539,409	-	2,539,409
(2,648,996)	-	(2,648,996)	-	(2,648,996)
(5,088,445)	-	(5,088,445)	-	(5,088,445)
(12,310,473)	-	(12,310,473)	-	(12,310,473)
(8,273,819)	-	(8,273,819)	-	(8,273,819)
(15,606,883)	-	(15,606,883)	-	(15,606,883)
(137,448)	-	(137,448)	-	(137,448)
(925,683)	-	(925,683)	-	(925,683)
(2,672,637)	-	(2,672,637)	-	(2,672,637)
(3,574,047)	-	(3,574,047)	-	(3,574,047)
<u>(50,525,741)</u>	<u>-</u>	<u>(50,525,741)</u>	<u>-</u>	<u>(50,525,741)</u>
-	(1,634,503)	(1,634,503)	-	(1,634,503)
-	3,061,654	3,061,654	-	3,061,654
-	(19,191)	(19,191)	-	(19,191)
<u>-</u>	<u>1,407,960</u>	<u>1,407,960</u>	<u>-</u>	<u>1,407,960</u>
<u>(50,525,741)</u>	<u>1,407,960</u>	<u>(49,117,781)</u>	<u>-</u>	<u>(49,117,781)</u>
-	-	-	(43,470)	(43,470)
-	-	-	(585,561)	(585,561)
-	-	-	(292,119)	(292,119)
-	-	-	(921,150)	(921,150)
27,912,940	-	27,912,940	-	27,912,940
12,553,931	-	12,553,931	-	12,553,931
109,492	443,383	552,875	206,536	759,411
3,698,280	(3,698,280)	-	-	-
<u>44,274,643</u>	<u>(3,254,897)</u>	<u>41,019,746</u>	<u>206,536</u>	<u>41,226,282</u>
<u>(6,251,098)</u>	<u>(1,846,937)</u>	<u>(8,098,035)</u>	<u>(714,614)</u>	<u>(8,812,649)</u>
<u>(26,917,001)</u>	<u>7,618,709</u>	<u>(19,298,292)</u>	<u>2,624,776</u>	<u>(16,673,516)</u>
<u>\$ (33,168,099)</u>	<u>\$ 5,771,772</u>	<u>\$ (27,396,327)</u>	<u>\$ 1,910,162</u>	<u>\$ (25,486,165)</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2010

	General Fund	Debt Service Fund	Non-Utility Capital Improvements Fund	Other Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 204,301	\$ -	\$ 7,777,115	\$ 1,381,168	\$ 9,362,584
Investments	2,664	-	69,598	33,915	106,177
Receivables:					
Taxes	941,341	-	-	-	941,341
Accounts	489,122	-	-	-	489,122
Loans	-	-	-	2,550,275	2,550,275
Other	936,560	-	10,804	82,371	1,029,735
Due from other funds	132,877	-	279,742	1,377,898	1,790,517
Due from component unit	35,117	-	-	-	35,117
Due from other governments	8,251,640	-	843,632	335,982	9,431,254
Total Assets	\$ 10,993,622	\$ -	\$ 8,980,891	\$ 5,761,609	\$25,736,122
Liabilities and Fund Balance					
Liabilities:					
Net pooled cash position	\$ 6,644,915	\$ -	\$ -	\$ -	\$ 6,644,915
Accounts payable and other accrued expenses	7,451,425	-	1,101,139	688,902	9,241,466
Accrued payroll	1,500,758	-	-	93,943	1,594,701
Accrued vacation and other compensated absences	916,992	-	-	44,808	961,800
Escrow liabilities	18,210	-	-	-	18,210
Due to other funds	5,885,362	-	65,570	94,377	6,045,309
Deferred revenues	2,805,618	-	56,494	6,352,327	9,214,439
Total Liabilities	25,223,280	-	1,223,203	7,274,357	33,720,840
Fund Balances:					
Reserved for:					
Highways and streets	-	-	-	363,806	363,806
Capital projects	-	-	7,757,688	-	7,757,688
Parks and public property	59,767	-	-	-	59,767
Community development	1,020,695	-	-	-	1,020,695
Unreserved, reported in:					
General Fund	(15,310,120)	-	-	-	(15,310,120)
Special revenue funds	-	-	-	(1,876,554)	(1,876,554)
Total Fund Balance	(14,229,658)	-	7,757,688	(1,512,748)	(7,984,718)
Total Liabilities and Fund Balance	\$ 10,993,622	\$ -	\$ 8,980,891	\$ 5,761,609	\$25,736,122

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 ASSETS

DECEMBER 31, 2010

Total Fund Balance - Governmental Funds	\$ (7,984,718)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	55,456,928
Real estate taxes, earned income taxes and the stakeholder agreement not collected within a period of time subsequent to year-end are not deferred in the statement of net assets.	2,670,053
Accrued vacation and other compensated absences not due within the next twelve months are recorded on the statement of net assets.	(2,977,854)
Other post-employment benefit liability not due within the next twelve months is recorded on the statement of net assets.	(2,047,782)
Debt issuance costs and loss on refunding are deferred and amortized on the statement of net assets.	1,348,057
Long-term liabilities, including bonds payable and capital lease obligations, are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds	(74,271,000)
Capital leases	(359,175)
Accrued interest payable included on the statement of net assets.	(751,563)
Assets and liabilities of the internal service fund reported in the statement of net assets are used to charge the costs of insurance to individual funds and are not reported in the funds.	<u>(4,251,045)</u>
Net Assets - Governmental Activities	<u><u>\$ (33,168,099)</u></u>

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, 2010

	General Fund	Debt Service Fund	Non-Utility Capital Improvements Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 27,457,670	\$ -	\$ -	\$ -	\$ 27,457,670
Licenses and permits	1,803,116	-	-	-	1,803,116
Intergovernmental revenues	7,005,410	-	1,713,885	5,109,603	13,828,898
Fines and forfeitures	569,920	-	-	-	569,920
Departmental earnings	5,744,600	-	-	-	5,744,600
Other charges	657,230	-	-	626,463	1,283,693
Municipal recreation	379,298	-	-	-	379,298
Investment income	2,475	-	5,568	98,821	106,864
Host fee	8,757,801	-	-	-	8,757,801
Other	1,337,736	-	-	53,486	1,391,222
Total revenues	53,715,256	-	1,719,453	5,888,373	61,323,082
Expenditures:					
Current:					
General government	686,276	-	-	-	686,276
Administrative	1,446,173	-	-	-	1,446,173
Community development	5,486,374	-	-	-	5,486,374
Parks and public property	2,971,231	-	-	-	2,971,231
Public works	4,788,843	-	-	1,220,839	6,009,682
Police	13,447,266	-	-	1,873,335	15,320,601
Fire	10,496,522	-	-	-	10,496,522
General expenditures	15,606,883	-	-	-	15,606,883
Civic	137,448	-	-	-	137,448
Library	1,194,000	-	-	-	1,194,000
Program expenditures	-	-	-	2,672,637	2,672,637
Capital outlays	-	-	3,709,550	-	3,709,550
Debt service - principal	142,662	14,318,000	-	-	14,460,662
Debt service - interest	5,754	3,649,776	27,436	-	3,682,966
Total expenditures	56,409,432	17,967,776	3,736,986	5,766,811	83,881,005
Excess (Deficiency) of Revenues Over Expenditures	(2,694,176)	(17,967,776)	(2,017,533)	121,562	(22,557,923)
Other Financing Sources (Uses):					
Transfers in	3,298,281	8,853,375	203,874	-	12,355,530
Transfers out	(8,268,666)	-	(28,660)	(359,924)	(8,657,250)
Issuance of long-term debt	-	-	6,040,000	-	6,040,000
Refunding bonds issued	-	9,055,000	-	-	9,055,000
Proceeds from capital lease	458,776	-	-	-	458,776
Original issue premium	-	59,401	-	-	59,401
Total other financing sources (uses)	(4,511,609)	17,967,776	6,215,214	(359,924)	19,311,457
Net Change in Fund Balance	(7,205,785)	-	4,197,681	(238,362)	(3,246,466)
Fund Balance:					
Beginning of the year	(7,023,873)	-	3,560,007	(1,274,386)	(4,738,252)
End of the year	<u>\$ (14,229,658)</u>	<u>\$ -</u>	<u>\$ 7,757,688</u>	<u>\$ (1,512,748)</u>	<u>\$ (7,984,718)</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, 2010

Net Change in Fund Balance - Governmental Funds \$ (3,246,466)

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 (\$5,533,984) exceeded depreciation (\$6,187,302) in the current period. (653,318)

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. (26,969)

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 assets. This amount is the net effect of those differences in the treatment of long-term debt.

Issuance of debt	(15,553,776)
Repayment of principal	14,460,662

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. 2,829

Change in accrued vacation and other compensated absences not due within the next twelve months in the statement of activities. (6,754)

Change in other post-employment benefit payments not due within the next twelve months in the statement of activities. (571,766)

Governmental funds report the effect of issuance costs, premiums discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. 46,352

Activities of the internal service fund are reported as net income within the statement of activities. (701,892)

Change in Net Assets - Governmental Activities \$ (6,251,098)

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - PROPRIETARY FUNDS

DECEMBER 31, 2010

Assets	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Current assets:					
Cash and cash equivalents	\$ 154,992	\$ 1,114,206	\$ 57,232	\$ 1,326,430	\$ 144,803
Investments	53,985	30,269	-	84,254	-
Accounts receivable, net	2,944,263	2,702,368	-	5,646,631	-
Accrued interest	8,042	-	-	8,042	-
Due from other funds	197,540	154,168	10,570	362,278	179
Inventories	453,496	18,497	25,075	497,068	-
Total current assets	3,812,318	4,019,508	92,877	7,924,703	144,982
Restricted assets:					
Cash and cash equivalents	1,679,903	-	1,328	1,681,231	-
Investments	12,819,926	-	-	12,819,926	-
Capital assets, not being depreciated	1,074,870	3,021,291	175,000	4,271,161	-
Capital assets, net	88,885,521	6,744,344	644,249	96,274,114	-
Other assets	2,773,630	65,202	6,742	2,845,574	-
Total Assets	\$ 111,046,168	\$ 13,850,345	\$ 920,196	\$ 125,816,709	\$ 144,982
Liabilities and Net Assets					
Liabilities:					
Accounts payable and other accrued expenses	\$ 313,197	\$ 1,247,414	\$ 177,391	\$ 1,738,002	\$ -
Accrued payroll	185,373	121,406	14,952	321,731	-
Accrued vacation and other compensated absences	358,014	239,333	59,700	657,047	-
Construction accounts payable	539,186	-	-	539,186	-
Claims payable	-	-	-	-	4,396,027
Interest payable	362,733	36,505	6,369	405,607	-
Current portion of long-term debt	5,177,807	445,000	58,000	5,680,807	-
Current portion of capital lease obligation	-	-	44,801	44,801	-
Due to other funds	38,500	133,130	6,360	177,990	-
Total current liabilities	6,974,810	2,222,788	367,573	9,565,171	4,396,027
Accrued sick pay	100,759	49,727	-	150,486	-
Long-term debt, net	105,172,933	4,362,317	328,000	109,863,250	-
Capital lease obligation, net	-	-	37,297	37,297	-
Other post-employment benefits liability	250,871	139,759	38,103	428,733	-
Total Liabilities	112,499,373	6,774,591	770,973	120,044,937	4,396,027
Net Assets:					
Invested in capital assets, net of related debt	(3,656,076)	5,023,520	352,479	1,719,923	-
Unrestricted	2,202,871	2,052,234	(203,256)	4,051,849	(4,251,045)
Total Net Assets	(1,453,205)	7,075,754	149,223	5,771,772	(4,251,045)
Total Liabilities and Net Assets	\$ 111,046,168	\$ 13,850,345	\$ 920,196	\$ 125,816,709	\$ 144,982

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

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2010

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Operating Revenues:					
Charges for services	\$ 18,266,222	\$ 11,975,298	\$ 1,413,227	\$ 31,654,747	\$ 8,368,990
Operating Expenses:					
Salaries, wages, and fringe benefits	4,888,228	3,547,793	768,872	9,204,893	-
Professional fees	538,110	202,185	7,306	747,601	-
Utilities	334,964	816,039	49,876	1,200,879	-
Maintenance and repairs	72,651	290,427	46,482	409,560	-
Department contracts	341,760	1,568,617	90,404	2,000,781	-
Supplies	427,898	612,981	161,021	1,201,900	-
Service charges	3,042,334	464,788	175,000	3,682,122	-
Depreciation and amortization	4,678,545	1,582,633	80,863	6,342,041	-
Insurance claims	-	-	-	-	9,127,646
Administration	-	-	-	-	91,883
Other	286,464	190,374	52,284	529,122	-
Total operating expenses	14,610,954	9,275,837	1,432,108	25,318,899	9,219,529
Operating Income (Loss)	3,655,268	2,699,461	(18,881)	6,335,848	(850,539)
Non-Operating Revenues (Expenses):					
Investment income	442,767	616	-	443,383	11
Interest expense	(5,484,112)	(133,002)	(16,579)	(5,633,693)	-
Grants	24,272	289,108	-	313,380	-
Other revenues	170,069	206,087	16,269	392,425	148,636
Total non-operating revenues (expenses)	(4,847,004)	362,809	(310)	(4,484,505)	148,647
Change in net assets before transfers	(1,191,736)	3,062,270	(19,191)	1,851,343	(701,892)
Transfers out	(300,000)	(3,398,280)	-	(3,698,280)	-
Change in Net Assets	(1,491,736)	(336,010)	(19,191)	(1,846,937)	(701,892)
Net Assets:					
Beginning of year	38,531	7,411,764	168,414	7,618,709	(3,549,153)
End of year	<u>\$ (1,453,205)</u>	<u>\$ 7,075,754</u>	<u>\$ 149,223</u>	<u>\$ 5,771,772</u>	<u>\$ (4,251,045)</u>

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, 2010

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other Enterprise Fund	Total	
			Municipal Golf Fund		
Cash Flows From Operating Activities:					
Receipts from customers	\$ 18,288,873	\$ 11,807,085	\$ 1,413,227	\$ 31,509,185	\$ 8,534,330
Payments to suppliers for services	(5,048,884)	(3,948,547)	(517,106)	(9,514,537)	(8,574,878)
Payment to employees	(4,760,648)	(3,472,640)	(765,207)	(8,998,495)	-
Net cash provided by (used in) operating activities	<u>8,479,341</u>	<u>4,385,898</u>	<u>130,914</u>	<u>12,996,153</u>	<u>(40,548)</u>
Cash Flows From Noncapital Financing Activities:					
Transfers out	(300,000)	(3,398,280)	-	(3,698,280)	-
Other revenues received	170,069	206,087	16,269	392,425	148,636
Net cash provided by (used in) noncapital financing activities	<u>(129,931)</u>	<u>(3,192,193)</u>	<u>16,269</u>	<u>(3,305,855)</u>	<u>148,636</u>
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(1,099,818)	(1,830,505)	(14,519)	(2,944,842)	-
Grant proceeds	24,272	289,108	-	313,380	-
Principal payments on debt	(15,435,501)	(3,074,000)	(56,000)	(18,565,501)	-
Interest payments on debt	(3,699,787)	(144,092)	(17,503)	(3,861,382)	-
Principal payments on capital lease obligations	-	-	(43,446)	(43,446)	-
Proceeds from issuance of debt	11,031,611	4,051,314	-	15,082,925	-
Premium (discount) on issuance of debt	(68,224)	18,758	-	(49,466)	-
Payment of debt issuance costs	(309,144)	(78,348)	-	(387,492)	-
Net cash provided by (used in) capital and related financing activities	<u>(9,556,591)</u>	<u>(767,765)</u>	<u>(131,468)</u>	<u>(10,455,824)</u>	<u>-</u>
Cash Flows From Investing Activities:					
Net sales of investments	648,468	1,972	-	650,440	-
Interest and dividends on investments	442,767	616	-	443,383	11
Net cash provided by (used in) investing activities	<u>1,091,235</u>	<u>2,588</u>	<u>-</u>	<u>1,093,823</u>	<u>11</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(115,946)	428,528	15,715	328,297	108,099
Cash and Cash Equivalents:					
Beginning of year	1,950,841	685,678	42,845	2,679,364	36,704
End of year	<u>\$ 1,834,895</u>	<u>\$ 1,114,206</u>	<u>\$ 58,560</u>	<u>\$ 3,007,661</u>	<u>\$ 144,803</u>

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

(Continued)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2010

(Continued)

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund Municipal Golf Fund	Total	Internal Service
Reconciliation of Operating Income					
(Loss) to Net Cash Provided by					
(Used in) Operating Activities:					
Operating income (loss)	\$ 3,655,268	\$ 2,699,461	\$ (18,881)	\$ 6,335,848	\$ (850,539)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	4,678,545	1,582,633	80,863	6,342,041	-
Changes in assets and liabilities:					
Accounts receivable	(281,097)	(167,574)	-	(448,671)	165,340
Due from other funds	265,248	(639)	-	264,609	-
Inventories	(26,983)	4,830	(2,187)	(24,340)	-
Other assets	-	-	(6,742)	(6,742)	-
Accrued vacation and other compensated absences	30,682	19,377	(5,369)	44,690	-
Accrued payroll	21,531	13,397	(2,362)	32,566	-
Accounts payable and other accrued expenses	22,280	192,034	118,061	332,375	-
Due to other funds	38,500	-	(43,865)	(5,365)	-
Other post-employment benefits liability	75,367	42,379	11,396	129,142	-
Claims payable	-	-	-	-	644,651
Net cash provided by (used in) operating activities	\$ 8,479,341	\$ 4,385,898	\$ 130,914	\$ 12,996,153	\$ (40,548)
Noncash investing and financing activities:					
Accretion of capital appreciation bonds	<u>\$ 1,320,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,320,463</u>	<u>\$ -</u>

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET ASSETS

DECEMBER 31, 2010

	Employee Benefit Trust Fund	Agency Fund
<hr/> Assets <hr/>		
Cash and cash equivalents	\$ -	\$ 860,586
Interest and dividends receivable	338,828	-
Contribution receivable	3,535,727	-
Due from the City	-	4,070,325
Investments	111,181,567	189,797
Total Assets	115,056,122	5,120,708
<hr/> Liabilities <hr/>		
Escrow liabilities	-	5,120,708
Total Liabilities	-	\$ 5,120,708
<hr/> Net Assets <hr/>		
Reserved for employees' retirement benefits	115,056,122	
Total Liabilities and Net Assets	\$ 115,056,122	

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

CITY OF BETHLEHEM, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED DECEMBER 31, 2010

	<u>Employee Benefit Trust Fund</u>
Additions:	
<hr/>	
Contributions:	
Employee contributions	\$ 1,428,079
Employer contributions	3,525,651
	<hr/>
Total contributions	4,953,730
	<hr/>
Investment earnings:	
Investment income	3,360,382
Realized and unrealized gains, net	10,593,296
	<hr/>
Net investment earnings	13,953,678
	<hr/>
Total additions	18,907,408
	<hr/>
Deductions:	
<hr/>	
Benefits paid	8,833,353
Administrative costs	694,287
	<hr/>
Total deductions	9,527,640
	<hr/>
Change in Net Assets	9,379,768
	<hr/>
Net Assets:	
<hr/>	
Beginning of year	105,676,354
	<hr/>
End of year	\$ 115,056,122
	<hr/> <hr/>

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - COMPONENT UNITS

DECEMBER 31, 2010

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 349,173	\$ 514,109	\$ 166,199	\$ 1,029,481
Investments	1,212	136,795	502,392	640,399
Accounts receivable, net	293,915	347,000	70,219	711,134
Pledges receivable	-	51,995	-	51,995
Other receivables	5,300	-	-	5,300
Prepaid expenses	24,712	-	-	24,712
Total current assets	674,312	1,049,899	738,810	2,463,021
Restricted investments	-	1,376,525	-	1,376,525
Capital assets, not being depreciated	4,468,963	-	-	4,468,963
Capital assets, net	13,535,941	94,561	-	13,630,502
Other assets	175,296	-	1,663,117	1,838,413
Total Assets	\$ 18,854,512	\$ 2,520,985	\$ 2,401,927	\$ 23,777,424

(Continued)

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - COMPONENT UNITS

DECEMBER 31, 2010

(Continued)

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
Liabilities and Net Assets				
Liabilities:				
Accounts payable and other accrued expenses	\$ 793,556	\$ 99,978	\$ 514,830	\$ 1,408,364
Accrued payroll	55,926	143,289	-	199,215
Accrued vacation and other compensated absences	147,469	345,758	-	493,227
Interest payable	127,286	-	-	127,286
Current portion of long-term debt	554,269	-	545,533	1,099,802
Due to primary government	35,117	-	-	35,117
Deferred revenue	154,061	183,124	-	337,185
Total current liabilities	1,867,684	772,149	1,060,363	3,700,196
Long-term debt, net	12,025,994	-	5,650,565	17,676,559
Deferred revenue	490,507	-	-	490,507
Total Liabilities	14,384,185	772,149	6,710,928	21,867,262
Net Assets:				
Invested in capital assets, net of related debt	4,330,879	94,561	1,019	4,426,459
Restricted	-	1,376,525	-	1,376,525
Unrestricted	139,448	277,750	(4,310,020)	(3,892,822)
Total Net Assets	4,470,327	1,748,836	(4,309,001)	1,910,162
Total Liabilities and Net Assets	\$ 18,854,512	\$ 2,520,985	\$ 2,401,927	\$ 23,777,424

(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, 2010

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Total
		Changes for Services	Operating Grants and Contributions	Capital Grants and Contributions	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	
Bethlehem Parking Authority	\$ 3,924,642	\$ 3,881,172	\$ -	\$ -	\$ (43,470)	\$ -	\$ -	\$ (43,470)
Bethlehem Public Library	3,817,218	271,965	2,959,692	-	-	(585,561)	-	(585,561)
Bethlehem Redevelopment Authority	835,773	-	-	543,654	-	-	(292,119)	(292,119)
Total Component Units	\$ 8,577,633	\$ 4,153,137	\$ 2,959,692	\$ 543,654	(43,470)	(585,561)	(292,119)	(921,150)
General Revenues:								
					1,620	201,422	3,494	206,536
					1,620	201,422	3,494	206,536
					(41,850)	(384,139)	(288,625)	(714,614)
Net Assets:								
					4,512,177	2,132,975	(4,020,376)	2,624,776
					\$ 4,470,327	\$ 1,748,836	\$ (4,309,001)	\$ 1,910,162

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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 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. 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 assets 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.

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 fiduciary 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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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.

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 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, interest on long-term debt service is recorded only when payment is due.

Property taxes, earned income taxes, telephone 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 required to be accounted for in another fund.

The Debt Service Fund is the fund used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

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

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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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

The City's Fiduciary Funds account for 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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 fund are charges to citizens for services. Operating expenses for the enterprise fund 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.

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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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 ten 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.

Derivative Financial Instrument

The City has entered into an interest rate swap agreement, which is considered a derivative financial instrument, to manage interest rate exposure in certain long-term debt. For the year ended December 31, 2010, the City was required to implement GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* However, the City considers the value of the swap to be immaterial. The swap agreement terminates in 2012. Therefore, other than the net interest expenditures resulting from this agreement, no amounts are recorded in the financial statements.

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.

Investments of the City 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.

Internal Balances

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

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 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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Stakeholder Agreement Receivable

In December 2007, the City entered into an agreement with certain parties to allow excess sewer capacity to be available to Bethlehem Township, in the event such parties develop within the Township. The transaction has been included in the financial statements as a voluntary non-exchange transaction. During the year ended December 31, 2010, the General Fund recognized revenue of \$488,220. As of December 31, 2010, a receivable of \$294,668 and deferred revenue of \$294,668 still remained in the General Fund. Since the full \$5 million was recognized as revenue in the Governmental Activities statement of activities as of December 31, 2007, no revenue is shown for the years ended December 31, 2008, 2009, or 2010. Per the agreement, the entire balance should have been received on or before December 31, 2009. One developer owes the remaining balance and the City has extended the due date of that payment to December 31, 2011. No allowance for uncollectible accounts has been established, as the City is confident payment will be made by December 31, 2011.

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 2010 is as follows:

January 1, 2010	original levy date
January 1, 2010 - March 31, 2010	2% discount period
April 1, 2010 - May 27, 2010	face payment period
May 28, 2010 – December 31, 2010	10% penalty period

In addition, City taxes may be paid in four installments due approximately February 1, April 5, June 7, and August 2 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 2010 millage was 6.58 for general purposes, 0.89 for recreation, 4.89 for debt service, 0.4 for landfill debt, 0.5 for Hirko settlement debt, and 0.84 for library.

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 consumed rather than when purchased.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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, 2010, 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 fixed assets are valued at their estimated fair value on the date donated. 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.

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.

Restricted Investments

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

Bond Discounts and Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the interest method.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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 accounting principles generally accepted in the United States of America, the City accrues such benefits as they are earned. Employees, with the exception of police officers and fire fighters, are permitted, under the City's present sick leave policy, to accumulate an unlimited number of 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. Fire fighters 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 \$20 and \$25 per day for accumulated sick leave, respectively, while all other employees receive \$15 per day for the first 170 days and \$10 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.

Deferred Revenues

Deferred revenues are those where asset recognition criteria have been met, but revenue recognition criteria have not been met. Such amounts are measurable but are not available. Deferred revenue may also result from revenues being collected in advance of the fiscal year to which they apply or in advance of their legal due date.

Restricted Net Assets

Net assets are restricted by laws or regulations of other governments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Pending Changes in Accounting Principles

In February of 2009, the GASB issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions.*" Statement No. 54 establishes fund balance classifications and governmental fund type definitions to help the consistency of financial

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

reporting. The provisions of this statement are effective for the City's December 31, 2011 financial statements.

In November 2010, the GASB issued Statement No. 61, "*The Financial Reporting Entity: Omnibus.*" Statement No. 61 modifies certain requirement for inclusion of component units in the financial reporting entity. The provisions of this statement are effective for the City's December 31, 2013 financial statements.

In June of 2011, the GASB issued Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*" Statement No. 63 provides guidance on reporting deferred inflows and outflows of resources which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets. The provisions of this statement are effective for the City's December 31, 2012 financial statements.

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

2. REPORTING ENTITY

As required by GASB Statement No. 14, "*The Financial Reporting Entity,*" as amended by GASB Statement No. 39, the City has evaluated all related entities for the 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 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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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

Bethlehem Area Public Library

The Bethlehem Area Public Library (Library) provides library services to the City and nearby communities. The Library is governed by thirteen 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), Lower Saucon Township, Borough of Freemansburg, and Bethlehem Township. The City supports the Library. The City's 2010 appropriation to the Library represented 35% 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. Separate financial statements were issued by the Library and can be obtained by contacting the Bethlehem Area Public Library.

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. The City has guaranteed the debt issuances of the Parking Authority. Also, the City may require the Parking Authority to transfer surpluses to the City. Separate financial statements were issued by the Parking Authority and can be obtained by contacting the Bethlehem Parking Authority.

Bethlehem Redevelopment Authority

The Bethlehem Redevelopment Authority (Redevelopment Authority) provides community development services on behalf of the City. The largest project is among the City, the Redevelopment Authority, and the Department of Housing and Urban Development (HUD) for Section 108 Loan Guarantee Assistance to finance the Bethlehem Works Project. The Redevelopment Authority is governed by five board members who are appointed by the Mayor and approved by City Council. Operations are financed through the appropriations from the City and tax incremental financing from the City, the County of Northampton, and the Bethlehem Area School District. Repayment of the HUD Loan Guarantee Assistance is guaranteed by the City. Separate financial statements were issued by the Redevelopment Authority and can be obtained by contacting the Bethlehem Redevelopment Authority.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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 of Pennsylvania 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 of Pennsylvania 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.
 - 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
-

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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. 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 and Internal Service 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. Investments of the Library are managed by the board and management of the Library, without restriction as to type of 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 City does not have a deposit policy for custodial credit risk. As of December 31, 2010, the City's book balance was \$6,730,719 and the bank balance was \$7,261,917. Of the bank balance, \$2,061,349 was covered by federal depository insurance and \$5,200,568 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, 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, 2010

Reconciliation to total cash and cash equivalents:	
<u>Governmental activities:</u>	
Unrestricted	\$ 9,507,387
Unrestricted - net pooled cash position	(6,644,915)
<u>Business-type activities:</u>	
Unrestricted	1,326,430
Restricted	1,681,231
<u>Fiduciary funds:</u>	
Agency fund	860,586
Total cash and cash equivalents	<u>\$ 6,730,719</u>

Net pooled cash position represents the net cash withdrawals in excess of deposits for certain funds from the City's pooled cash accounts.

B. Investments

The fair value of the investments of the City at December 31, 2010 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 4,306,056
External investment pool	3,836,157
U.S. Government obligations	16,144,727
U.S. Government agency obligations	6,129,424
Municipal bonds	555,638
Corporate bonds and notes	15,500,946
Equities	52,075,390
Real estate equity fund	3,139,509
Collective investment trust - fixed income	3,713,625
Collective investment trust - equity	13,292,175
Other investments	5,688,074
Total investments	<u>\$ 124,381,721</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

<u>Reconciliation to total investments</u>	
Governmental activities:	
Unrestricted	\$ 106,177
Business-type activities:	
Unrestricted	84,254
Restricted	12,819,926
Fiduciary funds:	
Employee benefit trust fund	111,181,567
Agency fund	189,797
Total investments	<u>\$ 124,381,721</u>

The City uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for City funds. These funds are invested in the Pennsylvania Local Government Investment Trust (PLGIT), which separately issues audited financial statements that are available to the public. The fair value of the City's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight for the external investment pool.

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, \$81,953,960 are held by the counterparty's trust department or agent in the City's name, \$8,452,165 are held by the counterparty's trust department or agent not in the name of the city, and the remaining balance of \$33,975,596 is not exposed to custodial credit risk because the investments are not evidenced by securities in book entry or paper form.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Credit risk. The City's money market and fixed income investments had the following level of exposure to credit risk as of December 31, 2010:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 4,301,850	AAA
Money market funds	4,206	Unrated
External investment pool	3,836,157	AAA
U.S. Government agency obligations	6,028,567	AAA
U.S. Government agency obligations	100,857	Unrated
Municipal bonds	555,638	AA+
Corporate bonds and notes	289,976	AAA
Corporate bonds and notes	329,429	AA+
Corporate bonds and notes	465,902	AA
Corporate bonds and notes	1,015,900	AA-
Corporate bonds and notes	1,616,769	A+
Corporate bonds and notes	3,444,169	A
Corporate bonds and notes	3,442,277	A-
Corporate bonds and notes	2,389,719	BBB+
Corporate bonds and notes	1,457,463	BBB
Corporate bonds and notes	1,049,342	BBB-
Collective investment trust - fixed income	3,713,625	B

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, 2010, the City does not hold more than five percent of the City's investments in any one issuer.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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			
		2011	2012-2016	2017-2021	2022 and beyond
Money market funds	\$ 4,306,056	\$ 4,306,056	\$ -	\$ -	\$ -
External investment pool	3,836,157	3,836,157	-	-	-
U.S. Government obligations	16,144,727	5,910,386	9,708,828	525,513	-
U.S. Government agency obligations	6,129,424	2,541,779	2,066,779	1,356,049	164,817
Municipal bonds	555,638	-	555,638	-	-
Corporate bonds and notes	15,500,946	349,810	10,431,925	4,133,690	585,521
Collective investment trust - fixed income	3,713,625	-	-	3,713,625	-
	<u>\$50,186,573</u>	<u>\$16,944,188</u>	<u>\$22,763,170</u>	<u>\$ 9,728,877</u>	<u>\$ 750,338</u>

The City's U.S. Government obligations include U.S. Treasury principal-only STRIPS. These particular STRIPS have little credit and legal risk while the market risk is significant, as principal-only STRIPS are more sensitive to fluctuations in interest rates than other traditional investments. The carrying amount of these STRIPS at December 31, 2010 was \$1,779,926 and is reported in fiduciary investments on the statement of fiduciary net assets.

Other Investments

At December 31, 2010, the City's Employee Benefit Trust Fund was invested in the Graham Global Investment Fund II, Ltd. in the amount of \$3,038,131. This fund was organized to invest directly in the Graham Global Investment Fund (GGIF). GGIF enables investors to invest in various master trading entities through eight different share classes. The objective of each portfolio of the fund is to achieve long-term capital appreciation through professionally managed trading in global fixed income, foreign exchange, and other financial instruments. The City's investment is in the Graham Global Investment Fund II, K4D portfolio, which utilizes multiple computerized trading models that trade in approximately 100 global markets, including interest rates, foreign exchange, global stock indices, and agricultural, metals and energy futures. It has complete flexibility in the instruments and markets in which it invests. The carrying amount of the fund's assets and liabilities approximate their fair value. The shares reported by the City are proportionate to the City's capital contribution.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

At December 31, 2010, the City's Employee Benefit Trust Fund was invested in CCA Green, LP Partner's Capital, a limited partnership, in the amount of \$2,649,943. The partnership's primary investments consist of in-force, non-variable universal life insurance policies insuring the lives of individuals who have life expectancy as of the date of purchase of between three and fifteen years at a price greater than the cash surrender value offered by the life insurance companies, but less than the face amount of or the death benefit payable under such policies. The partnership uses a probabilistic method to value life insurance policies. The probabilistic method takes into consideration the mortality curve of the insured, rather than assuming mortality will occur at life expectancy. Utilizing the inputs of age, gender, smoking status, and a mortality table, the probabilistic method uses the insured's life expectancy to determine a mortality curve for the insured. Under the probabilistic method, the sum of the estimated discounted cash flows is the estimated fair market value of the policy. The City's share of the partnership is based on the size of the capital contribution. All income and expenses are allocated based on each Limited Partner's capital balance.

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

Bethlehem 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 Parking Authority funds are 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.

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, 2010, the Parking Authority's book balance

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

was \$349,173 and the bank balance was \$401,404. Of the bank balance at December 31, 2010, \$263,613 was covered by federal depository insurance and \$137,791 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, 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 uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for Parking Authority funds. These funds are invested in the Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits (INVEST), which separately issues audited financial statements that are available to the public.

At December 31, 2010, the Parking Authority's investments in the external investment pool were \$1,212.

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 of Pennsylvania provides external regulatory oversight of the pool.

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, 2010, the external investment pool is rated AAAM by Standard & Poor's.

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, 2010, the investments of the Parking Authority have an average weighted maturity of less than one year.

Bethlehem Area Public 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, 2010, the Library's book balance was \$514,109 and the bank balance was \$547,031. Of the bank balance, \$250,000 was covered by federal depository insurance and \$297,031 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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 fair value of the investments of the Library at December 31, 2010 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 239,257
U.S. Government agency obligations	33,622
Municipal bonds	81,806
Corporate bonds	205,274
Equity mutual funds	31,000
Equities	922,361
Total investments	<u>\$ 1,513,320</u>
<u>Reconciliation to Balance Sheet</u>	
Unrestricted investments	\$ 136,795
Restricted investments	1,376,525
	<u>\$ 1,513,320</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 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 U.S. Government agency obligations, municipal bonds, corporate bonds, equity mutual funds, and equities are held by the financial institution, not in the Library's name. The Library's remaining investment in money market funds is not exposed to custodial credit risk because they are not evidenced by securities in book entry or paper form.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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, 2010:

	Fair Value	Rating
Money market funds	\$ 102,462	AAA
Money market funds	136,795	Unrated
U.S. Government agency obligations	33,622	AAA
Municipal bonds	55,600	AAA
Municipal bonds	26,206	AA+
Corporate bonds	31,782	AAA
Corporate bonds	146,082	A
Corporate bonds	27,410	BBB

Concentration of credit risk – The Library places no limit on the amount the Library may invest in any one issuer. At December 31, 2010, 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 Library’s money market funds had a weighted average maturity of less than one year. The following is a list of the Library's fixed income investments and their related average maturities:

	Fair Value	Investment Maturities		
		2011	2012-2016	2017-2021
U.S. Government agency obligations	\$ 33,622	\$ -	\$ 33,622	\$ -
Municipal bonds	81,806	-	81,806	-
Corporate bonds	205,274	-	176,790	28,484
Total	\$ 320,702	\$ -	\$ 292,218	\$ 28,484

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Redevelopment Authority

A. Deposits

Bank of America secures the deposits of public funds under Act No. 72 of the 1971 Session of Pennsylvania General Assembly.

Under this system, it is the Bank's legal responsibility to provide collateral to secure public fund deposits against the claims of any third party. All collateral is pooled and held with the Bank of New York.

B. Investments

These are valued at cost and consist of \$502,392 in United States Government Obligations.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

4. CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>January 1, 2010</u>	<u>Additions and Transfers In</u>	<u>Disposals and Transfers Out</u>	<u>December 31, 2010</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,750,180	\$ 7,600	\$ -	\$ 6,757,780
Construction in progress	4,309,342	2,991,523	(3,841,329)	3,459,536
Total capital assets not being depreciated	<u>11,059,522</u>	<u>2,999,123</u>	<u>(3,841,329)</u>	<u>10,217,316</u>
Capital assets being depreciated:				
Buildings and related improvements	24,103,489	444,086	-	24,547,575
Improvements other than buildings	39,960,901	112,302	(419,574)	39,653,629
Furniture, machinery, and equipment	33,692,311	5,248,231	(322,743)	38,617,799
Infrastructure	19,316,023	996,478	-	20,312,501
Total capital assets being depreciated	<u>117,072,724</u>	<u>6,801,097</u>	<u>(742,317)</u>	<u>123,131,504</u>
Less accumulated depreciation for:				
Buildings and improvements	(19,956,852)	(730,486)	-	(20,687,338)
Improvements other than buildings	(21,790,523)	(1,882,235)	-	(23,672,758)
Furniture, machinery, and equipment	(24,505,671)	(2,388,638)	317,410	(26,576,899)
Infrastructure	(5,768,954)	(1,185,943)	-	(6,954,897)
Total accumulated depreciation	<u>(72,022,000)</u>	<u>(6,187,302)</u>	<u>317,410</u>	<u>(77,891,892)</u>
Total capital assets being depreciated, net	<u>45,050,724</u>	<u>613,795</u>	<u>(424,907)</u>	<u>45,239,612</u>
Governmental activities capital assets, net	<u>\$ 56,110,246</u>	<u>\$ 3,612,918</u>	<u>\$ (4,266,236)</u>	<u>\$ 55,456,928</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

	January 1, 2010	Additions and Transfers In	Disposals and Transfers Out	December 31, 2010
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,980,542	\$ -	\$ -	\$ 1,980,542
Construction in progress	478,154	2,125,460	(312,995)	2,290,619
Total capital assets not being depreciated	2,458,696	2,125,460	(312,995)	4,271,161
Capital assets being depreciated:				
Land improvements	1,094,192	6,157	-	1,100,349
Building and fixtures	13,348,949	33,503	-	13,382,452
Improvements other than buildings	186,472,652	1,655,600	(50,563)	188,077,689
Furniture, machinery, and equipment	4,651,215	251,618	(59,134)	4,843,699
Vehicles	3,943,921	59,356	-	4,003,277
Office equipment	738,137	24,801	(3,023)	759,915
Total capital assets being depreciated	210,249,066	2,031,035	(112,720)	212,167,381
Less accumulated depreciation for:				
Land improvements	(845,730)	(30,724)	-	(876,454)
Building and fixtures	(11,557,874)	(212,740)	-	(11,770,614)
Improvements other than buildings	(89,255,553)	(5,589,979)	-	(94,845,532)
Furniture, machinery, and equipment	(4,161,045)	(271,641)	56,867	(4,375,819)
Vehicles	(3,122,187)	(172,805)	-	(3,294,992)
Office equipment	(709,142)	(22,981)	2,267	(729,856)
Total accumulated depreciation	(109,651,531)	(6,300,870)	59,134	(115,893,267)
Total capital assets being depreciated, net	100,597,535	(4,269,835)	(53,586)	96,274,114
Business-type activities capital assets, net	<u>\$ 103,056,231</u>	<u>\$ (2,144,375)</u>	<u>\$ (366,581)</u>	<u>\$ 100,545,275</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Depreciation expense was charged to governmental activities as follows:

General government	\$	5,644
Administration		133,572
Community development		378,517
Parks and public property		1,114,996
Public works		3,068,134
Police		987,671
Fire		477,396
Library		21,372
		<u>21,372</u>
	\$	<u>6,187,302</u>

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

Water Fund	\$	4,646,740
Sewer Fund		1,573,267
Municipal Golf Fund		80,863
		<u>80,863</u>
	\$	<u>6,300,870</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

	January 1, 2010	Additions and Transfers In	Deletions and Transfers Out	December 31, 2010
Parking Authority:				
Capital assets, not being depreciated:				
Land	\$ 554,380	\$ -	\$ -	\$ 554,380
Construction in progress	1,669,372	2,245,211	-	3,914,583
Total capital assets, not being depreciated	2,223,752	2,245,211	-	4,468,963
Capital assets, being depreciated:				
Parking garages	22,690,508	7,213	-	22,697,721
Furniture and fixtures	519,194	23,109	-	542,303
Automobiles	266,238	7,355	(4,000)	269,593
Leasehold and parking lot improvements	21,860	-	-	21,860
Total capital assets, being depreciated	23,497,800	37,677	(4,000)	23,531,477
Less accumulated depreciation	(9,246,409)	(753,127)	4,000	(9,995,536)
Total capital assets, being depreciated, net	14,251,391	(715,450)	-	13,535,941
Total capital assets, net	\$ 16,475,143	\$ 1,529,761	\$ -	\$ 18,004,904
Library:				
Capital assets, being depreciated:				
Furniture, machinery, and equipment	\$ 1,425,710	\$ -	\$ -	\$ 1,425,710
Less accumulated depreciation	(1,257,513)	(73,636)	-	(1,331,149)
Total capital assets being depreciated, net	\$ 168,197	\$ (73,636)	\$ -	\$ 94,561

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

5. INTERFUND RECEIVABLE AND PAYABLES BALANCES

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2010 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental funds:		
General Fund	\$ 132,877	\$ 5,885,362
Non-Utility Capital Improvements Fund	279,742	65,570
Other Non-Major Governmental Funds	1,377,898	94,377
Proprietary funds:		
Water Fund	197,540	38,500
Sewer Fund	154,168	133,130
Other Non-Major Enterprise Fund	10,570	6,360
Internal Service Fund	179	-
Agency funds	4,070,325	-
Total	<u>\$ 6,223,299</u>	<u>\$ 6,223,299</u>

Interfund balances are primarily for reimbursement of expenditures paid on behalf of another fund and interfund loans for cash flow purposes.

6. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2010 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ 3,298,281	\$ 8,268,666
Debt Service Fund	8,853,375	-
Non-Utility Capital Improvements Fund	203,874	28,660
Other Non-Major Governmental Funds	-	359,924
Proprietary funds:		
Water Fund	-	300,000
Sewer Fund	-	3,398,280
Total	<u>\$ 12,355,530</u>	<u>\$ 12,355,530</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Transfers are used to (1) reimburse funds for expenses incurred on behalf of other funds, and (2) move receipts restricted to debt service from the funds collecting the receipts as debt service payments become due.

7. SHORT-TERM DEBT

On September 14, 2010, the City entered into a short-term loan agreement with Philadelphia Trust Company in advance of receiving gaming host fee revenue. The loan was necessary to fund operating expenditures of the City.

A summary of short-term debt activity for the year ended December 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Loan agreement	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>

Total interest paid on the loan during the year ended December 31, 2010 was \$3,041.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

8. LONG-TERM OBLIGATIONS

Bonds and Notes Payable

A summary of long-term bonds payable of the City at December 31, 2010 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	Municipal Golf Fund	
Outstanding at beginning of year	\$ 73,494,000	\$ 112,280,730	\$ 3,924,000	\$ 442,000	\$ 190,140,730
Issuance of debt	15,095,000	11,031,611	4,051,314	-	30,177,925
Amortization of capital appreciation bonds	-	1,320,463	-	-	1,320,463
Repayment of debt	(14,318,000)	(15,435,501)	(3,074,000)	(56,000)	(32,883,501)
	74,271,000	109,197,303	4,901,314	386,000	188,755,617
Plus unamortized bond premium	55,158	1,613,249	17,418	-	1,685,825
Less unamortized bond discount	-	(81,903)	-	-	(81,903)
Less unamortized deferred costs of refunding	(131,580)	(377,909)	(111,415)	-	(620,904)
Outstanding at end of year	<u>\$ 74,194,578</u>	<u>\$ 110,350,740</u>	<u>\$ 4,807,317</u>	<u>\$ 386,000</u>	<u>\$ 189,738,635</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

	Discretely Presented Component Units	
	Parking Authority	Redevelopment Authority
	Outstanding at beginning of year	\$ 12,425,771
Issuance of new debt	1,429,947	-
Repayment of debt	(526,593)	(547,273)
	13,329,125	6,196,098
Less unamortized deferred costs of refunding	(748,862)	-
Outstanding at end of year	\$ 12,580,263	\$ 6,196,098

Year	Governmental Activities			Water Fund		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 5,920,000	\$ 3,368,954	\$ 9,288,954	\$ 5,177,807	\$ 3,458,231	\$ 8,636,038
2012	6,123,000	3,204,200	9,327,200	5,741,248	3,309,394	9,050,642
2013	6,345,000	2,982,230	9,327,230	6,014,872	2,906,973	8,921,845
2014	6,593,000	2,734,993	9,327,993	6,327,330	2,658,768	8,986,098
2015	6,869,000	2,455,816	9,324,816	6,597,827	2,397,585	8,995,412
2016-2020	18,694,000	8,995,987	27,689,987	36,055,337	8,951,362	45,006,699
2021-2025	10,262,000	5,549,436	15,811,436	29,644,514	17,017,353	46,661,867
2026-2030	7,070,000	2,977,730	10,047,730	13,638,368	12,416,541	26,054,909
2031-2034	6,395,000	936,510	7,331,510	-	-	-
Totals	\$ 74,271,000	\$ 33,205,856	\$ 107,476,856	\$ 109,197,303	\$ 53,116,207	\$ 162,313,510

Year	Sewer Fund			Municipal Golf Fund		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 445,000	\$ 146,675	\$ 591,675	\$ 58,000	\$ 15,286	\$ 73,286
2012	1,686,314	136,651	1,822,965	60,000	12,989	72,989
2013	460,000	78,023	538,023	63,000	10,613	73,613
2014	480,000	67,398	547,398	66,000	8,118	74,118
2015	485,000	56,198	541,198	68,000	5,504	73,504
2016-2020	1,345,000	107,389	1,452,389	71,000	2,811	73,811
Totals	\$ 4,901,314	\$ 592,334	\$ 5,493,648	\$ 386,000	\$ 55,321	\$ 441,321

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Year	Parking Authority			Year	Redevelopment Authority
	Principal	Interest	Total		Principal
2011	\$ 554,269	\$ 577,942	\$ 1,132,211	2011	\$ 545,533
2012	1,969,028	578,135	2,547,163	2012	1,940,565
2013	563,274	487,652	1,050,926	2013	412,000
2014	586,474	464,847	1,051,321	2014	412,000
2015	599,683	434,341	1,034,024	Thereafter	2,886,000
2016-2020	3,347,397	1,771,650	5,119,047		
2021-2025	2,577,000	1,103,954	3,680,954		
2026-2030	3,132,000	442,453	3,574,453		
Totals	\$ 13,329,125	\$ 5,860,974	\$ 19,190,099		\$ 6,196,098

Total principal and interest for the primary government due through maturity is \$275,725,335.

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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Long-term obligations payable at December 31, 2010 are as follows:

Governmental Activities:	Current Portion	Balance at December 31, 2010
Bethlehem Authority Federally Taxable Lease Revenue Bonds, Series of 2001, due in annual installments of \$325,000 to \$825,000 through December 1, 2026; interest rates vary from 5.85% to 6.60%.	\$ 325,000	\$ 8,580,000
General Obligation Bonds, Series B of 2004, due in annual installments of \$1,330,000 to \$1,735,000 through November 1, 2034; interest rates vary from 4.10% to 5.70%.	1,330,000	29,380,000
Bethlehem Authority Guaranteed Lease Revenue Bonds, Series of 2004, due in annual installments of \$715,000 to \$840,000 through October 1, 2015; interest rates vary from 4.00% to 4.40%.	715,000	3,880,000
General Obligation Bonds, Series A of 2005, due in annual installments of \$205,000 to \$285,000 through October 2020; interest rates vary from 3.00% to 4.00%.	205,000	2,425,000
General Obligation Bonds, Series B of 2005, due in annual installments of \$330,000 to \$395,000 through October 2016; interest rates vary from 3.00% to 3.80%.	330,000	2,165,000
General Obligation Notes, Series of 2007, due in annual installments of \$865,000 to \$356,000 through August 2022; interest rates fixed at 3.65% through August 2017.	865,000	6,859,000
General Obligation Notes, Series of 2008, due in annual installments of \$165,000 to \$682,000 through August 2016; interest rates of 3.96%.	165,000	6,862,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

	Current Portion	Balance at December 31, 2010
General Obligation Bonds, Series of 2010, due in annual installments of \$1,985,000 to \$360,000 through August 2024; interest rates vary from 1.50% to 4.00%.	1,985,000	8,080,000
General Obligation Bonds, Series C of 2010, due in annual installments of \$5,000 to \$825,000 through August 2020; interest rate of 3.55%.	-	6,040,000
Total Governmental Activities	\$ 5,920,000	\$ 74,271,000

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

Business-Type Activities:	Current Portion	Balance at December 31, 2010
Water Fund:		
Bethlehem Authority Guaranteed Water Revenue Note, Series of 1997, due in annual installments of \$590,000 to \$1,260,000 through August 1, 2027; interest rates are variable. The interest rate at December 31, 2010 was 2.18% (see Note 13).	\$ 590,000	\$ 15,060,000
Bethlehem Authority Capital Appreciation Bonds, Series of 1998, due in annual installments of \$425,000 to \$6,050,000 from 2018 to 2028. The interest rates vary from 5.25% to 5.35%.	-	25,741,011

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Business-Type Activities: Water Fund:	Current Portion	Balance at December 31, 2010
Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 2004, due in annual installments of \$3,405,000 to \$5,410,000 through November 15, 2021; interest rates vary from 3.00% to 4.60%.	3,405,000	47,670,000
1998 Pennvest loan payable in monthly installments of \$116,147, including interest at 3.20% through 2018.	1,121,807	9,007,681
General Obligation Note, Series of 2007, due in annual installments of \$44,000 to \$69,000 through August 2022; interest rates fixed at 3.65% through August 2017.	46,000	687,000
Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 2010, due in annual installments of \$15,000 to \$940,000 through November 15, 2028; interest rates vary from 2.00% to 4.25%.	15,000	11,000,000
General Obligation Note, Series A of 2010, is a draw down construction loan. The outstanding principal is due in full on or before December 15, 2014. Interest on the outstanding principal is due quarterly at 3.92%. At December 31, 2010, the City had drawn down \$31,611 of the \$8,100,000 available under the note.	-	31,611
Total Water Fund	<u>5,177,807</u>	<u>109,197,303</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

	<u>Current Portion</u>	<u>Balance at December 31, 2010</u>
Sewer Fund:		
General Obligation Bonds, Series A of 2005, due in annual installments of \$90,000 to \$125,000 through October 2020; interest rates vary from 3.00% to 4.00%.	\$ 90,000	\$ 1,050,000
General Obligation Bonds, Series of 2010, due in annual installments of \$355,000 to \$140,000 through August 1, 2018; interest rates vary from 1.50% to 3.50%.	355,000	2,620,000
General Obligation Note, Series B of 2010, is a draw down construction loan. The outstanding principal is due in full on or before December 15, 2012. Interest on the outstanding principal is due quarterly at 3.92%. At December 31, 2010, the City had drawn down \$1,231,314 of the \$2,600,000 available under the note.	-	1,231,314
Total Sewer Fund	<u>445,000</u>	<u>4,901,314</u>
Municipal Golf Fund:		
General Obligation Note, Series of 2008, due in annual installments of \$58,000 to \$71,000 through August 2016; interest rate of 3.96%.	<u>58,000</u>	<u>386,000</u>
Total Business-Type Activities	<u>\$ 5,680,807</u>	<u>\$ 114,484,617</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Component Units: Parking Authority:	<u>Current Portion</u>	<u>Balance at December 31, 2010</u>
<p>General Obligation Bond, Series C of 2003, due in annual installments of \$255,000 in October 2011 to \$575,000 in October 2030, interest rates range from 3.30% to 4.75%.</p>	\$ 255,000	\$ 7,775,000
<p>Parking Revenue Note, Series of 2004, due in annual installments of \$220,000 to \$280,000, maturing in August 2020; interest-only payments due semiannually through February 2008 at a rate of 3.50%, increasing to 4.41% beginning August 2011; secured by future revenues of the Parking Authority.</p>	220,000	2,380,000
<p>Term Note of 2009, due in annual installments of \$62,000 in December 2011 to \$136,000 in December 2029; interest rates are fixed at 4.8% for a period of sixty months; thereafter, the interest rate is a floating rate equal to 65% of the Wall Street Journal Prime Rate plus 225 basis points, but in no event will the interest rate be more than 6%, secured by real property and future revenues of the Authority.</p>	62,000	1,700,000
<p>Promissory Note of 2009. The interest rate on the note is fixed at 4.8%. Beginning on June 1, 2010, the Parking Authority is to make semi-annual payments of interest only on June 1 and December 1 of each calendar year throughout the term of the loan. One final payment of all outstanding principal, accrued interest, and costs is due on or before December 1, 2012. Within thirty days of receipt by the Parking Authority of any Redevelopment Assistance Capital Program grant proceeds from the Commonwealth of Pennsylvania pursuant to Contract No. ME 300-742 that reimburses the Parking Authority for project costs, the Parking Authority will pay to the lender (of this note) the grant proceeds.</p>	-	1,429,947

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Component Units:

Parking Authority:	<u>Current Portion</u>	<u>Balance at December 31, 2010</u>
Loan payable, \$500 per month, including interest at 3.74%, through December 2016, unsecured loan.	4,895	31,804
\$250,000 line-of-credit, expires April 30, 2011, annually renewable, interest floats at the financial institution's prime rate but not less than 4% and not more than 9%, secured by the Authority's business assets.	<u>12,374</u>	<u>12,374</u>
Total Parking Authority	<u>\$ 554,269</u>	<u>\$ 13,329,125</u>
Redevelopment Authority:	<u>Current Portion</u>	<u>Balance at June 30, 2010</u>
HUD 108, Series 2001, due in annual installments of \$412,000 through September 2020; interest rate based on LIBOR.	\$ 412,000	\$ 4,534,000
Note Payable, due in monthly installments through 2012; interest rate is variable.	<u>133,533</u>	<u>1,662,098</u>
Total Redevelopment Authority	<u>\$ 545,533</u>	<u>\$ 6,196,098</u>

Swap Payments and Associated Debt

As of December 31, 2010, debt service requirements of the variable-rate debt and net interest rate swap payments (Note 13), assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

<u>Year</u>	Variable-Rate Bonds		Interest Rate	<u>Total</u>
	Principal	Interest	Swaps, Net	
2011	\$ 185,000	\$ 104,095	\$ 171,993	\$ 461,088
2012	<u>4,590,000</u>	<u>100,062</u>	<u>165,329</u>	<u>4,855,391</u>
Totals	<u>\$ 4,775,000</u>	<u>\$ 204,157</u>	<u>\$ 337,322</u>	<u>\$ 5,316,479</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Other Changes in Long-Term Debt

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

	Balance January 1, 2010	Additions	Reductions	Balance December 31, 2010
Governmental activities:				
Accrued vacation and other compensated absences	\$ 3,805,030	\$ 134,624	\$ -	\$ 3,939,654
Capital leases	43,061	458,776	(142,662)	359,175
	<u>\$ 3,848,091</u>	<u>\$ 593,400</u>	<u>\$ (142,662)</u>	<u>\$ 4,298,829</u>
Business-type activities:				
Accrued vacation and other compensated absences	\$ 639,356	\$ 168,177	\$ -	\$ 807,533
Capital leases	63,074	62,470	(43,446)	82,098
	<u>\$ 702,430</u>	<u>\$ 230,647</u>	<u>\$ (43,446)</u>	<u>\$ 889,631</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, 2010, the net book value of the equipment and vehicles held under capital leases and included in capital assets was \$424,336 for governmental activities and \$145,785 for business-type activities.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

As of December 31, 2010, future minimum payments were as follows:

Year	Governmental Activities	Business-Type Activities
2011	\$ 206,432	\$ 48,013
2012	105,862	17,653
2013	60,000	15,033
2014	-	6,982
Total commitment under capital leases	372,294	87,681
Less amount representing interest	13,119	5,583
Present value of future minimum lease payments	359,175	82,098
Less current portion	197,576	44,801
Long-term portion	\$ 161,599	\$ 37,297

9. PENSION PLANS

PLAN DESCRIPTIONS

The City has three single-employer defined benefit plans covering Police, Firemen, and certain non-uniformed employees (Officers' and Employees' Plan). 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. 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, and all full-time Library and Parking Authority employees. 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 combining information for the plans is as follows:

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

	Firemen Pension Fund	Police Pension Fund	Officers' and Employees' Pension Fund	Employee Benefit Trust Fund Total
Assets				
Interest and dividends receivable	\$ 140,479	\$ 178,766	\$ 19,583	\$ 338,828
Contribution receivable	1,243,539	2,107,953	184,235	3,535,727
Investments	45,563,320	59,109,854	6,508,393	111,181,567
Total Assets	\$ 46,947,338	\$ 61,396,573	\$ 6,712,211	\$ 115,056,122
Net Assets				
Reserved for employees' retirement benefits	\$ 46,947,338	\$ 61,396,573	\$ 6,712,211	\$ 115,056,122
Total Net Assets	\$ 46,947,338	\$ 61,396,573	\$ 6,712,211	\$ 115,056,122
Additions:				
Employee contributions	\$ 609,831	\$ 808,129	\$ 10,119	\$ 1,428,079
Employer contributions	1,136,780	1,921,109	467,762	3,525,651
Investment income	1,350,728	1,812,990	196,664	3,360,382
Realized and unrealized gains, net	4,332,013	5,649,832	611,451	10,593,296
Total additions	7,429,352	10,192,060	1,285,996	18,907,408
Deductions:				
Benefits paid	3,164,464	4,586,108	1,082,781	8,833,353
Administrative costs	285,391	368,823	40,073	694,287
Total deductions	3,449,855	4,954,931	1,122,854	9,527,640
Change in Net Assets	3,979,497	5,237,129	163,142	9,379,768
Net Assets:				
Beginning of year	42,967,841	56,159,444	6,549,069	105,676,354
End of year	\$ 46,947,338	\$ 61,396,573	\$ 6,712,211	\$ 115,056,122

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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 employees and retirees who were participants prior to January 1, 1964 and elected not to transfer to PMRS.

Benefit provisions and their amendments are authorized by the separate Pension Boards for the Police, Firemen, and Officers' and Employees' plans and by Pennsylvania State Act 15 for the PMRS plan. The following table provides information concerning types of covered employees and benefit provision for each of the Plans as of their latest actuarial valuation date, January 1, 2009:

	Police	Firemen	Officers' and Employees'	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				
Active plan members	155	114	4	449
Numbers of retirees and beneficiaries receiving benefits	153	113	62	169
Terminated employees entitled to deferred benefits	-	-	-	8

Contributions

Pennsylvania Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act of the Commonwealth of Pennsylvania (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 valuation for all of the City's plans was completed as of January 1, 2009. 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 exceeds state and member contributions must be funded by the employer.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Police and firemen are required to contribute 7% and 8% of covered payroll, respectively, plus \$1 per month to their respective pension plans. The O&E plan requires contributions of 3% of covered payroll for single coverage, 3½% for joint coverage, and 5% for dual coverage from participants. These contributions are governed by the Plans' governing ordinances and collective bargaining agreements. 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.

Annual Pension Cost and Net Pension (Asset) Obligation – For the year ended December 31, 2010, the City made \$4,430 of the \$1,921,109 annual required contribution for the City's Police Defined Benefit Pension Plan, \$4,430 of the \$1,136,780 annual required contribution for the City's Firemen Defined Benefit Pension Plan, and \$300,000 of the \$467,762 annual required contribution for the City's O&E Defined Benefit Pension Plan. The unpaid portion for the Police, Firemen, and O&E Plan plus accrued interest of \$2,107,953, \$1,243,539, and \$184,235, respectively, is recorded as a receivable in each Plan's Trust Fund and a payable in the General Fund as of December 31, 2010. The City paid these amounts to the three Plans in April 2011. The City's net pension (asset) obligation for the City's Police, Firemen, and O&E Defined Benefit Pension Plans at December 31, 2010 is not significant.

The pension expenditures/expense are allocated between governmental and business type activities based on the proportion of employees, active and retired, representing participants in each of these Plans.

The January 1, 2009 actuarial valuations utilized the entry age normal cost method. The actuarial assumptions included (a) investment rate of return of 7.5% for the three City Plans, and (b) projected salary increases of 5% per year, including an inflation component of 4%, for the City Plans. The actuarial value of assets was based on the investment gain or loss being recognized over a five-year period. In no event is the actuarial value of assets allowed to be greater than 130% or less than 70% of market value. The Police and Firemen unfunded actuarial accrued liabilities (UAAL) are being amortized over 19 and 17 years, respectively, utilizing the level dollar closed method and the O&E's UAAL is being amortized over two years utilizing the level dollar closed method.

The PMRS plan requires contributions of 7.5% from plan participants. The January 1, 2009 actuarial valuation utilized the entry age normal cost method. The actuarial assumptions included (a) investment rate of return of 6.0%, and (b) projected salary increases of 4.5%. The actuarial value of assets was based on market value as determined by the trustee. The PMRS unfunded actuarial accrued liability is being amortized over 11 years, utilizing the annual funding adjustment equal to 10% of negative UAAL. For the year ended December 31, 2010, the City made \$1,211,840 of the \$2,860,533 annual required contribution for the PMRS plan. The unpaid portion of \$1,648,693 and accrued interest of \$130,489 is recorded

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

as a payable in the applicable funds. The City paid these amounts in April 2011 and May 2011.

Funded Status and Schedule of Funding Progress (in thousands):

The schedules of funding progress, presented as required supplementary information following the notes to financial statements, present multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(in thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
Police:						
1/1/2009	\$ 64,399	\$ 74,424	\$ (10,025)	87%	\$ 10,058	-100%
Firemen:						
1/1/2009	\$ 48,780	\$ 55,305	\$ (6,525)	88%	\$ 6,544	-100%
Officers and Employees:						
1/1/2009	\$ 7,943	\$ 8,984	\$ (1,041)	88%	\$ 241	-432%
PMRS:						

Investments That Represent Five Percent or More of Plan Net Assets

The City does have a formal policy that limits the amount the City may invest in any one issuer to five percent for the Plan. At December 31, 2010, the City does not hold more than five percent of the Plan's investments in any one issuer.

The negative events in the credit market, as well as the general economic conditions in the United States and worldwide have caused a significant decrease in investment values, either directly invested or tied to the equity markets. These declines, at present, are expected to be temporary and not permanent declines; however, equity market recovery, if it occurs, may take some time. The major resulting impact of the equity markets' decline on the City will be in the form of increased annual required contributions and increased pension expense with respect to its pension plans.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

10. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Descriptions

In addition to pension benefits described in Note 9, the City provides certain post-retirement healthcare benefits to its retirees through one single-employer, defined benefit other post-retirement 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, 2007, 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.

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 \$340 in 2010. 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. 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.

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, 2007, 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.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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.

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 \$340 in 2010. 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. 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.

Non-uniformed union and non-union employees:

Article X of the Collective Bargaining Agreement between the City and the Service Employees International Union, Local 32BJ, Mid-Atlantic District, effective January 1, 2010, 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.

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 \$1,500 of post-retirement life insurance coverage. The City will also make available an additional \$1,000 of coverage at the employee's expense,

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

if the employee paid for an additional \$30,000 of life insurance coverage while an active employee.

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, 2010, the City contributed \$682,527 to the OPEB plan.

Police:

Police would pay any additional premiums above the City's contribution of \$340. For the year ended December 31, 2010, police retirees contributed \$111,412 toward the cost of their plans.

Firefighters:

Firefighters would pay any additional premiums above the City's contribution of \$340. For the year ended December 31, 2010, firefighter retirees contributed \$80,896 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, 2010, non-uniformed union and non-union retirees contributed \$117,916 toward the cost of their plans.

The City's annual OPEB costs (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. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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 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	1/1/2010
Actuarial cost method	Entry age normal
Actuarial assumptions	
Interest rate	4.5%
Salary increases	5.0%
Medical inflation:	
2010	7.5%
2011	7.0%
2012	6.5%
2013	6.0%
2014	5.5%
2015 and later	5.3% - 4.2%
Amortization method	Level dollar, open period
Amortization period	30 year

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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, 2010 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 1,177,604	\$ 234,936	\$ 1,412,540
Interest on net OPEB obligation	66,399	13,504	79,903
Adjustment to ARC	(91,089)	(17,919)	(109,008)
Annual OPEB cost	1,152,914	230,521	1,383,435
Contribution made	(581,148)	(101,379)	(682,527)
Change in Net OPEB obligation	571,766	129,142	700,908
Net OPEB obligation, beginning	1,476,016	299,591	1,775,607
Net OPEB obligation, ending	<u>\$ 2,047,782</u>	<u>\$ 428,733</u>	<u>\$ 2,476,515</u>

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
2010	\$ 1,383,435	49.3%	\$ 2,476,515
2009	1,530,248	67.9%	1,775,607
2008	1,545,919	16.9%	1,285,129

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)
1/1/2010	\$ -	\$ 13,369,049	\$ 13,369,049	0.00%	\$ 36,902,714	36.23%

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

the actuarial accrued liability for benefits.

11. 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 \$209,083 to the plan during 2010. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

12. 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 2010. Settlement amounts have not exceeded insurance coverages for the current year or three prior years.

Construction

The City is committed in various construction contracts in the total amount of \$731,340 at December 31, 2010.

The Parking Authority is committed in a construction contract in the amount of \$52,400 at December 31, 2010.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Line of Credit

Beginning on September 8, 2009, the Library established a line of credit in the amount of \$200,000. The interest rate established by the lender is equal to the prime rate plus .75%, except that the interest rate will be no less than 5.00%. In October of 2010, the line of credit was renewed, and if no demand is made, will expire on June 30, 2011. At December 31, 2010, there were no amounts borrowed under the line of credit.

Early Retirement Benefits

At December 31, 2010, the Library offered an Early Retirement Incentive Program to its qualifying employees. The Program stipulated that any full-time employee, 55 years of age or older by December 31, 2010, choosing to retire would receive \$1,000 for every year of service at the Library, up to \$20,000; any part-time employee, whose average work week was no less than 20 hours over the past five years, choosing to retire would receive \$500 for every year of service to the Library, up to \$10,000; and any part-time employee, whose average work week was under 20 hours over the past five years, choosing to retire would receive \$250 for every year of service to the Library, up to \$5,000. The employee could choose to receive this amount in two equal lump sum payments in 2011 and 2012 or choose to designate the money for health insurance for 2011 and 2012. If choosing the health insurance option, the employee would only receive benefits up to the amount they earned based on tenure. If there are monies left over, the employee will receive this as a lump sum. At December 30, 2010, 15 employees retired as a part of this program and the total amount committed to these employees is approximately \$254,000.

Internal Service Fund

Accounting principles generally accepted in the United States of America state that a deficit in an internal service fund be charged back to other funds, unless needed adjustments are expected over a reasonable period of time. As of December 31, 2010, the medical liability was approximately \$4.2 million. In February 2011, the City paid approximately \$3.4 million toward the 2010 liability and paid the remaining amount due in June 2011. If the City did not make the expected adjustments over a reasonable period of time, additional expenditures/expenses in the amount of \$2.9 million, \$895,000, \$326,000 and \$57,000 in the General Fund, Water Fund, Sewer Fund, and Golf Fund, respectively, would have been reported for the year ended December 31, 2010.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Violations of Finance-Related Legal and Contractual Provisions

During the year ended December 31, 2010, the City did not comply with the Third Class City Code (Code). The Code requires that at least two-thirds approval from City Council be obtained before borrowing money in anticipation of current revenues. This approval did not occur before the City entered into an agreement to borrow funds in anticipation of receiving gaming host fees revenue. The City agrees. This was a short-term borrowing in anticipation of casino revenues. The Controller did send a memo to Council Solicitor and President on January 10, 2011 which did note the payback of the borrowing.

During the year ended December 31, 2010, the City's pooled cash accounts included restricted and unrestricted funds. Therefore, the City used restricted money for expenditures in the General Fund. The City agrees. Bond Counsel did review applicable bond documents and the City is in compliance with applicable terms and conditions.

During the year ended December 31, 2010, the City did not comply with certain regulations related to Act 78 and Act 56 for landline and wireless 911 revenues. The City used Act 78 money to pay for unallowable expenses. The City also used Act 56 money to pay for Act 78 expenditures. The City intends to return the excess costs, in the amount of \$1,026,363, to the Act 78 account from the General Fund and excess costs, in the amount of \$2,723,868, to the Act 56 account from the Act 78 account and/or the General Fund.

During the year ended December 31, 2010, the General Fund borrowed restricted funds from the Community Development Block Grant Fund to pay for unallowable expenses. The City reimbursed the \$350,000 on February 9, 2011. In addition, The City notified HUD of the use of the revolving loan funds and appropriate controls have been implemented to prevent this issue from happening again.

During the year ended December 31, 2010, the City advanced itself earned income tax (EIT) receipts that were being held on behalf of other governments and owed approximately \$3.7 million back to the EIT account. In times of tight cash flow at the end of the year, the City advances itself Earned Income Tax (EIT) funds based on the fact that other tax collectors have collected funds due the City. However, those tax collectors do not remit the funds to the City until the following year. The City repays the advanced funds when the other tax collectors remit payment. 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 August 31, 2011 there is \$3,165,975 remaining in the EIT account which, after payments to other municipalities, can be used towards the approximate \$615,000 shortfall.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

13. DERIVATIVE FINANCIAL INSTRUMENT

Objective of the Interest Rate Swap

As a means to manage interest rate exposure, the City entered into an interest rate swap in connection with its Bethlehem Authority, Guaranteed Water Revenue Note, Series of 1997 (see Note 8). The intention of the swap was to effectively change the City's variable interest rate on this long-term debt to a synthetic fixed rate of 3.9 percent.

Terms

The interest rate swap agreement was effective January 1, 2003. The long-term debt and related swap agreement mature on August 1, 2012 and the swap's notional amount of \$5,595,000 matches the principal amount of the hedged debt. Beginning in 2003, the notional amount of the swap and the principal amount of the debt decline at an equal rate. Under the swap, the City pays the counterparty a fixed payment of 3.9 percent and receives a variable payment computed as Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA), one week (weighted weekly average). Conversely, the variable rate debt is based on a weekly remarketed rate plus 1.8%.

Fair Value

The swap had a negative fair value of \$247,000 as of December 31, 2010. Because the coupon on the City's variable-rate notes adjusts to changing interest rates, the notes do not have a corresponding fair value increase. The fair value was calculated by the financial advisor to the Bethlehem Authority and reflects the fact that taxable interest rates were lower at December 31, 2010.

Credit Risk

As of December 31, 2010, the swap had a negative fair value. However, should interest rates increase and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative's fair value. The Counterparty, Lehman Brothers Special Financing, Inc., has filed for bankruptcy protection in the United States Bankruptcy Court.

Basis Risk

The swap exposes the City to basis risk should the relationship between the weekly remarketed rate (which has to be paid by the Bethlehem Authority) and SIFMA (which is the amount paid by the counterparty to the Bethlehem Authority) diverge, changing the synthetic rate on the bonds. The effect of this basis differential has generally been an increase in interest costs. As of December 31, 2010, the weekly remarketed rate was .38%, whereas SIFMA was .26258%.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Liquidity Facility Risk

During the past several years, obtaining liquidity facilities has become increasingly difficult and expensive. Many issuers are unable to access this market at a price that is as economical as it once was. Indeed, the Bethlehem Authority has experienced a significant increase in the “gross up rate” of the financing due in large part to costs associated with liquidity and credit enhancement. This has resulted in a significant increase in the synthetic fixed rate on the loan.

Termination Risk

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate loan would no longer carry a synthetic fixed interest rate and the City would be exposed to interest rate risk. Also, if at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap’s fair value. If at the time of termination the swap has a positive fair value but the counterparty is unable for any reason, including its insolvency, to pay such amount, the City might not receive amounts due it under the contract.

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 2010. 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 market value of the City's investments is subject to fluctuations in the prevailing market prices of those investments.

15. SUBSEQUENT EVENTS

In January 2011, the Parking Authority entered into a termination agreement with one management level employee. The Authority has agreed to pay all accrued vacation and sick time and make certain severance payments for a term of six months. The total amount to be paid to the employee by the Parking Authority is approximately \$110,000.

In March 2011, the City issued General Obligation Refunding Bonds, Series A of 2011, in the amount of \$7,860,000 and General Obligation Refunding Bonds, Series B of 2011, in the

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

amount of \$6,805,000. The Series A of 2011 bonds are being issued to: (1) currently refund a portion of the City's General Obligation Notes, Series of 2007; (2) currently refund a portion of the City's General Obligation Notes, Series of 2008; and (3) pay certain costs of issuance and insurance premiums relating to the Series A bonds. The Series B of 2011 bonds are being issued to: (1) currently refund a portion of the City's General Obligation Bonds, Series A of 2005; (2) currently refund a portion of the City's General Obligation Bonds, Series B of 2005; (3) advance refund a portion of the City's General Obligation Bonds, Series of 2010; and (4) pay certain costs of issuance and insurance premiums relating to the Series B bonds.

In March 2011, the Bethlehem Authority issued Guaranteed Lease Revenue Bonds, Series A of 2011, in the amount of \$17,805,000. The bonds are being issued to: (1) finance the acquisition, by the Bethlehem Authority from the City, of certain facilities consisting of a municipal ice rink, a municipal service center, and several maintenance buildings (collectively, the "Leased Assets"); (2) fund capitalized interest on the bonds; and (3) pay certain costs of issuance and insurance premiums relating to the bonds. The proceeds from the disposition of the Leased Assets received by the City are expected to be used to pay current operating expenses. Simultaneously, with the issuance of the bonds, the City entered into an agreement with the Bethlehem Authority to lease the Leased Assets.

16. NEGATIVE FUND BALANCE AND NET ASSETS OF ENTERPRISE FUNDS

General Fund

As a result of declining revenues due to the national economic recession and deferred revenues from unpaid invoices, the City has implemented several budgetary measures for 2011. The measures included eliminating fifty-four positions, restructuring debt to realize \$4 million in relief over a two-year period, fee increases which result in approximately \$1 million in additional revenue on an annual basis, and a working capital borrowing of \$16 million. Moreover, the City's administration is exploring other avenues of reducing costs and increasing revenues.

911 Fund

The 911 Fund had a deficit balance of \$1,876,554 at December 31, 2010. This deficit will be addressed as part of the 2012 budget.

Water Fund

The Water Fund had a deficit balance of \$1,453,205 at December 31, 2010. The negative fund balance in the water fund is largely due to the depreciation of assets outpacing new capital investment in the water system. Due to the lack of availability of new capital to the water system, and the austerity that this requires, the Bethlehem Authority and City of Bethlehem

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

Water and Sewer Resources Department are working on a long term restructuring to deal with this issue.

Additionally, the City is in the midst of obtaining approval from the Pennsylvania Public Utility Commission for a rate increase to be applied during 2011.

Lastly, there were cost reductions implemented in 2010 by the utility management team that reduced water staff by six employees, reduced costs of the operations of the City's water filtration plant, and reduced the contract price for several treatment chemicals.

**Required Supplementary
Information**

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 32,100,000	\$ 32,100,000	\$ 31,255,527	\$ (844,473)
Licenses and permits	2,442,800	2,442,800	1,805,971	(636,829)
Intergovernmental	8,539,800	8,795,521	7,544,458	(1,251,063)
Departmental earnings	6,381,300	6,416,300	5,543,473	(872,827)
Fines and forfeitures	595,000	595,000	569,920	(25,080)
Investment income	150,000	150,000	(2,132)	(152,132)
Municipal recreation	495,000	495,000	379,298	(115,702)
Host fees	7,475,000	7,475,000	7,280,497	(194,503)
Other operating revenues	1,144,500	1,144,500	747,915	(396,585)
Miscellaneous	5,273,600	5,273,600	6,098,710	825,110
Total revenues	64,597,000	64,887,721	61,223,637	(3,664,084)
Expenditures:				
Current:				
General government	886,621	888,121	868,898	19,223
Administration	2,370,442	2,265,671	2,187,604	78,067
Community development	5,876,343	6,100,461	5,520,270	580,191
Parks and public property	3,713,184	3,670,080	3,609,898	60,182
Public works	6,067,495	6,008,228	5,200,737	807,491
Police	13,026,907	13,280,788	12,573,389	707,399
Fire	10,037,107	10,357,227	10,279,323	77,904
General	20,077,094	19,759,271	19,812,589	(53,318)
Civic	117,420	117,420	115,663	1,757
Library	1,194,000	1,194,000	1,194,000	-
Debt service:				
Principal	4,783,500	4,788,500	5,072,000	(283,500)
Interest	2,587,517	2,598,584	2,675,008	(76,424)
Total expenditures	70,737,630	71,028,351	69,109,379	1,918,972
Excess (Deficiency) of Revenues Over Expenditures	(6,140,630)	(6,140,630)	(7,885,742)	(1,745,112)
Other Financing Sources (Uses):				
Transfers in	6,623,000	6,623,000	5,822,534	(800,466)
Transfers out	(482,370)	(482,370)	(482,370)	-
Total other financing sources (uses)	6,140,630	6,140,630	5,340,164	(800,466)
Net Change in Fund Balance	\$ -	\$ -	\$ (2,545,578)	\$ (2,545,578)

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2010

1. 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	\$ 67,046,171	\$ 69,591,749
Agency fund borrowings	(2,760,050)	(4,068,919)
Other fund borrowings	(790,000)	(1,288,817)
Accrual adjustments:		
Receivables:		
Beginning of year	(10,834,630)	-
End of year	10,769,057	17,601
Due from/to:		
Beginning of year	4,197,862	25,201
End of year	(7,623,872)	-
Accrued liabilities:		
Beginning of year	-	(6,609,929)
End of year	-	9,888,384
Deferred revenues:		
Beginning of year	3,149,871	-
End of year	(2,804,924)	-
Reclassifications	(2,877,172)	(2,877,172)
GAAP basis	\$ 57,472,313	\$ 64,678,098

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures over Appropriations:

	Appropriation	Expenditure
Current:		
General	\$ 19,759,271	\$ 19,812,589
Debt service:		
Principal	4,788,500	5,072,000
Interest	2,598,584	2,675,008

Appropriations sufficient to provide for the excess expenditures were made available from other functions within the fund.

CITY OF BETHLEHEM, PENNSYLVANIA

SCHEDULES OF FUNDING PROGRESS - PENSIONS

(in thousands)

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
Police:							
	1/1/2005	\$ 57,999	\$ 64,741	\$ (6,742)	90%	\$ 7,772	-87%
	1/1/2007	64,234	67,123	(2,889)	96%	8,604	-34%
	1/1/2009	64,399	74,424	(10,025)	87%	10,058	-100%
Firemen:							
	1/1/2005	43,034	44,704	(1,670)	96%	5,495	-30%
	1/1/2007	48,461	49,969	(1,508)	97%	5,994	-25%
	1/1/2009	48,780	55,305	(6,525)	88%	6,544	-100%
Officers and Employees:							
	1/1/2005	9,455	10,516	(1,061)	90%	418	-254%
	1/1/2007	9,001	10,178	(1,177)	88%	321	-367%
	1/1/2009	7,943	8,984	(1,041)	88%	241	-432%
PMRS:							
	1/1/2005	59,110	77,295 *	(18,185)	76%	18,338	-99%
	1/1/2007	64,898	85,564 **	(20,666)	76%	20,225	-102%
	1/1/2009	77,370	97,712 ***	(20,342)	79%	23,164	-88%

Source: Actuarial Reports. Valuations performed on a biennial basis.

Note: State law requires biennial valuations on the odd-numbered years.

* - Significant plan changes for the 1/1/2005 valuation resulted in increases to the actuarially accrued liability (1) benefit plan changes for \$9.9 million, (2) actuarial assumption changes for \$2.3 million, and (3) actuarial loss/gain for \$2.9 million.

** - Significant plan changes for the 1/1/2007 valuation resulted in increases to the AAL of \$4.2 million.

*** - Significant plan changes for the 1/1/2009 valuation resulted in increases to the AAL of \$2.1 million.

See accompanying note to required supplementary information.

CITY OF BETHLEHEM, PENNSYLVANIA

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTING ENTITIES - PENSIONS

(in thousands)

Calendar Year	Police		Firemen		Officers and Employees		PMRS	
	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed
2005	\$ -	N/A	\$ -	N/A	\$ -	N/A	\$ 887	100%
2006	1,572	100%+	987	100%+	381	100%+	916	100%+
2007	1,692	100%	1,045	100%	381	100%+	3,168	100%+
2008	1,713	100%	1,019	100%	379	98%	3,264	100%+
2009	1,870	100%	1,174	100%	623	100%	3,350	100%
2010	1,921	100%	1,137	100%	468	100%	2,861	100%

Note: Contributions include state pension aid.

See accompanying note to required supplementary information.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY PENSION INFORMATION

YEAR ENDED DECEMBER 31, 2010

The information presented in the required supplementary schedules of trend information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest available actuarial valuation follows:

	Police	Firemen	Officers and Employees	PMRS
Actuarial valuation date	1/1/2009	1/1/2009	1/1/2009	1/1/2009
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed	Level Dollar Adjustment Equal to 10% of Negative Unfunded AAL
Amortization period	19 years	17 years	2 years	11 years
Asset valuation method	5 year smoothed value with a maximum of 130% market value	5 year smoothed value with a maximum of 130% market value	5 year smoothed value with a maximum of 130% market value	Market Value as determined by Trustee
Actuarial assumptions:				
Investment rate of return	7.5%	7.5%	7.5%	6.0%
Projected salary increases	5.0%	5.0%	5.0%	4.5%

CITY OF BETHLEHEM, PENNSYLVANIA
POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

YEAR ENDED DECEMBER 31, 2010

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)
1/1/2008	\$ -	\$ 14,256,169	\$ 14,256,169	0.0%	\$ 32,868,661	43.4%
1/1/2010	-	13,369,049	13,369,049	0.0%	36,902,714	36.2%

Note: Valuation as of 1/1/2008 represents the initial valuation for the Plan as required under GASB Statement No. 45

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2008	\$ 1,545,919	16.9%
2009	1,545,919	67.3%
2010	1,412,540	48.3%

NOTES TO THE REQUIRED SCHEDULES

Valuation Date:	January 1, 2010
Actuarial Cost Method:	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return:	4.5%
Projected Salary Increases:	5%
Medical inflation:	
2010	7.5%
2011	7.0%
2012	6.5%
2013	6.0%
2014	5.5%
2015 and later	5.3% - 4.2%
Amortization method:	Level Dollar, Open Period
Remaining amortization Period:	30 Years

Supplementary Information

CITY OF BETHLEHEM, PENNSYLVANIA

COMBINING BALANCE SHEET - OTHER NON-MAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2010

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
Assets				
Cash and cash equivalents	\$ 42,491	\$ 840,440	\$ 498,237	\$ 1,381,168
Investments	-	-	33,915	33,915
Receivables:				
Loans	-	2,550,275	-	2,550,275
Other	82,371	-	-	82,371
Due from other funds	1,026,363	351,535	-	1,377,898
Due from other governments	-	335,982	-	335,982
Total Assets	\$ 1,151,225	\$ 4,078,232	\$ 532,152	\$ 5,761,609
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and other accrued expenses	\$ 209,682	\$ 338,085	\$ 141,135	\$ 688,902
Accrued payroll	49,930	16,802	27,211	93,943
Accrued vacation and other compensated absences	18,485	26,323	-	44,808
Due to other funds	94,377	-	-	94,377
Deferred revenues	2,655,305	3,697,022	-	6,352,327
Total Liabilities	3,027,779	4,078,232	168,346	7,274,357
Fund Balance:				
Reserved for:				
Highways and streets	-	-	363,806	363,806
Unreserved, reported in:				
Special revenue funds	(1,876,554)	-	-	(1,876,554)
Total Fund Balance	(1,876,554)	-	363,806	(1,512,748)
Total Liabilities and Fund Balance	\$ 1,151,225	\$ 4,078,232	\$ 532,152	\$ 5,761,609

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2010

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
Revenues:				
Intergovernmental revenues	\$ 1,255,030	\$ 2,520,372	\$ 1,334,201	\$ 5,109,603
Other charges	626,463	-	-	626,463
Investment income	-	98,779	42	98,821
Other	-	53,486	-	53,486
Total revenues	1,881,493	2,672,637	1,334,243	5,888,373
Expenditures:				
Current:				
Public works	-	-	1,220,839	1,220,839
Police	1,873,335	-	-	1,873,335
Program expenditures	-	2,672,637	-	2,672,637
Total expenditures	1,873,335	2,672,637	1,220,839	5,766,811
Excess (Deficiency) of Revenues Over Expenditures	8,158	-	113,404	121,562
Other Financing Uses:				
Transfers out	(359,924)	-	-	(359,924)
Net Change in Fund Balance	(351,766)	-	113,404	(238,362)
Fund Balance:				
Beginning of year	(1,524,788)	-	250,402	(1,274,386)
End of year	<u>\$ (1,876,554)</u>	<u>\$ -</u>	<u>\$ 363,806</u>	<u>\$ (1,512,748)</u>