

City of Bethlehem, Pennsylvania

Financial Statements and Supplementary Information

Year Ended December 31, 2014 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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CITY OF BETHLEHEM, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bethlehem, Pennsylvania (City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and the historical pension and other post-employment benefit (OPEB) information on pages i through xiv, 91 through 92, and 93 through 102, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2016 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* in considering the City's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
March 9, 2016

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, 2014 and 2013. The City's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow.

Financial Highlights

The City's total net position increased by \$1,348,185 in 2014 and increased by \$2,038,331 in 2013.

In the City's governmental activities, net position increased by \$1,729,548 in 2014 and decreased by \$1,188,969 in 2013. In 2014, the increase in net position is the result of a decrease in the annual Pennsylvania Municipal Retirement System (PMRS) pension Minimum Municipal Obligation (MMO) cost of approximately \$1.9 million in the General Fund due to the issuance of a PMRS pension bond in 2014. In 2013, the decrease in net position is the result of increases in the annual pension MMO costs of approximately \$2.7 million in the General Fund.

In the City's business-type activities, net position decreased by \$381,363 in 2014 and increased by \$3,227,300 in 2013. In 2014, the decrease is the result of a decrease in capital grant revenue of approximately \$3.4 million offset by an increase in charges for services of approximately \$800,000. On the expenditure side, there was a decrease in the annual PMRS pension MMO costs of approximately \$800,000. In 2013, the increase is the result of an increase in capital grant revenue of \$3,134,860 and charges for services of \$1,625,203. On the expenditure side, there was an increase in the annual pension MMO costs of \$514,401.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

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

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

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

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

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

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

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

Fiduciary Funds

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

Component Units

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-90 of this report.

Other Information

Required supplementary information can be found on pages 91-102 of this report. The combining statements referred to earlier in connection with governmental fund types are presented

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

immediately following the required supplementary information section. Combining schedules can be found on pages 103-104 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources at the close of the end of December 31, 2014 by \$20,105,503 and 2013 by \$21,453,688.

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

City's Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 23,809,661	\$ 26,713,592	\$ 12,127,724	\$ 12,568,261	\$ 35,937,385	\$ 39,281,853
Capital assets	59,360,623	59,332,952	101,783,946	103,870,800	161,144,569	163,203,752
Other assets	29,623,280	3,233,423	21,290,736	14,393,089	50,914,016	17,626,512
Total assets	\$ 112,793,564	\$ 89,279,967	\$ 135,202,406	\$ 130,832,150	\$ 247,995,970	\$ 220,112,117
Deferred charge on refunding	\$ 317,039	\$ 216,553	\$ 77,135	\$ 439,912	\$ 394,174	\$ 656,465
Current liabilities	\$ 18,117,130	\$ 20,162,794	\$ 12,465,885	\$ 17,205,091	\$ 30,583,015	\$ 37,367,885
Noncurrent liabilities	121,385,151	97,454,952	116,203,253	107,399,433	237,588,404	204,854,385
Total liabilities	\$ 139,502,281	\$ 117,617,746	\$ 128,669,138	\$ 124,604,524	\$ 268,171,419	\$ 242,222,270
Deferred charge on refunding	\$ -	\$ -	\$ 324,228	\$ -	\$ 324,228	\$ -
Net investment in capital assets	\$ 20,496,370	\$ 23,119,914	\$ 154,925	\$ 942,247	\$ 20,651,295	\$ 24,062,161
Restricted	29,898,597	2,955,057	829,318	-	30,727,915	2,955,057
Unrestricted	(76,786,645)	(54,196,197)	5,301,932	5,725,291	(71,484,713)	(48,470,906)
Total net position (deficit)	\$ (26,391,678)	\$ (28,121,226)	\$ 6,286,175	\$ 6,667,538	\$ (20,105,503)	\$ (21,453,688)

Other assets in Governmental Activities increased approximately \$26.4 million. This was due to the issuance of \$27.8 million in pension obligation bonds which created a net pension asset.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Noncurrent liabilities in Governmental Activities increased approximately \$23.9 million. This was due to the issuance of debt in the amount of \$53.7 million, net of refundings of \$25.5 million and debt principal payments of \$4.1 million.

Other assets in Business-type Activities increased approximately \$6.9 million. This was due to the issuance of \$27.8 million in pension obligation bonds which created a net pension asset, a portion of which is allocated to business-type activities. Additionally, restricted investments increased due to \$5 million from a water debt issuance and \$1.1 million from the termination of a forward delivery agreement.

Current liabilities in Business-type Activities decreased approximately \$4.7 million. This was due the current portion of debt decreasing by \$5.5 million due to the refunding/restructuring of water debt.

Noncurrent liabilities in Business-type Activities increased approximately \$8.8 million. This was due to the issuance of water bonds as well as drawdowns from the sewer Pennvest loan for \$1.8 million.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

City's Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for services	\$ 12,087,136	\$ 12,284,833	\$ 35,799,245	\$ 35,016,406	\$ 47,886,381	\$ 47,301,239
Operating grants and contributions	9,179,856	8,294,114	-	-	9,179,856	8,294,114
Capital grants	922,870	562,193	-	3,435,639	922,870	3,997,832
General revenues:						
Taxes	35,410,571	34,604,593	-	-	35,410,571	34,604,593
Investment earnings	28,166	52,992	315,542	619,621	343,708	672,613
Unrestricted grants	13,762,302	14,064,821	-	-	13,762,302	14,064,821
Sale of general capital assets	-	1,200,000	-	-	-	1,200,000
Total revenues	71,390,901	71,063,546	36,114,787	39,071,666	107,505,688	110,135,212
Expenses:						
General government	804,735	732,272	-	-	804,735	732,272
Administrative	1,081,556	1,064,735	-	-	1,081,556	1,064,735
Community development	5,902,258	5,008,438	-	-	5,902,258	5,008,438
Parks and public property	5,090,131	5,295,265	-	-	5,090,131	5,295,265
Public works	8,753,044	8,823,904	-	-	8,753,044	8,823,904
Police	17,232,039	16,717,915	-	-	17,232,039	16,717,915
Fire	11,146,186	10,731,519	-	-	11,146,186	10,731,519
General expenditures	16,678,090	18,033,049	-	-	16,678,090	18,033,049
Civic	125,586	101,340	-	-	125,586	101,340
Library	1,396,159	1,381,871	-	-	1,396,159	1,381,871
Program expenditures	1,306,441	2,136,911	-	-	1,306,441	2,136,911
Interest on long-term debt	5,462,933	5,126,585	-	-	5,462,933	5,126,585
Water fund	-	-	20,612,224	21,237,723	20,612,224	21,237,723
Sewer fund	-	-	10,411,731	10,138,886	10,411,731	10,138,886
Other non-major fund	-	-	1,432,393	1,566,468	1,432,393	1,566,468
Total expenses	74,979,158	75,153,804	32,456,348	32,943,077	107,435,506	108,096,881
Change in net position before transfers and special items	(3,588,257)	(4,090,258)	3,658,439	6,128,589	70,182	2,038,331
Transfers	4,012,786	2,901,289	(4,012,786)	(2,901,289)	-	-
Special items	1,305,019	-	(27,016)	-	1,278,003	-
Change in net position	1,729,548	(1,188,969)	(381,363)	3,227,300	1,348,185	2,038,331
Net position:						
Beginning, restated	(28,121,226)	(26,932,257)	6,667,538	3,440,238	(21,453,688)	(23,492,019)
Ending	\$ (26,391,678)	\$ (28,121,226)	\$ 6,286,175	\$ 6,667,538	\$ (20,105,503)	\$ (21,453,688)

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Governmental activities. Governmental activities increased the City's net position by \$1,729,548 for the year ended December 31, 2014. Key elements of this increase are as follows:

- General expenditures in Governmental Activities decreased approximately \$1.4 million. This was due to a decrease in the annual PMRS pension MMO cost of approximately \$1.9 million in the General Fund due to the issuance of a PMRS pension bond in 2014.
- Special items in Governmental Activities increased approximately \$1.3 million. This was due to a settlement agreement entered into with surrounding municipalities related to prior years earned income tax collections.
- Sale of general capital assets in Governmental Activities decreased approximately \$1.2 million. This was due to parking lots which were sold to the Parking Authority in 2013.

Business-type activities. Business-type activities decreased the City's net position by \$381,363 for the year ended December 31, 2014. Key elements of this change are as follows:

- Charges for services in Business-type Activities increased approximately \$800,000. This mainly due to the increase in water rates and consumption amounts.
- Capital grants in Business-type Activities decreased approximately \$3.4 million. This was due to the acquisition of the East Allen Township system which occurred in 2013.
- On the expenditure side, there was a decrease in the annual PMRS pension MMO costs of approximately \$800,000.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Financial Analysis of the Major Funds

General Fund

Revenues of the General Fund totaled \$65,122,888 for the year ended December 31, 2014. The following represents a summary of general fund revenue, for the years ended December 31, 2014 and 2013 by source, along with changes from 2013:

	2014	2013	Change From 2013 to 2014	Percentage Change
Taxes	\$ 35,479,900	\$ 34,544,085	\$ 935,815	2.71%
Licenses and permits	2,736,382	2,819,303	(82,921)	-2.94%
Intergovernmental revenues	8,045,703	6,653,039	1,392,664	20.93%
Fines and forfeitures	439,426	455,041	(15,615)	-3.43%
Departmental earnings	7,076,709	7,075,745	964	0.01%
Other charges	874,138	1,138,367	(264,229)	-23.21%
Municipal recreation	504,280	453,111	51,169	11.29%
Investment income	(2,872)	13,703	(16,575)	-120.96%
Host fee	9,619,221	9,574,998	44,223	0.46%
Other	350,001	793,442	(443,441)	-55.89%
Total	\$ 65,122,888	\$ 63,520,834	\$ 1,602,054	2.52%

Intergovernmental revenues increased by \$1,392,664 from 2013 to 2014. The increase was due to the recording of Redevelopment Assistance Capital Program (RACP) funds of \$932,016 as well as increases in the Community Oriented Policing Services (COPS) grant of \$185,915 and Staffing for Adequate Fire and Emergency Response (SAFER) grant of \$83,925.

Taxes increased by \$935,815 from 2013 to 2014. The increase was due to several factors including a \$545,822 increase in earned income taxes, a \$116,552 increase in mercantile and business privilege tax, and a \$85,076 increase in local services tax.

Other decreased by \$443,441 from 2013 to 2014. The decrease was due to the final suburban stakeholder's payment being received in 2013 of \$294,668 as well as a decrease in workmen's compensation payments of \$71,232. In 2013, the City switched to being self-insured for workmen's compensation; therefore, employees who are out for an on-the-job injury no longer receive salary continuation checks from the workmen's compensation provider that need to be turned back to the City. The employees now receive payment directly from the City.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Other charges decreased by \$264,229 from 2013 to 2014. The decrease was due to a decrease in funds received from the Bethlehem Area School District of \$89,607. Miscellaneous decreased \$148,482 which was the result of recording various agency fund activity.

General fund expenditures totaled \$110,901,900, which represents an increase of \$53,376,246 or 92.79% from 2013. The following represents a summary of general fund expenditures for the years ended December 31, 2014 and 2013, by function, along with changes from 2013:

	2014	2013	Change 2013 to 2014	Percentage Change
General government	\$ 750,713	\$ 737,961	\$ 12,752	1.73%
Administrative	1,070,891	1,052,299	18,592	1.77%
Community development	5,804,852	4,984,562	820,290	16.46%
Parks and public property	3,031,655	3,054,025	(22,370)	-0.73%
Public works	4,603,197	4,733,198	(130,001)	-2.75%
Police	13,251,892	12,837,422	414,470	3.23%
Fire	10,569,751	10,292,724	277,027	2.69%
General expenditures	43,140,612	17,995,620	25,144,992	139.73%
Civic	125,586	101,340	24,246	23.93%
Library	1,277,082	1,277,000	82	0.01%
Debt service - principal	26,210,555	345,541	25,865,014	7485.37%
Debt service - interest	1,065,114	113,962	951,152	834.62%
Total	\$ 110,901,900	\$ 57,525,654	\$ 53,376,246	92.79%

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

- Debt service principal expense increased by \$25,865,014 due to the refinancing of the 2004 Pension Bonds.
- General expenditures increased by \$25,144,992 due to the payment to PMRS which included the proceeds from the pension bond which was issued in 2014.
- Debt service interest expense increased by \$951,152 due to bond issuance costs of \$724,725 incurred in 2014.
- Community development increased by \$820,290 due to the recording RACP funds of \$932,016.
- Police increased by \$414,470 due to the hiring of officers to bring the City up to the number budgeted, as well as a contractual 4% wage increase.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

- Fire increased by \$277,027 due to the recording of a capital lease for a fire engine, as well as a contractual 3% wage increase.

General Fund Budgetary Highlights

The General Fund expenditure budget for fiscal year 2014 was approximately \$69.9 million. This was an increase of \$1.0 million over the previous year amended budget. There were no material amendments to the 2014 budget. Actual expenditures were approximately \$4.3 million less than budgeted. General expenditures were lower than budgeted mainly due to the issuance of the PMRS pension bond which reduced the MMO payment for 2014 as well as savings in medical insurance. Public Works realized savings in streetlight costs. Community Development realized savings in personnel costs, contracts, and grants that were not fully spent in 2014 and carried over into 2015.

Non-Utility Capital Improvements Fund

Cash and cash equivalents decreased by approximately \$4.9 million. This was due to having \$1.5 million less in unspent 2013 General Obligation Bond proceeds, as well as \$3.3 less in unspent capital lease proceeds for a street lighting project in 2014.

Intergovernmental revenues increased by approximately \$500,000. Capital grants vary from year to year, but some of the larger ones reported for the year ended December 31, 2014 that were not reported in 2013 were grants from the Northampton County Gaming Board for various projects, Assistance to Firefighters Grant/Federal Emergency Management Agency for fire equipment, and Department of Conservation and Natural Resources for continued work on the greenway.

Other Non-Major Governmental Funds

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

Pension Trust Fund

At December 31, 2014, the net position - restricted for employees' retirement pension benefits was \$140,148,256. 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 5.30% in 2014. The Fund returned an average of 8.63% annually since its inception in 1987.

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

Capital Assets

The City's investment in capital assets for its government and business-type activities as of December 31, 2014 amounted to \$59,360,623 and \$101,783,946 (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 \$587,028 towards replacement of the public safety CAD/RMS system.
- The City spent \$528,014 towards a fire hazmat vehicle and radios for the fire department.
- The City spent \$455,054 towards street overlays.
- The City spent \$243,195 towards the South Bethlehem greenway.
- The City spent \$207,066 towards a street spray patch vehicle.

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

- The City spent \$2,129,744 on digester and waste activated sludge upgrades.
- The City spent \$1,292,116 on the relocation of combined sewer outfall 004.
- The City spent \$636,882 to replace water distribution infrastructure on Delaware Avenue.
- The City spent \$415,132 on the design of a new solids drying facility and to replace belt filter presses.

Additional information on the City's capital assets can be found at Note 4 on pages 43-48.

Long-Term Debt

As of October 2015, the City's net non-electoral debt of \$74,363,833, (net of deductions of \$51,177,743), is well below the legal limit of \$182,226,868. Additional information on the City's long-term debt can be found at Note 7 on pages 50-62 of this report.

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

Economic Outlook

In Bethlehem, economic activity on the former Bethlehem Steel Corporation property continues. Sands Casino Resort Bethlehem remains the top performing casino in the Commonwealth of Pennsylvania. Resort amenities continue to develop around gaming, which further strengthen Bethlehem's position as a destination. The 50,000 square foot Sands Bethlehem Event Center

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

opened in May 2012 and now boasts a full calendar of live entertainment, including concerts, comedians, boxing, trade shows, conferences and speaking engagements.

Economic activity of the site extends beyond tourism and entertainment. The opening of the Crayola's main distribution center – an 800,000 square foot warehouse in Majestic Bethlehem Center – earlier in 2013 seems to have encouraged further large-scale development on the site, including a second large distribution facility housing Walmart. Additional construction at Lehigh Valley Industrial Park VII includes six more warehouses and manufacturing uses, such as Curtiss Wright and Reeb Millwork, for a projected total of \$133 million in economic development in this area alone.

Development continues in other areas of Bethlehem as well. Lehigh Valley Charter High School for the Arts recently completed construction of an 87,000 square foot building. The \$25 million project is located in the Southside downtown and will bring students, teachers, staff and families to the retail and restaurants surrounding the new school. In west Bethlehem, Nitschmann Middle School will be demolished and a new \$43.8 million middle school will be built on the same site. On the north side, Kirkland Village is proposing a senior living expansion of 84 independent living units and a 32 bed skilled nursing facility. In the northwest, Lehigh Valley Hospital-Muhlenberg recently got approval for a \$93.6 million 4-story south wing expansion.

In December 2013, the City was awarded one of two City Revitalization and Improvement Zone (CRIZ) designations. Among the purposes of the CRIZ designation is to enable vacant or abandoned space to be developed for commercial use, thereby creating jobs, increasing personal incomes and growing state and local tax revenues. The CRIZ law enables the City (through a municipal authority) to pledge certain incremental taxes (other than real estate taxes) payable to the Commonwealth of Pennsylvania and local governments and generated within the CRIZ towards loan repayment in order to finance redevelopment. Currently, the CRIZ is approximately 130 acres and the City is exploring nine different development projects. One of the projects on the Southside, Greenway Commons, Phase 1, is currently being constructed. This \$25 million mixed use project, containing first floor retail uses and over 100 upper floor apartments, will add vibrancy to the eclectic Southside.

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

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

The following is a list of other major development projects:

Residential		Status as of August 2015
Central Park West	\$ 5,500,000	Under Construction/Portions Complete
Chelsea Commons/1325 Chelsea Avenue	5,000,000	Plans Approved
Cherokee Court Condos	1,800,000	Plans Approved
Clermont Development	500,000	Plans Approved
Elliott Ave Development	3,600,000	Plans Approved
Evans St. Apartment Building (not townhouse)	3,000,000	Plans Approved
Glenwood Subdivision (Miga-Glenwood)	900,000	Plans Approved
Habitat for Humanity 9th & Williams	1,200,000	Plans Approved
Henn - Kelchner Road Condos	2,100,000	Plans Approved
Kelchner Rd Condominiums (Rose Hill Condos)	1,820,000	Plans Approved
Lengyel Apartments	1,600,000	Plans Approved
Minsi Ridge	4,050,000	Under Construction / Portions Complete
Overlook at Saucon Creek	3,000,000	Under Construction / Portions Complete
Park View Commons	3,000,000	Under Construction / Portions Complete
Riverview Heights	5,000,000	Under Construction
Saucon Square Condominiums	3,500,000	Under Construction / Portions Complete
Silk Mill Apartments (Phase 1&2)	13,000,000	Phase I Plan Complete / Phase II Plans Approved
Stever Mills on Creek Rd.	15,000,000	Under Construction / Portions Complete
Villas at Saucon Valley	12,000,000	Under Construction/Portions Complete
St. Stanislaus South Side Lofts at Hayes St.	7,000,000	Construction Complete 2015
Atlantic Street South Side Lofts	4,500,000	Construction Complete 2015
Meadows Townhomes (East Blvd & Chester Rd)	3,800,000	Under Construction/Portions Complete
Residential Subtotal	100,870,000	
Residential/Senior		
Cottages @ Monocacy Manor	4,500,000	Under Construction/Portions Complete
Turnberry Mews	10,000,000	Under Construction / Portions Complete
Residential / Senior Subtotal	14,500,000	
Institutional		
Bethlehem Hospital	6,500,000	Plans Approved
Lehigh University/Police Station	3,000,000	Under Construction
Lehigh University/Williams Hall	16,800,000	Construction Complete 2015
Lehigh Valley Hospital-Muhlenberg South Wing	93,600,000	Plans Approved
L.V.Performing Arts Charter High School	25,000,000	Construction Complete 2015
Moravian Village Memory Care Facility	20,000,000	Plans Approved
Nitschmann Middle School	43,800,000	Under Construction
Notre Dame School Gymnasium Expansion	2,500,000	Under Construction
St. Luke's Hosp/Moravian College/Sports Med	5,600,000	Under Construction
Terrace Homes at Northwood Gardens	35,500,000	Under Construction
Institutional Subtotal	252,300,000	

CITY OF BETHLEHEM, PENNSYLVANIA

Management's Discussion and Analysis (Unaudited)

		Status as of August 2015
Mixed-Use		
Farr Building/2 W. Broad Street	5,500,000	Under Construction / Portions Complete
Greenway Commons/422-630 E. Third Street	25,000,000	Plans Approved
James Best Mixed Commercial/Residential	5,154,200	Under Construction/Portions Complete
Martin Tower	300,000,000	Plans Approved
Negrao Personal Care Facility and Preschool	10,800,000	Plans Submitted
NMIH	26,000,000	Under Construction
Plaza on 8th Mixed Use/Commercial	25,000,000	Under Construction / Portions Complete
Polk Street Parking Garage	16,000,000	Plans Approved
SteelStacks Campus	57,500,000	Under Construction / Portions Complete
409-411 Wyandotte Mixed Use	750,000	Plans Approved
Mixed-Use Subtotal	471,704,200	
Industrial		
LVIP VII LPT Warehouse (lots 3,4,5), 10 Emery	44,000,000	Under Construction
LVIP VII, 2485 Commerce Ctr Blvd Warehouse	50,000,000	Construction Complete 2015
LVIP VII Lot 13 Spillman Dr	9,702,000	Plans Approved
LVIP VII Lot 82 - Curtiss Wright	7,000,000	Construction Complete in 2015
LVIP VII - CSTK, 125 Emery St	4,650,000	Construction Complete in 2015
LVIP VII Lot 81 - 1025 Feather Way	12,000,000	Plans Approved
LVIP VII Lot 84 - Reeb Millwork	15,000,000	Under Construction
Majestic Bethlehem Center	500,000,000	Under Construction/Portions Complete
National Magnetic Corporation	250,000	Construction Complete in 2015
Patriot Distribution (LVIP VII, Lot 14)	11,770,000	Plans Approved
835 E. North Street	500,000	Plans Submitted
Industrial Subtotal	654,872,000	
Commercial		
		Status as of August 2015
Donnelly Car Care Center (Stefko Blvd)	550,000	Construction Complete 2015
Freedom Lawn Care	533,500	Plans Approved
Giant Grocery Fueling Facility	375,000	Plans Approved
One West Fourth	200,000	Under Construction / Portions Complete
Third and Taylor Office Building	9,750,000	Plans Approved
Trans Bridge Park & Ride	230,000	Plans Approved
404 Building (404 E. Third Street)	6,200,000	Plans Approved
Commercial Subtotal	17,838,500	
Grand Total	\$ 1,512,084,700	

Requests For Information

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

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF NET POSITION

DECEMBER 31, 2014

Assets	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Current assets:					
Cash and cash equivalents	\$ 11,253,971	\$ 4,148,107	\$ 15,402,078	\$ 1,776,712	\$ 17,178,790
Investments	92,700	-	92,700	1,215	93,915
Receivables (net of allowance for uncollectibles):					
Taxes	3,633,158	-	3,633,158	-	3,633,158
Accounts	706,573	8,097,943	8,804,516	231,628	9,036,144
Pledges	-	-	-	38,900	38,900
Other	690,787	-	690,787	45,270	736,057
Accrued interest	-	8,042	8,042	-	8,042
Due from other governments	7,013,122	-	7,013,122	-	7,013,122
Internal balances	419,350	(419,350)	-	-	-
Inventories	-	292,982	292,982	-	292,982
Prepaid expenses	-	-	-	47,425	47,425
Total current assets	23,809,661	12,127,724	35,937,385	2,141,150	38,078,535
Noncurrent assets:					
Loans receivable	1,594,874	-	1,594,874	-	1,594,874
Restricted cash and cash equivalents	-	1,966,344	1,966,344	153	1,966,497
Restricted investments	-	18,147,455	18,147,455	11,520,056	29,667,511
Pledges receivable	-	-	-	20,000	20,000
Capital assets, not being depreciated	8,323,778	6,922,921	15,246,699	5,884,431	21,131,130
Capital assets, net	51,036,845	94,861,025	145,897,870	25,501,708	171,399,578
Net pension asset	26,581,231	829,318	27,410,549	-	27,410,549
Other assets	1,447,175	347,619	1,794,794	-	1,794,794
Total noncurrent assets	88,983,903	123,074,682	212,058,585	42,926,348	254,984,933
Total Assets	112,793,564	135,202,406	247,995,970	45,067,498	293,063,468
Deferred Outflows of Resources					
Deferred charge on refunding	317,039	77,135	394,174	515,934	910,108
Total Deferred Outflows of Resources	317,039	77,135	394,174	515,934	910,108

(Continued)

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

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
Liabilities					
Current liabilities:					
Accounts payable and other accrued expenses	1,790,634	4,081,289	5,871,923	574,594	6,446,517
Accrued payroll	1,894,274	368,618	2,262,892	133,255	2,396,147
Accrued vacation and other compensated absences	931,770	642,771	1,574,541	99,620	1,674,161
Termination benefits payable	164,583	-	164,583	-	164,583
Interest payable	819,532	430,106	1,249,638	96,174	1,345,812
Escrow liabilities	267	-	267	-	267
Current portion of long-term debt	4,254,000	6,842,304	11,096,304	2,989,683	14,085,987
Current portion of capital lease obligations	635,739	96,030	731,769	177,691	909,460
Due to Agency Fund	1,674,218	4,767	1,678,985	-	1,678,985
Unearned revenue	5,952,113	-	5,952,113	161,658	6,113,771
Total current liabilities	18,117,130	12,465,885	30,583,015	4,232,675	34,815,690
Noncurrent liabilities:					
Accrued vacation and other compensated absences, net of current portion	2,993,443	-	2,993,443	-	2,993,443
Accrued sick pay	-	184,518	184,518	-	184,518
Long-term debt, net of current portion	108,881,594	114,963,333	223,844,927	31,863,431	255,708,358
Capital lease obligation, net of current portion	5,615,120	236,485	5,851,605	302,158	6,153,763
Other post-employment benefit liability	3,894,994	818,917	4,713,911	-	4,713,911
Unearned revenue	-	-	-	297,122	297,122
Total noncurrent liabilities	121,385,151	116,203,253	237,588,404	32,462,711	270,051,115
Total Liabilities	139,502,281	128,669,138	268,171,419	36,695,386	304,866,805
Deferred Inflows of Resources					
Deferred charge on refunding	-	324,228	324,228	-	324,228
Total Deferred Inflows of Resources	-	324,228	324,228	-	324,228
Net Position					
Net investment in capital assets	20,496,370	154,925	20,651,295	5,383,820	26,035,115
Restricted	29,898,597	829,318	30,727,915	2,420,433	33,148,348
Unrestricted	(76,786,645)	5,301,932	(71,484,713)	1,083,793	(70,400,920)
Total Net Position	\$ (26,391,678)	\$ 6,286,175	\$ (20,105,503)	\$ 8,888,046	\$ (11,217,457)

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

<u>Function/Programs:</u>	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<u>Primary government:</u>				
Governmental activities:				
General government	\$ 804,735	\$ -	\$ -	\$ -
Administrative	1,081,556	153,803	-	-
Community development	5,902,258	3,960,940	3,205,099	-
Parks and public property	5,090,131	654,789	485,019	482,481
Public works	8,753,044	1,485,666	1,539,784	307,813
Police	17,232,039	2,245,686	2,279,592	-
Fire	11,146,186	3,586,252	386,129	132,576
General expenditures	16,678,090	-	-	-
Civic	125,586	-	-	-
Library	1,396,159	-	-	-
Program expenditures	1,306,441	-	1,284,233	-
Interest on long-term debt	5,462,933	-	-	-
Total governmental activities	74,979,158	12,087,136	9,179,856	922,870
Business-type activities:				
Water Fund	20,612,224	20,462,508	-	-
Sewer Fund	10,411,731	13,958,387	-	-
Other non-major funds	1,432,393	1,378,350	-	-
Total business-type activities	32,456,348	35,799,245	-	-
Total primary government	\$ 107,435,506	\$ 47,886,381	\$ 9,179,856	\$ 922,870
<u>Component units:</u>				
Bethlehem Parking Authority	\$ 4,747,704	\$ 4,876,312	\$ -	\$ -
Bethlehem Public Library	2,919,634	227,773	2,861,223	-
Bethlehem Redevelopment Authority	7,380,602	-	84,214	11,366,476
Total component units	\$ 15,047,940	\$ 5,104,085	\$ 2,945,437	\$ 11,366,476
General Revenues:				
Real estate taxes and other taxes				
Grants and other charges not restricted to specific programs				
Investment income				
Transfers				
Special items				
Total general revenues, transfers, and special items				
Change in Net Position				
Net Position:				
Beginning of year - restated				
End of year				

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

Net (Expense) Revenue and
Changes in Net Position

Primary Government			Component Units	Total Reporting Entity
Governmental Activities	Business-Type Activities	Total		
\$ (804,735)	\$ -	\$ (804,735)	\$ -	\$ (804,735)
(927,753)	-	(927,753)	-	(927,753)
1,263,781	-	1,263,781	-	1,263,781
(3,467,842)	-	(3,467,842)	-	(3,467,842)
(5,419,781)	-	(5,419,781)	-	(5,419,781)
(12,706,761)	-	(12,706,761)	-	(12,706,761)
(7,041,229)	-	(7,041,229)	-	(7,041,229)
(16,678,090)	-	(16,678,090)	-	(16,678,090)
(125,586)	-	(125,586)	-	(125,586)
(1,396,159)	-	(1,396,159)	-	(1,396,159)
(22,208)	-	(22,208)	-	(22,208)
(5,462,933)	-	(5,462,933)	-	(5,462,933)
<u>(52,789,296)</u>	<u>-</u>	<u>(52,789,296)</u>	<u>-</u>	<u>(52,789,296)</u>
-	(149,716)	(149,716)	-	(149,716)
-	3,546,656	3,546,656	-	3,546,656
-	(54,043)	(54,043)	-	(54,043)
<u>-</u>	<u>3,342,897</u>	<u>3,342,897</u>	<u>-</u>	<u>3,342,897</u>
<u>(52,789,296)</u>	<u>3,342,897</u>	<u>(49,446,399)</u>	<u>-</u>	<u>(49,446,399)</u>
-	-	-	128,608	128,608
-	-	-	169,362	169,362
-	-	-	4,070,088	4,070,088
<u>-</u>	<u>-</u>	<u>-</u>	<u>4,368,058</u>	<u>4,368,058</u>
35,410,571	-	35,410,571	-	35,410,571
13,762,302	-	13,762,302	-	13,762,302
28,166	315,542	343,708	166,347	510,055
4,012,786	(4,012,786)	-	-	-
1,305,019	(27,016)	1,278,003	-	1,278,003
<u>54,518,844</u>	<u>(3,724,260)</u>	<u>50,794,584</u>	<u>166,347</u>	<u>50,960,931</u>
1,729,548	(381,363)	1,348,185	4,534,405	5,882,590
<u>(28,121,226)</u>	<u>6,667,538</u>	<u>(21,453,688)</u>	<u>4,353,641</u>	<u>(17,100,047)</u>
<u>\$ (26,391,678)</u>	<u>\$ 6,286,175</u>	<u>\$ (20,105,503)</u>	<u>\$ 8,888,046</u>	<u>\$ (11,217,457)</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2014

	General Fund	Non-Utility Capital Improvements Fund	Other Non-Major Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 5,073,182	\$ 3,026,098	\$ 3,110,025	\$ 11,209,305
Investments	-	92,700	-	92,700
Receivables:				
Taxes	3,633,158	-	-	3,633,158
Accounts	706,573	-	-	706,573
Loans	-	-	1,594,874	1,594,874
Other	595,346	10,704	84,737	690,787
Due from other funds	466,187	23,500	-	489,687
Due from other governments	6,441,773	309,334	262,015	7,013,122
Total Assets	\$ 16,916,219	\$ 3,462,336	\$ 5,051,651	\$ 25,430,206
Liabilities, Deferred Inflows of Resources, and Fund Balance				
Liabilities:				
Accounts payable and other accrued expenses	\$ 746,326	\$ 531,364	\$ 362,005	\$ 1,639,695
Accrued payroll	1,811,905	-	82,369	1,894,274
Accrued vacation and other compensated absences	903,665	-	28,105	931,770
Escrow liabilities	267	-	-	267
Due to other funds	1,678,985	65,570	-	1,744,555
Unearned revenues	151,764	128,670	5,671,679	5,952,113
Total Liabilities	5,292,912	725,604	6,144,158	12,162,674
Deferred Inflows of Resources:				
Unavailable revenue - taxes	1,975,226	-	-	1,975,226
Fund Balance:				
Restricted for:				
Parks and public property	201,644	-	-	201,644
Community development	175,361	-	-	175,361
Debt service	2,604,878	-	-	2,604,878
Capital projects	-	2,736,732	-	2,736,732
Public works	-	-	152,525	152,525
Police	84,998	-	-	84,998
Library	97,960	-	-	97,960
Unassigned	6,483,240	-	(1,245,032)	5,238,208
Total Fund Balance	9,648,081	2,736,732	(1,092,507)	11,292,306
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 16,916,219	\$ 3,462,336	\$ 5,051,651	\$ 25,430,206

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

CITY OF BETHLEHEM, PENNSYLVANIA

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

DECEMBER 31, 2014

Total Fund Balance - Governmental Funds \$ 11,292,306

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 59,360,623

Net pension asset 26,581,231

Real estate taxes and earned income taxes not collected within a period of time subsequent to year-end are recognized as revenue in the statement of net position. 1,975,226

Accrued vacation and other compensated absences not due within the next twelve months are recorded on the statement of net position. (2,993,443)

Termination benefits are not due and payable in the current period and, therefore, are not reported in the funds. (164,583)

Other post-employment benefit liability is recorded on the statement of net position. (3,894,994)

Prepaid bond insurance and charge on refunding are amortized on the statement of net position. 1,764,214

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

Bonds and notes (113,135,594)

Capital leases (6,250,859)

Accrued interest payable is included on the statement of net position. (819,532)

Assets and liabilities of the internal service fund reported in the statement of net position are used to charge the costs of insurance to individual funds and are not reported in the governmental funds. (106,273)

Net Position - Governmental Activities \$ (26,391,678)

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, 2014

	General Fund	Non-Utility Capital Improvements Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 35,479,900	\$ -	\$ -	\$ 35,479,900
Licenses and permits	2,736,382	-	-	2,736,382
Intergovernmental revenues	8,045,703	1,326,842	4,467,507	13,840,052
Fines and forfeitures	439,426	-	-	439,426
Departmental earnings	7,076,709	-	-	7,076,709
Other charges	874,138	-	520,306	1,394,444
Municipal recreation	504,280	-	-	504,280
Investment income	(2,872)	7,256	23,782	28,166
Host fee	9,619,221	-	-	9,619,221
Other	350,001	(1,125)	70,006	418,882
Total revenues	65,122,888	1,332,973	5,081,601	71,537,462
Expenditures:				
Current:				
General government	750,713	-	-	750,713
Administrative	1,070,891	-	-	1,070,891
Community development	5,804,852	-	-	5,804,852
Parks and public property	3,031,655	-	-	3,031,655
Public works	4,603,197	-	1,688,007	6,291,204
Police	13,251,892	-	3,055,645	16,307,537
Fire	10,569,751	-	-	10,569,751
General expenditures	43,140,612	-	-	43,140,612
Civic	125,586	-	-	125,586
Library	1,277,082	-	-	1,277,082
Program expenditures	-	-	1,306,441	1,306,441
Capital outlays	-	5,841,393	-	5,841,393
Debt service - principal	26,210,555	38,683	4,078,000	30,327,238
Debt service - interest	1,065,114	2,203	4,484,661	5,551,978
Total expenditures	110,901,900	5,882,279	14,612,754	131,396,933
Excess (Deficiency) of Revenues Over Expenditures	(45,779,012)	(4,549,306)	(9,531,153)	(59,859,471)
Other Financing Sources (Uses):				
Transfers in	3,612,785	-	9,662,661	13,275,446
Transfers out	(8,877,837)	-	(384,823)	(9,262,660)
General obligation bonds issued	27,785,000	-	-	27,785,000
Refunding bonds issued	25,950,000	-	-	25,950,000
Original issue premium	38,066	-	-	38,066
Capital lease	336,666	-	-	336,666
Total other financing sources (uses)	48,844,680	-	9,277,838	58,122,518
Net Change in Fund Balance Before Special Item	3,065,668	(4,549,306)	(253,315)	(1,736,953)
Special item	1,305,019	-	-	1,305,019
Net Change in Fund Balance	4,370,687	(4,549,306)	(253,315)	(431,934)
Fund Balance:				
Beginning of the year	5,277,394	7,286,038	(839,192)	11,724,240
End of the year	\$ 9,648,081	\$ 2,736,732	\$ (1,092,507)	\$ 11,292,306

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, 2014

Net Change in Fund Balance - Governmental Funds \$ (431,934)

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 (\$7,742,909) were less than depreciation (\$7,688,686) and loss on disposal (\$26,552) in the current period. 27,671

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. (146,561)

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

 Issuance of debt (54,071,666)
 Repayment of principal 30,327,238

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. (61,973)

Change in net pension asset in the statement of activities. 26,581,231

Change in termination benefits in the statement of activities. (164,583)

Change in accrued vacation and other compensated absences not due within the next twelve months in the statement of activities. 95,543

Change in other post-employment benefit liability in the statement of activities. (419,661)

Governmental funds report the effect of bond insurance, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. 112,952

Activities of the internal service fund are reported as net loss within the statement of activities. (118,709)

Change in Net Position - Governmental Activities \$ 1,729,548

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - PROPRIETARY FUNDS

DECEMBER 31, 2014

Assets and Deferred Outflows of Resources	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
Assets:					
Current assets:					
Cash and cash equivalents	\$ 534,563	\$ 3,592,754	\$ 20,790	\$ 4,148,107	\$ 44,666
Accounts receivable, net	4,136,349	3,961,594	-	8,097,943	-
Accrued interest	8,042	-	-	8,042	-
Due from other funds	-	55,000	10,570	65,570	-
Inventories	166,389	90,085	36,508	292,982	-
Total current assets	4,845,343	7,699,433	67,868	12,612,644	44,666
Restricted assets:					
Cash and cash equivalents	1,966,344	-	-	1,966,344	-
Investments	18,147,455	-	-	18,147,455	-
Capital assets, not being depreciated	1,284,907	5,463,014	175,000	6,922,921	-
Capital assets, net	79,924,089	14,262,536	674,400	94,861,025	-
Net pension asset	342,678	397,920	88,720	829,318	-
Other assets	258,202	79,696	9,721	347,619	-
Total Assets	106,769,018	27,902,599	1,015,709	135,687,326	44,666
Deferred Outflows of Resources:					
Deferred charge on refunding	-	77,135	-	77,135	-
Total Assets and Deferred Outflows of Resources	\$ 106,769,018	\$ 27,979,734	\$ 1,015,709	\$ 135,764,461	\$ 44,666

(Continued)

	Enterprise Funds				
	Water Fund	Sewer Fund	Other	Total	Internal Service
			Enterprise Fund Municipal Golf Fund		
Liabilities, Deferred Inflows of Resources, and Net Position					
Liabilities:					
Current liabilities:					
Accounts payable and other accrued expenses	\$ 1,766,929	\$ 429,681	\$ 77,297	\$ 2,273,907	\$ 150,939
Accrued payroll	198,766	149,611	20,241	368,618	-
Accrued vacation and other compensated absences	321,268	269,016	52,487	642,771	-
Construction accounts payable	615,356	1,192,026	-	1,807,382	-
Interest payable	358,316	69,496	2,294	430,106	-
Current portion of long-term debt	5,577,827	1,196,477	68,000	6,842,304	-
Current portion of capital lease obligation	-	-	96,030	96,030	-
Due to other funds	-	-	489,687	489,687	-
Total current liabilities	8,838,462	3,306,307	806,036	12,950,805	150,939
Accrued sick pay	130,322	54,196	-	184,518	-
Long-term debt, net	99,081,666	15,810,667	71,000	114,963,333	-
Capital lease obligation, net	-	-	236,485	236,485	-
Other post-employment benefits liability	496,627	269,110	53,180	818,917	-
Total Liabilities	108,547,077	19,440,280	1,166,701	129,154,058	150,939
Deferred Inflows of Resources:					
Deferred charge on refunding	324,228	-	-	324,228	-
Total Deferred Inflows of Resources	324,228	-	-	324,228	-
Net Position:					
Net investment in capital assets	(4,018,080)	3,795,120	377,885	154,925	-
Restricted - pension	342,678	397,920	88,720	829,318	-
Unrestricted	1,573,115	4,346,414	(617,597)	5,301,932	(106,273)
Total Net Position	(2,102,287)	8,539,454	(150,992)	6,286,175	(106,273)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 106,769,018	\$ 27,979,734	\$ 1,015,709	\$ 135,764,461	\$ 44,666

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

(Concluded)

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

YEAR ENDED DECEMBER 31, 2014

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other Enterprise Fund		
			Municipal Golf Fund	Total	
Operating Revenues:					
Charges for services	\$ 20,013,186	\$ 13,114,893	\$ 1,366,594	\$ 34,494,673	\$ 10,624,355
Operating Expenses:					
Salaries, wages, and fringe benefits	4,129,639	3,683,977	661,471	8,475,087	-
Professional fees	1,016,425	178,825	2,659	1,197,909	-
Utilities	306,735	631,170	57,925	995,830	-
Maintenance and repairs	101,932	281,770	43,188	426,890	-
Department contracts	315,908	1,122,959	7,188	1,446,055	-
Supplies	457,105	690,692	176,407	1,324,204	-
Service charges	3,007,615	1,298,827	256,165	4,562,607	-
Depreciation and amortization	5,357,212	1,980,856	171,113	7,509,181	-
Insurance claims	-	-	-	-	10,775,922
Administration	-	-	-	-	106,813
Other	441,443	309,729	40,252	791,424	-
Total operating expenses	15,134,014	10,178,805	1,416,368	26,729,187	10,882,735
Operating Income (Loss)	4,879,172	2,936,088	(49,774)	7,765,486	(258,380)
Non-Operating Revenues (Expenses):					
Investment income	307,651	7,891	-	315,542	-
Interest expense	(5,478,210)	(232,926)	(16,025)	(5,727,161)	-
Tapping fees	-	211,794	-	211,794	-
Other revenues	449,322	631,700	11,756	1,092,778	139,671
Total non-operating revenues (expenses)	(4,721,237)	618,459	(4,269)	(4,107,047)	139,671
Change in net position before transfers and special items	157,935	3,554,547	(54,043)	3,658,439	(118,709)
Transfers out	(559,600)	(3,453,186)	-	(4,012,786)	-
Special items	(27,016)	-	-	(27,016)	-
Change in Net Position	(428,681)	101,361	(54,043)	(381,363)	(118,709)
Net Position:					
Beginning of year	(1,673,606)	8,438,093	(96,949)	6,667,538	12,436
End of year	\$ (2,102,287)	\$ 8,539,454	\$ (150,992)	\$ 6,286,175	\$ (106,273)

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, 2014

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other Enterprise Fund	Total	
			Municipal Golf Fund		
Cash Flows From Operating Activities:					
Receipts from customers	\$ 19,517,019	\$ 12,796,589	\$ 1,393,306	\$ 33,706,914	\$ 10,624,534
Payments to suppliers for services	(5,734,724)	(4,576,107)	(462,009)	(10,772,840)	(10,731,796)
Payment to employees	(4,426,903)	(4,043,182)	(742,026)	(9,212,111)	-
Net cash provided by (used in) operating activities	<u>9,355,392</u>	<u>4,177,300</u>	<u>189,271</u>	<u>13,721,963</u>	<u>(107,262)</u>
Cash Flows From Noncapital Financing Activities:					
Transfers out	(559,600)	(3,453,186)	-	(4,012,786)	-
Other revenues received	449,322	631,700	11,756	1,092,778	139,671
Net cash provided by (used in) noncapital financing activities	<u>(110,278)</u>	<u>(2,821,486)</u>	<u>11,756</u>	<u>(2,920,008)</u>	<u>139,671</u>
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(1,620,461)	(3,947,292)	-	(5,567,753)	-
Principal payments on debt	(72,952,123)	(1,051,996)	(66,000)	(74,070,119)	-
Interest payments on debt	(3,480,616)	(339,468)	(17,114)	(3,837,198)	-
Principal payments on capital lease obligations	-	-	(102,545)	(102,545)	-
Tapping fees	-	211,794	-	211,794	-
Proceeds from issuance of debt	68,887,907	2,450,613	-	71,338,520	-
Debt issuance premium	5,513,777	-	-	5,513,777	-
Payment of debt issuance costs	(659,981)	-	-	(659,981)	-
Net cash used in capital and related financing activities	<u>(4,311,497)</u>	<u>(2,676,349)</u>	<u>(185,659)</u>	<u>(7,173,505)</u>	<u>-</u>
Cash Flows From Investing Activities:					
Net purchase of investments	(6,171,257)	-	-	(6,171,257)	-
Termination fee	1,147,000	-	-	1,147,000	-
Interest and dividends on investments	307,651	7,891	-	315,542	-
Net cash provided by (used in) investing activities	<u>(4,716,606)</u>	<u>7,891</u>	<u>-</u>	<u>(4,708,715)</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	217,011	(1,312,644)	15,368	(1,080,265)	32,409
Cash and Cash Equivalents:					
Beginning of year	2,283,896	4,905,398	5,422	7,194,716	12,257
End of year	<u>\$ 2,500,907</u>	<u>\$ 3,592,754</u>	<u>\$ 20,790</u>	<u>\$ 6,114,451</u>	<u>\$ 44,666</u>

(Continued)

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

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

YEAR ENDED DECEMBER 31, 2014
(Continued)

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other Enterprise Fund Municipal Golf Fund	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating income (loss)	\$ 4,879,172	\$ 2,936,088	\$ (49,774)	\$ 7,765,486	\$ (258,380)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	5,357,212	1,980,856	171,113	7,509,181	-
Changes in assets and liabilities:					
Accounts receivable	(496,167)	(318,304)	-	(814,471)	-
Due from other funds	-	-	-	-	179
Inventories	(560)	(20,212)	(145)	(20,917)	-
Net pension asset	(342,678)	(397,920)	(88,720)	(829,318)	-
Other assets	-	-	26,712	26,712	-
Accrued vacation and other compensated absences	8,851	(2,177)	(1,634)	5,040	-
Accrued payroll	(21,551)	9,846	3,277	(8,428)	-
Accounts payable and other accrued expenses	(87,001)	(41,923)	(6,657)	(135,581)	150,939
Due to other funds	-	-	128,577	128,577	-
Other post-employment benefits liability	58,114	31,046	6,522	95,682	-
Net cash provided by (used in) operating activities	<u>\$ 9,355,392</u>	<u>\$ 4,177,300</u>	<u>\$ 189,271</u>	<u>\$ 13,721,963</u>	<u>\$ (107,262)</u>
Non-cash Capital and Related Financing Activities:					
Accretion of capital appreciation bonds	<u>\$ 1,605,310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,605,310</u>	<u>\$ -</u>

(Concluded)

CITY OF BETHLEHEM, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2014

	Employee Benefit Trust Fund	Agency Fund
<hr/> Assets <hr/>		
Cash and cash equivalents	\$ -	\$ 1,638,612
Interest and dividends receivable	283,050	-
Due from the City	-	1,678,985
Investments	139,865,206	-
Total Assets	140,148,256	3,317,597
<hr/> Liabilities <hr/>		
Escrow liabilities	-	3,317,597
Total Liabilities	-	\$ 3,317,597
<hr/> Net Position <hr/>		
Restricted for employees' retirement benefits	140,148,256	
Total Net Position	\$ 140,148,256	

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

CITY OF BETHLEHEM, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2014

	<u>Employee Benefit Trust Fund</u>
Additions:	
<hr/>	
Contributions:	
Employee contributions	\$ 1,390,280
Employer contributions	6,784,080
Total contributions	<u>8,174,360</u>
Investment earnings:	
Investment income	2,745,761
Realized and unrealized gains, net	4,754,861
Total investment earnings	7,500,622
Less investment expense	<u>(851,197)</u>
Net investment earnings	<u>6,649,425</u>
Total additions	<u>14,823,785</u>
Deductions:	
<hr/>	
Benefits paid	11,639,746
Administrative costs	19,300
Total deductions	<u>11,659,046</u>
Change in Net Position	3,164,739
Net Position:	
<hr/>	
Beginning of year	<u>136,983,517</u>
End of year	<u>\$ 140,148,256</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

BALANCE SHEET - COMPONENT UNITS

DECEMBER 31, 2014

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
Assets and Deferred Outflows of Resources				
<u>Assets:</u>				
Current assets:				
Cash and cash equivalents	\$ 689,049	\$ 855,099	\$ 232,564	\$ 1,776,712
Investments	1,215	-	-	1,215
Accounts receivable, net	231,628	-	-	231,628
Pledges receivable	-	38,900	-	38,900
Other receivables	5,250	-	40,020	45,270
Prepaid expenses	47,425	-	-	47,425
	<u>974,567</u>	<u>893,999</u>	<u>272,584</u>	<u>2,141,150</u>
Total current assets	974,567	893,999	272,584	2,141,150
Restricted cash and cash equivalents	-	-	153	153
Restricted investments	-	1,802,969	9,717,087	11,520,056
Pledges receivable	-	20,000	-	20,000
Capital assets, not being depreciated	3,058,915	33,462	2,792,054	5,884,431
Capital assets, net	<u>14,513,232</u>	<u>377,880</u>	<u>10,610,596</u>	<u>25,501,708</u>
Total Assets	18,546,714	3,128,310	23,392,474	45,067,498
<u>Deferred Outflows of Resources:</u>				
Deferred charge on refunding	<u>515,934</u>	<u>-</u>	<u>-</u>	<u>515,934</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 19,062,648</u></u>	<u><u>\$ 3,128,310</u></u>	<u><u>\$ 23,392,474</u></u>	<u><u>\$ 45,583,432</u></u>

(Continued)

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
Liabilities and Net Position				
Liabilities:				
Accounts payable and other accrued expenses	\$ 96,694	\$ 43,612	\$ 434,288	\$ 574,594
Accrued payroll	53,985	79,270	-	133,255
Accrued vacation and other compensated absences	82,277	17,343	-	99,620
Interest payable	96,174	-	-	96,174
Current portion of long-term debt	599,683	-	2,390,000	2,989,683
Current portion of capital lease obligation	177,691	-	-	177,691
Unearned revenue	161,658	-	-	161,658
Total current liabilities	1,268,162	140,225	2,824,288	4,232,675
Long-term debt, net of current portion	12,189,137	-	19,674,294	31,863,431
Capital lease obligation, net of current portion	302,158	-	-	302,158
Unearned revenue	297,122	-	-	297,122
Total Liabilities	14,056,579	140,225	22,498,582	36,695,386
Net Position:				
Net investment in capital assets	4,381,368	411,342	591,110	5,383,820
Restricted	-	2,420,433	-	2,420,433
Unrestricted	624,701	156,310	302,782	1,083,793
Total Net Position	5,006,069	2,988,085	893,892	8,888,046
Total Liabilities and Net Position	\$ 19,062,648	\$ 3,128,310	\$ 23,392,474	\$ 45,583,432

(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, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	
Bethlehem Parking Authority	\$ 4,747,704	\$ 4,876,312	\$ -	\$ -	\$ 128,608	\$ -	\$ -	\$ 128,608
Bethlehem Public Library	2,919,634	227,773	2,861,223	-	-	169,362	-	169,362
Bethlehem Redevelopment Authority	7,380,602	-	84,214	11,366,476	-	-	4,070,088	4,070,088
Total Component Units	\$ 15,047,940	\$ 5,104,085	\$ 2,945,437	\$ 11,366,476	128,608	169,362	4,070,088	4,368,058
General Revenues:								
Investment income					2	163,136	3,209	166,347
Total general revenues					2	163,136	3,209	166,347
Change in Net Position					128,610	332,498	4,073,297	4,534,405
Net Position:								
Beginning of year - restated					4,877,459	2,655,587	(3,179,405)	4,353,641
End of year					\$ 5,006,069	\$ 2,988,085	\$ 893,892	\$ 8,888,046

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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

Basis of Presentation

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and employee benefit trust fund financial statements. Revenues are recorded when earned and

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Benefits and refunds of the employee benefit trust fund are recognized when due and payable in accordance with the terms of the plans. Employer contributions to the Employee Benefit Trust Fund are recognized when due as required by applicable law.

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

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

The City reports the following major governmental funds:

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

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

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

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

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

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

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

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

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

Budgetary Accounting Control

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

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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.

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 2014 is as follows:

January 1, 2014	original levy date
January 1, 2014 - March 28, 2014	2% discount period
March 29, 2014 - May 30, 2014	face payment period
May 31, 2014 - December 31, 2014	10% penalty period

In addition, City taxes may be paid in four installments due approximately February 10, April 7, June 2, and August 4 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 2014 millage was

CITY OF BETHLEHEM, PENNSYLVANIA

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6.80 for general purposes, 0.75 for public safety, 0.76 for 911, 0.96 for recreation, 4.84 for debt service, 0.4 for landfill debt, 0.5 for Hirko settlement debt, and 0.88 for library, for properties in Northampton County; and 2.14 for general purposes, 0.24 for public safety, 0.24 for 911, 0.30 for recreation, 1.53 for debt service, 0.13 for landfill debt, 0.16 for Hirko settlement debt, and 0.28 for library, for properties in Lehigh County.

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.

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, 2014, appropriate interfund receivables or payables have been established.

Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are 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

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

Redevelopment Authority

All capital assets are capitalized at historical cost at the acquisition date. Donated capital assets are reported at their fair value as of the date received. The Redevelopment Authority maintains a capitalization threshold of \$25,000. All capital assets are depreciated, except for land, land improvements (excavation, fill, grading, landscaping), construction in progress, easements, and rights of way.

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

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

Restricted Investments

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

Bond Discounts, Bond Premiums, and Prepaid Bond Insurance

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

Compensated Absences

The City's vacation policy provides that employees are to take unused vacation within a year following the year it was earned or the vacation time is lost to the employee, except that with the approval of the department head and the business administrator, employees may carry up to 30 days of vacation leave. In accordance with 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 firefighters, are permitted, under the City's present sick leave policy, to accumulate 200 days of sick leave to be paid to the employee when proper proof of illness is demonstrated. Police officers may accumulate up to 260 days of sick leave. Firefighters may accumulate up to 170 days of sick leave. Accumulated sick leave is not paid to an employee upon termination, except upon retirement. At that time, police and fire employees receive \$25 per day for accumulated sick leave, while all other employees

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receive \$15 per day for the first 170 days and \$20 per day for each day over 170 days. Employees that have up to twelve years of experience and voluntarily resign receive \$10 per day for accumulated sick leave up to a maximum of 50 days.

Termination Benefits

Employees who were age 55 and over and had five or more years with the City were given the option of either a \$10,000 payment or medical benefits for two years at the going rate for active employees in their class of employment. Sixteen employees participated in the early retirement incentive. For those employees who elected the \$10,000 payment, the payment was made in January 2015. For those who elected two years of medical coverage, the coverage runs from January 2015 through December 2016.

The termination benefit liability was calculated as follows:

- For 2015 medical coverage, the 2015 COBRA renewal rates as provided by the City's broker were used, including the 2% administrative fee.
- For 2016 medical coverage, the 2015 rates were used with a 7% inflationary increase.

Unearned Revenues

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

Net Position

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

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

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

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

Fund Balance

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

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

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

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

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, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Special Items

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

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Adoption of Governmental Accounting Standards Board (GASB) Statements

The City has adopted GASB Statement No. 67, *“Financial Reporting for Pension Plans.”* This Statement enhances note disclosures and required supplementary information (RSI) for the City’s Firemen, Police, and Officers’ and Employees’ Defined Benefit Pension Plans. As a result of this Statement, the pension note disclosures and RSI have been updated.

The City has adopted GASB Statement No. 70 *“Accounting and Financial Reporting for Nonexchange Financial Guarantees.”* Statement No. 70 improves accounting and financial reporting by governments that extend and receive nonexchange financial guarantees.

Pending Changes in Accounting Principles

In June of 2012, the GASB issued Statement No. 68, *“Accounting and Financial Reporting for Pensions.”* In addition, in November of 2013, the GASB issued Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date.”* These Statements revise and establish reporting requirements for most governments that provide their employees with pension benefits. The provisions of GASB Statements No. 68 and 71 are effective for the City’s December 31, 2015 financial statements.

In February of 2015, the GASB issued Statement No. 72, *“Fair Value Measurement and Application.”* This Statement addresses accounting and financial reporting issues related to fair value measurements. The provisions of GASB Statement No. 72 are effective for the City’s December 31, 2016 financial statements.

In June of 2015, the GASB issued Statement No. 73, *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.”* This Statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by Statements No. 67 and 68). The provisions of GASB Statement No. 73 are effective for the City’s December 31, 2016 financial statements – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the City’s December 31, 2017 financial statements.

In June of 2015, the GASB issued Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.”* This Statement addresses reporting by other post-employment benefit (OPEB) plans that administer benefits on behalf of governments. The provisions of GASB Statement No. 74 are effective for the City’s December 31, 2017 financial statements.

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

In June of 2015, the GASB issued Statement No. 76, “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*” This Statement identifies the hierarchy of generally accepted accounting principles in the context of the current governmental financial reporting environment. The provisions of GASB Statement No. 76 are effective for the City’s December 31, 2016 financial statements.

In August of 2015, the GASB issued Statement No. 77, “*Tax Abatement Disclosures.*” This Statement requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government’s tax revenues. The provisions of GASB Statement No. 77 are effective for the City’s December 31, 2016 financial statements.

In December of 2015, the GASB issued Statement No. 78, “*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.*” This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The provisions of GASB Statement No. 78 are effective for the City’s December 31, 2016 financial statements.

In December of 2015, the GASB issued Statement No. 79, “*Certain External Investment Pools and Pool Participants.*” This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The provisions of GASB Statement No. 79 are effective for the City’s December 31, 2016 financial statements.

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

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2. REPORTING ENTITY

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

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

Bethlehem Authority

The Bethlehem Authority owns the water supply and distribution systems that service the City and nearby communities while serving as a financing authority for these systems. The City operates these systems. The Bethlehem Authority is governed by five board members who are appointed by the Mayor and approved by City Council. The water supply and distribution systems were acquired through the proceeds of water revenue bonds which are guaranteed by the City. Operations are financed through user-based charges. Repayment of the bonds is financed through a lease between the City and the Bethlehem Authority. The City leases the systems for a fixed rental fee. The Bethlehem Authority does not issue separate audited financial statements.

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

Bethlehem 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), and Bethlehem Township. The City supports the Library. The City's 2014 appropriation to the Library was \$1,277,082, which represented 39% 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 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. Also, the City may require the

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Parking Authority to transfer surpluses to the City. During the year ended December 31, 2014, the Parking Authority made contributions to the City's General Fund of \$525,000. Separate financial statements were issued by the Parking Authority and can be obtained by contacting the Parking Authority.

Bethlehem Redevelopment Authority

The Bethlehem Redevelopment Authority (Redevelopment Authority) was incorporated under the provisions of the Pennsylvania Urban Redevelopment Act Number 385 of May 24, 1945, as amended. The Redevelopment Authority accounts for several cooperation agreements with the City's Community Development Block Grant program and other funding sources wherein administration and other costs are provided by the Redevelopment Authority for general administrative, rehabilitation activities, and property acquisition and demolition. The Redevelopment Authority also accounts for the collection of financing district revenues from the various taxing bodies and to pay for construction and construction-related costs associated with various projects within the designated Bethlehem Works Tax Increment Financing (TIF) District. The Redevelopment Authority is governed by five board members who are appointed by the Mayor and approved by City Council. Separate financial statements were issued by the Redevelopment Authority and can be obtained by contacting the Redevelopment Authority.

Related Organizations

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

Bethlehem Housing Authority

The Bethlehem Housing Authority (Housing Authority) has five commissioners who are appointed to staggered, five-year terms by the Mayor with City Council approval. The Housing Authority paid approximately \$338,000 in grant funds and \$58,000 in lieu of taxes to the City during the year ended December 31, 2014.

Bethlehem Economic Development Corporation

The Bethlehem Economic Development Corporation (BEDCO) has seven board members who are pre-determined by their position within the City and the Lehigh Valley Economic Development Corporation. A board member will automatically cease to be on the board upon ceasing to hold office. Four of the seven board members are from the

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City. The City provided enterprise zone loans to BEDCO and, as of December 31, 2014, BEDCO owes the City \$794,875. There were no payments made on this loan during the year ended December 31, 2014. The loan receivables are recorded in the Community Development Block Grant Fund.

Bethlehem Revitalization and Improvement Authority

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

3. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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, 2014, the City's book balance was \$19,007,034 and the bank balance was \$17,731,154. Of the bank balance, \$2,267,736 was covered by federal depository insurance and \$15,016,906 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository

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insurance limits. The remaining bank balance of \$446,512 was not collateralized.

Reconciliation to total cash and cash equivalents:	
Governmental activities:	
Unrestricted	\$ 11,253,971
Business-type activities:	
Unrestricted	4,148,107
Restricted	1,966,344
Fiduciary funds:	
Agency fund	<u>1,638,612</u>
Total cash and cash equivalents	<u>\$ 19,007,034</u>

B. Investments

The fair value of the investments of the City at December 31, 2014 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 30,076,969
External investment pool	2,806,800
U.S. Government obligations	11,440,066
U.S. Government agency obligations	2,663,567
Corporate bonds and notes	15,097,604
Equity mutual funds	34,205,132
Equities	43,040,309
Real estate equity funds	6,910,801
Other investments	<u>11,864,113</u>
Total investments	<u>\$ 158,105,361</u>

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<u>Reconciliation to total investments</u>	
Governmental activities:	
Unrestricted	\$ 92,700
Business-type activities:	
Restricted	18,147,455
Fiduciary funds:	
Employee Benefit Trust Fund	<u>139,865,206</u>
Total investments	<u>\$ 158,105,361</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 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, \$86,881,271 are held by the counterparty's trust department or agent in the City's name, \$2,542,000 are held by the counterparty's trust department or agent not in the name of the City, and the remaining balance of \$68,682,090 is not exposed to custodial credit risk because the investments are not evidenced by securities in book entry or paper form.

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Credit risk. The City's money market and fixed income investments had the following level of exposure to credit risk as of December 31, 2014:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 30,076,969	AAA
External investment pool	2,806,800	AAA
U.S. Government obligations	11,440,066	AAA
U.S. Government agency obligations	2,542,000	AAA
U.S. Government agency obligations	121,567	AA+
Corporate bonds and notes	642,547	AAA
Corporate bonds and notes	261,563	AA+
Corporate bonds and notes	890,868	AA
Corporate bonds and notes	897,979	AA-
Corporate bonds and notes	851,902	A+
Corporate bonds and notes	2,118,069	A
Corporate bonds and notes	3,161,887	A-
Corporate bonds and notes	3,120,978	BBB+
Corporate bonds and notes	2,596,069	BBB
Corporate bonds and notes	474,929	BBB-
Corporate bonds and notes	80,813	BB+

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, 2014, the City does not hold more than five percent of the City's investments in the any one issuer.

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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			2026 and beyond
		2015	2016-2020	2021-2025	
Money market funds	\$ 30,076,969	\$ 30,076,969	\$ -	\$ -	\$ -
External investment pool	2,806,800	2,806,800	-	-	-
U.S. Government obligations	11,440,066	518,320	10,921,746	-	-
U.S. Government agency obligations	2,663,567	2,542,000	115,592	-	5,975
Corporate bonds and notes	15,097,604	515,532	10,983,095	2,347,304	1,251,673
	<u>\$ 62,085,006</u>	<u>\$ 36,459,621</u>	<u>\$ 22,020,433</u>	<u>\$ 2,347,304</u>	<u>\$ 1,257,648</u>

Other Investments

At December 31, 2014, the City’s Employee Benefit Trust Fund was invested in CCA Green, LP, a limited partnership, in the amount of \$4,758,875. The partnership’s primary investments consist of in-force, non-variable universal life insurance policies insuring the lives of individuals of at least sixty-five years of age who have a life expectancy as of the date of purchase of between one 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 in order 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.

At December 31, 2014, the City’s Employee Benefit Trust Fund was invested in PENN Institutional Bank Loan Fund, LP, a limited partnership, in the amount of \$5,077,584. The partnership invests substantially all of its assets through a “master-feeder” fund structure and is a limited partner in PENN Institutional Loan Common Master Fund. Net profits and net losses are allocated in accordance with the ratio of capital account balances.

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At December 31, 2014, the City's Employee Benefit Trust Fund was invested in Hamilton Lane Co-Investment Fund III, LP, a limited partnership, in the amount of \$413,955. The partnership is a feeder fund in a master-feeder structure whereby the partnership invests all of its assets in Hamilton Lane Co-Investment Fund III Holdings, LP (Holdings). The partnership's investment activities are currently being conducted indirectly through its investment in Holdings and Holdings' investment activities are currently being conducted indirectly through its investment in Hamilton Lane Co-Investment Fund III Holdings-2 LP (Holdings-2). Holdings-2's investment objective is to achieve substantial capital appreciation through equity and equity-related investments directly in companies alongside leading buyout and growth-capital financial sponsors. Income, gains, and losses are generally allocated among the partners in proportion to each partner's contribution to the partnership's total investment capital in the portfolio company investment.

At December 31, 2014, the City's Employee Benefit Trust Fund was invested in NB Crossroads Fund XX – Asset Allocation LP, a limited partnership, in the amount of \$1,613,699. The partnership was formed for the purpose of acquiring, holding, selling, and exchanging, either directly or indirectly, interest in limited partnerships or other pooled investment vehicles that are organized to make investments in large-cap buyout, mid-cap buyout, special situations, and venture/growth capital investment funds, as well as securities, including co-investments. The partnership is one of the constituent funds of NB Crossroads Fund XX and invests substantially all of its assets in NBFOF XX – Holdings LP; which in turn invests substantially all of its assets in the NB Master Holding Funds, a group of closed-ended investment partnerships that are formed as series limited partnerships. Realized and unrealized profits and losses of the partnership are allocated pro rata to the limited partners in proportion to their respective partnership interest.

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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, 2014, the Parking Authority's book balance was \$689,049 and the bank balance was \$701,388. Of the bank balance at December 31, 2014, \$253,236 was covered by federal depository insurance and \$448,152 was collateralized under the Act, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

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, 2014, the Parking Authority's investment in the external investment pool was \$1,215.

The fair value of the Parking Authority's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth provides external regulatory oversight 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, 2014, 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, 2014, the investments of the Parking Authority have an average weighted maturity of less than one year.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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, 2014, the Library's book balance was \$855,099 and the bank balance was \$882,918. Of the bank balance, \$250,000 was covered by federal depository insurance and \$632,918 was collateralized under the Act, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

B. Investments

The fair value of the investments of the Library at December 31, 2014 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 269,455
U.S. Government agency obligations	5,194
Corporate bonds	67,578
Equities	<u>1,460,742</u>
Total investments	<u>\$ 1,802,969</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, corporate bonds, 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

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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, 2014:

	Fair Value	Rating
Money market funds	\$ 269,455	AAA
U.S. Government agency obligations	5,194	AA+
Corporate bonds	15,323	AA
Corporate bonds	27,357	A+
Corporate bonds	24,898	A-

Concentration of credit risk – The Library places no limit on the amount the Library may invest in any one issuer. At December 31, 2014, no investments were held that were more than five percent of the Library’s investments.

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

	Fair Value	Investment Maturities	
		2015	2016-2020
Money market funds	\$ 269,455	\$ 269,455	\$ -
U.S. Government agency obligations	5,194	5,194	-
Corporate bonds	67,578	-	67,578
Total	\$ 342,227	\$ 274,649	\$ 67,578

Redevelopment Authority

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

1. U.S. Treasury Bills.
2. Short-term obligations of the U.S. Government and federal agencies.

CITY OF BETHLEHEM, PENNSYLVANIA

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3. Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations, and credit unions.
4. General obligation bonds of the federal government, the Commonwealth or any state agency, or of any Pennsylvania political subdivision.
5. Shares of mutual funds whose investments are restricted to the above categories.

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

A. Deposits

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

As of June 30, 2014, the Redevelopment Authority's book balance was \$232,717 and the bank balance was \$366,655. Of the bank balance at June 30, 2014, \$250,000 was covered by federal depository insurance and \$116,655 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

B. Investments

The fair value of the Redevelopment Authority's money market funds at June 30, 2014 was \$9,717,087.

Custodial credit risk - Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Redevelopment Authority does not have an investment policy for custodial credit risk. At June 30, 2014, the Redevelopment Authority was not exposed to custodial credit risk, because the investments held by the Redevelopment Authority are not evidenced by securities in book entry or paper form.

Credit risk - The Redevelopment Authority does not have a formal policy that would limit its

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

investment choices with regard to credit risk. The Redevelopment Authority's money market funds were rated AAA as of June 30, 2014.

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

Interest rate risk - The Redevelopment Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2014, the Redevelopment Authority's money market funds have a maturity of less than one year.

C. Restricted Cash, Cash Equivalents, and Investments

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

4. CAPITAL ASSETS

A summary of changes in capital assets follows:

	January 1, 2014	Additions and Transfers In	Disposals and Transfers Out	December 31, 2014
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,752,780	\$ -	\$ -	\$ 6,752,780
Construction in progress	676,797	928,577	(34,376)	1,570,998
Total capital assets not being depreciated	7,429,577	928,577	(34,376)	8,323,778
Capital assets being depreciated:				
Buildings and related improvements	30,523,982	349,202	-	30,873,184
Improvements other than buildings	46,737,898	499,415	-	47,237,313
Furniture, machinery, and equipment	40,015,947	1,253,612	(1,419,824)	39,849,735
Infrastructure	28,384,160	4,746,479	-	33,130,639
Total capital assets being depreciated	145,661,987	6,848,708	(1,419,824)	151,090,871
Less accumulated depreciation for:				
Buildings and related improvements	(23,464,265)	(1,083,783)	-	(24,548,048)
Improvements other than buildings	(29,595,611)	(2,226,909)	-	(31,822,520)
Furniture, machinery, and equipment	(28,941,877)	(2,414,258)	1,393,272	(29,962,863)
Infrastructure	(11,756,859)	(1,963,736)	-	(13,720,595)
Total accumulated depreciation	(93,758,612)	(7,688,686)	1,393,272	(100,054,026)
Total capital assets being depreciated, net	51,903,375	(839,978)	(26,552)	51,036,845
Governmental activities capital assets, net	\$ 59,332,952	\$ 88,599	\$ (60,928)	\$ 59,360,623

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	January 1, 2014	Additions and Transfers In	Disposals and Transfers Out	December 31, 2014
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,124,842	\$ -	\$ -	\$ 2,124,842
Construction in progress	10,526,186	1,619,426	(7,347,533)	4,798,079
Total capital assets not being depreciated	12,651,028	1,619,426	(7,347,533)	6,922,921
Capital assets being depreciated:				
Land improvements	1,100,349	-	-	1,100,349
Building and fixtures	13,838,970	21,973	-	13,860,943
Improvements other than buildings	201,074,092	11,003,848	-	212,077,940
Furniture, machinery, and equipment	4,600,606	59,246	-	4,659,852
Vehicles	4,611,012	93,050	(21,533)	4,682,529
Office equipment	344,679	-	(228,681)	115,998
Total capital assets being depreciated	225,569,708	11,178,117	(250,214)	236,497,611
Less accumulated depreciation for:				
Land improvements	(964,217)	(28,344)	-	(992,561)
Building and fixtures	(12,432,812)	(248,037)	-	(12,680,849)
Improvements other than buildings	(112,915,106)	(6,835,723)	-	(119,750,829)
Furniture, machinery, and equipment	(4,148,460)	(145,890)	-	(4,294,350)
Vehicles	(3,559,671)	(199,346)	(50,698)	(3,809,715)
Office equipment	(329,670)	(7,294)	228,682	(108,282)
Total accumulated depreciation	(134,349,936)	(7,464,634)	177,984	(141,636,586)
Total capital assets being depreciated, net	91,219,772	3,713,483	(72,230)	94,861,025
Business-type activities capital assets, net	\$ 103,870,800	\$ 5,332,909	\$ (7,419,763)	\$ 101,783,946

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Depreciation expense was charged to governmental activities as follows:

Administrative	\$ 44,662
Community development	152,924
Parks and public property	1,858,016
Public works	3,681,367
Police	1,298,056
Fire	534,584
Library	119,077
	<u>\$ 7,688,686</u>

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

Water Fund	\$ 5,331,895
Sewer Fund	1,961,626
Municipal Golf Fund	171,113
	<u>\$ 7,464,634</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	January 1, 2014	Additions and Transfers In	Deletions and Transfers Out	December 31, 2014
Parking Authority:				
Capital assets, not being depreciated:				
Land	\$ 1,762,348	\$ -	\$ (304)	\$ 1,762,044
Construction in progress	1,194,643	102,228	-	1,296,871
Total capital assets, not being depreciated	2,956,991	102,228	(304)	3,058,915
Capital assets, being depreciated:				
Parking garages	26,751,880	-	-	26,751,880
Furniture and fixtures	1,398,822	20,176	(41,615)	1,377,383
Automobiles	344,992	87,280	(93,956)	338,316
Leasehold and parking lot improvements	21,860	-	-	21,860
Total capital assets, being depreciated	28,517,554	107,456	(135,571)	28,489,439
Less accumulated depreciation	(12,937,351)	(1,121,948)	83,092	(13,976,207)
Total capital assets, being depreciated, net	15,580,203	(1,014,492)	(52,479)	14,513,232
Total capital assets, net	\$ 18,537,194	\$ (912,264)	\$ (52,783)	\$ 17,572,147

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	January 1, 2014	Additions	Deletions	December 31, 2014
Library:				
Capital assets, not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Construction in progress	-	28,462	-	28,462
Total capital assets, not being depreciated	5,000	28,462	-	33,462
Capital assets, being depreciated:				
Buildings and related improvements	277,428	-	-	277,428
Furniture, machinery, and equipment	782,381	14,493	-	796,874
Total capital assets, being depreciated	1,059,809	14,493	-	1,074,302
Less accumulated depreciation	(647,588)	(48,834)	-	(696,422)
Total capital assets, being depreciated, net	412,221	(34,341)	-	377,880
Total capital assets, net	\$ 417,221	\$ (5,879)	\$ -	\$ 411,342

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	July 1, 2013	Additions	Deletions	June 30, 2014
Redevelopment Authority:				
Capital assets, not being depreciated:				
Construction in progress	\$ 593,146	\$ 2,198,908	\$ -	\$ 2,792,054
Total capital assets, not being depreciated	593,146	2,198,908	-	2,792,054
Capital assets, being depreciated:				
Buildings	10,358,735	488,491	-	10,847,226
Total capital assets, being depreciated	10,358,735	488,491	-	10,847,226
Less accumulated depreciation	-	(236,630)	-	(236,630)
Total capital assets, being depreciated, net	10,358,735	251,861	-	10,610,596
Total capital assets, net	\$ 10,951,881	\$ 2,450,769	\$ -	\$ 13,402,650

5. INTERFUND RECEIVABLE AND PAYABLES BALANCES

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2014 is as follows:

	Due From Other Funds	Due To Other Funds
Governmental funds:		
General Fund	\$ 466,187	\$ 1,678,985
Non-Utility Capital Improvements Fund	23,500	65,570
Proprietary funds:		
Sewer Fund	55,000	-
Other Non-Major Enterprise Fund	10,570	489,687
Agency Fund	1,678,985	-
Total	\$ 2,234,242	\$ 2,234,242

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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

6. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2014 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ 3,612,785	\$ 8,877,837
Other Non-Major Governmental Funds	9,662,661	384,823
Proprietary funds:		
Water Fund	-	559,600
Sewer Fund	-	3,453,186
Total	<u>\$ 13,275,446</u>	<u>\$ 13,275,446</u>

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

7. LONG-TERM OBLIGATIONS

Bonds and Notes Payable

A summary of long-term bonds and notes payable of the City at December 31, 2014 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, restated	\$ 89,273,000	\$ 101,604,622	\$ 15,717,352	\$ 205,000	\$ 117,526,974
Issuance of debt	53,735,000	68,887,907	2,450,613	-	71,338,520
Accretion of capital appreciation bonds	-	1,605,310	-	-	1,605,310
Repayment of debt	(29,608,000)	(72,952,123)	(1,051,996)	(66,000)	(74,070,119)
	113,400,000	99,145,716	17,115,969	139,000	116,400,685
Plus unamortized bond premium	76,252	5,513,777	12,058	-	5,525,835
Less unamortized bond discount	(340,658)	-	(120,883)	-	(120,883)
Outstanding at end of year	<u>\$ 113,135,594</u>	<u>\$ 104,659,493</u>	<u>\$ 17,007,144</u>	<u>\$ 139,000</u>	<u>\$ 121,805,637</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	Discretely Presented Component Units	
	Parking Authority	Redevelopment Authority
	Outstanding at beginning of year	\$ 13,346,554
Issuance of debt	110,000	1,038,738
Repayment of debt	(586,474)	(2,310,000)
	12,870,080	22,064,294
Less unamortized discount	(81,260)	-
Outstanding at end of year	\$ 12,788,820	\$ 22,064,294

Year	Governmental Activities			Water Fund		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 4,254,000	\$ 4,964,407	\$ 9,218,407	\$ 5,577,827	\$ 2,943,485	\$ 8,521,312
2016	4,220,000	5,001,565	9,221,565	5,746,238	2,772,639	8,518,877
2017	5,329,000	4,901,677	10,230,677	5,965,995	2,552,875	8,518,870
2018	5,495,000	4,741,254	10,236,254	6,160,152	2,361,230	8,521,382
2019	5,663,000	4,575,300	10,238,300	6,194,487	2,328,325	8,522,812
2020-2024	29,944,000	19,622,843	49,566,843	26,862,838	15,738,524	42,601,362
2025-2029	30,550,000	12,715,494	43,265,494	23,333,179	19,273,247	42,606,426
2030-2034	27,945,000	4,029,090	31,974,090	19,305,000	1,620,750	20,925,750
Totals	\$ 113,400,000	\$ 60,551,630	\$ 173,951,630	\$ 99,145,716	\$ 49,591,075	\$ 148,736,791

Year	Sewer Fund			Municipal Golf Fund		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 1,196,477	\$ 344,756	\$ 1,541,233	\$ 68,000	\$ 5,504	\$ 73,504
2016	1,462,657	322,067	1,784,724	71,000	2,812	73,812
2017	1,433,064	293,769	1,726,833	-	-	-
2018	995,959	270,463	1,266,422	-	-	-
2019	848,566	315,704	1,164,270	-	-	-
2020-2024	3,994,244	1,408,382	5,402,626	-	-	-
2025-2029	4,465,107	806,489	5,271,596	-	-	-
2030-2034	2,719,895	142,986	2,862,881	-	-	-
Totals	\$ 17,115,969	\$ 3,904,616	\$ 21,020,585	\$ 139,000	\$ 8,316	\$ 147,316

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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Year	Parking Authority			Fiscal Year	Redevelopment Authority		
	Principal	Interest	Total		Principal	Interest	Total
2015	\$ 599,683	\$ 441,893	\$ 1,041,576	2015	\$ 2,390,000	\$ 607,135	\$ 2,997,135
2016	3,837,397	423,206	4,260,603	2016	3,719,294	605,964	4,325,258
2017	646,000	347,347	993,347	2017	2,555,000	501,971	3,056,971
2018	675,000	326,717	1,001,717	2018	2,645,000	551,790	3,196,790
2019	704,000	304,798	1,008,798	2019	2,460,000	571,500	3,031,500
2020-2024	2,712,000	1,185,446	3,897,446	2020	8,295,000	419,550	8,714,550
2025-2029	3,121,000	573,362	3,694,362				
2030	575,000	27,313	602,313				
Totals	\$ 12,870,080	\$ 3,630,082	\$ 16,500,162		\$ 22,064,294 *	\$ 3,257,910	\$ 25,322,204

* - Interest due on the Tax Increment Revenue Bonds, Series of 2010, is based on the interest rate in effect at June 30, 2014 of 3.42% through December 31, 2017 and the maximum rate of 6% thereafter through maturity.

Total principal and interest for the primary government due through maturity is \$343,856,322.

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

During the year ended December 31, 2014, the City issued General Obligation Notes, Series A of 2014 to currently refund a portion of the City's General Obligation Bonds, Series A of 2005 and to currently refund all of the City's outstanding General Obligation Bonds, Series B of 2005. The current refunding increased the City's total debt service by \$99,399 through the year 2024 and resulted in an economic gain (difference between present values of the old and new debt service payments) in the amount of \$67,200.

During the year ended December 31, 2014, the City issued General Obligation Bonds, Series B of 2014 to currently refund all of the City's Federally Taxable General Obligation Bonds, Series B of 2004. The current refunding decreased the City's total debt service by \$1,625,769 through the year 2034 and resulted in an economic gain (difference between present values of the old and new debt service payments) in the amount of \$1,785,304.

During the year ended December 31, 2014, the Bethlehem Authority issued Guaranteed Water Revenue Bonds, Series of 2014 to currently refund all or a portion of the Bethlehem Authority's (a) Guaranteed Water Revenue Bonds, Series of 2004, (b) Guaranteed Water

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Revenue Bonds, Series of 2010, and (c) Guaranteed Water Revenue Note, Series A of 1997, and to provide for long-term financing of capital improvements to the water system. The current refunding increased the City's total debt service by \$540,108 through the year 2031 and resulted in an economic gain (difference between present values of the old and new debt service payments) in the amount of \$2,808,930.

The City has guaranteed the Bethlehem Authority Guaranteed Lease Revenue Bonds, Series of 2004, the Bethlehem Authority Guaranteed Lease Revenue Bonds, Series A of 2011, and the Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 2014 for the Bethlehem Authority, a blended component unit of the City. The City's legal authority and limits for extending the guarantees and types of obligations guaranteed is pursuant to the provisions of the Pennsylvania Local Government Unit Debt Act. The guarantees extend through the year ended December 31, 2032 and have a total amount outstanding at December 31, 2014 of \$81,140,000.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Long-term obligations payable at December 31, 2014 are as follows:

Governmental Activities:	<u>Current Portion</u>	<u>Balance at December 31, 2014</u>
Bethlehem Authority Guaranteed Lease Revenue Bonds, Series of 2004, due in a final annual installment of \$840,000 on October 1, 2015; interest rate of 4.40%.	\$ 840,000	\$ 840,000
General Obligation Bonds, Series A of 2005, due in annual installments of \$15,000 to \$20,000 through October 2020; interest rates vary from 3.70% to 4.00%.	15,000	105,000
General Obligation Notes, Series of 2007, due in annual installments of \$273,000 to \$356,000 through August 2022; interest rates fixed at 3.65% through August 2017 and variable through maturity.	273,000	2,537,000
General Obligation Notes, Series of 2008, due in annual installments of \$382,000 to \$711,000 through August 2016; interest rate of 3.96%.	711,000	1,093,000
General Obligation Bonds, Series of 2010, due in annual installments of \$290,000 to \$360,000 through August 2024; interest rates vary from 2.25% to 4.00%.	320,000	3,225,000
General Obligation Notes, Series C of 2010, due in annual installments of \$5,000 to \$1,800,000 through August 2020; interest rate of 3.55%.	5,000	6,025,000
Bethlehem Authority Guaranteed Lease Revenue Bonds, Series A of 2011, due in annual installments of \$75,000 to \$3,125,000 through December 1, 2028; interest rates vary from 5.125% to 6.125%.	120,000	17,635,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Governmental Activities:	Current Portion	Balance at December 31, 2014
	<u> </u>	<u> </u>
General Obligation Refunding Bonds, Series A of 2011, due in annual installments of \$1,035,000 to \$1,840,000 through December 2032; interest rate of 6.50%.	-	7,860,000
General Obligation Refunding Notes, Series B of 2011, due in annual installments of \$5,000 to \$1,600,000 through December 2032; interest rate of 6.50%.	5,000	6,790,000
General Obligation Bonds, Series A of 2013, due in annual installments of \$120,000 to \$380,000 through October 2033; interest rates vary from 1.00% to 3.50%.	120,000	5,310,000
Federally Taxable General Obligation Refunding Notes, Series B of 2013, due in annual installments of \$580,000 to \$840,000 through October 2026; interest rates vary from 1.838% to 4.643%.	580,000	8,245,000
General Obligation Notes, Series A of 2014, due in annual installments of \$5,000 to \$630,000 through October 2024; interest rate vary from 0.75% to 4.00%.	-	1,850,000
General Obligation Bonds, Series B of 2014, due in annual installments of \$175,000 to \$1,740,000 through November 2034; interest rates vary from 0.80% to 5.15%.	175,000	24,100,000
General Obligation Bonds, Series C of 2014, due in annual installments of \$1,025,000 to \$2,035,000 through November 2034; interest rates vary from 0.80% to 5.15%.	1,090,000	27,785,000
Total Governmental Activities	<u>\$ 4,254,000</u>	<u>\$ 113,400,000</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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

Business-Type Activities: Water Fund:	<u>Current Portion</u>	<u>Balance at December 31, 2014</u>
Bethlehem Authority Capital Appreciation Bonds, Series of 1998, due in annual installments of \$425,000 to \$7,320,000 from 2018 to 2028. The interest rates vary from 5.25% to 5.35%.	\$ -	\$ 31,690,629
1998 Pennvest loan payable in monthly installments of \$116,147, including interest at 3.20% through 2018.	1,274,827	4,297,087
General Obligation Note, Series of 2007, due in annual installments of \$53,000 to \$69,000 through August 2022; interest rates fixed at 3.65% through August 2017 and variable through maturity.	53,000	493,000
Bethlehem Authority Guaranteed Water Revenue Bonds, Series of 2014, due in annual installments of \$15,000 to \$7,625,000 through November 15, 2032; interest rates vary from 2.00% to 5.00%.	<u>4,250,000</u>	<u>62,665,000</u>
Total Water Fund	<u>5,577,827</u>	<u>99,145,716</u>
Sewer Fund:		
General Obligation Bonds, Series A of 2005, due in annual installments of \$100,000 to \$125,000 through October 2020; interest rates vary from 3.25% to 4.00%.	100,000	675,000
General Obligation Bonds, Series of 2010, due in annual installments of \$140,000 to \$390,000 through August 1, 2018; interest rates vary from 2.00% to 3.125%.	385,000	1,155,000

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Business-Type Activities:	Current	Balance at
Sewer Fund:	Portion	December 31, 2014
	<u> </u>	<u> </u>
General Obligation Bonds, Series of 2012, due in annual installments of \$290,000 to \$430,000 through October 1, 2032; interest rates vary from 0.650% to 3.375%.	290,000	6,210,000
2012 Pennvest loan payable in monthly installments of \$45,546, including interest at 1.51% through July 2032.	421,477	8,477,451
2013 Pennvest loan payable in monthly installments vary from \$416 to \$49,379, including interest at 1.00% through August 2017.	-	598,518
Total Sewer Fund	<u>1,196,477</u>	<u>17,115,969</u>
Municipal Golf Fund:		
General Obligation Note, Series of 2008, due in annual installments of \$68,000 to \$71,000 through August 2016; interest rate of 3.96%.	68,000	139,000
Total Business-Type Activities	<u>\$ 6,842,304</u>	<u>\$ 116,400,685</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Component Units: Parking Authority:	<u>Current Portion</u>	<u>Balance at December 31, 2014</u>
<p>General Obligation Bonds, Series C of 2013, due in annual installments of \$300,000 in October 2015 to \$575,000 in October 2030; interest rates vary from 3.9% to 4.75%.</p>	\$ 300,000	\$ 6,690,000
<p>Parking Revenue Note Series of 2004, due in annual installments of \$230,000 to \$280,000, maturing in July 2020. Interest-only payments due semiannually through February 2008 at a rate of 3.5%, increasing to 60% of the ten-year average prime beginning August 2011 (1.95% at December 31, 2014); secured by future revenues of the Parking Authority.</p>	230,000	1,520,000
<p>Term Note of 2009, due in annual installments of \$64,000 in December 2015 to \$136,000 in December 2029, interest rates are fixed at 4.8% for a period of sixty months; thereafter, the interest rate is at 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 Parking Authority.</p>	64,000	1,435,000
<p>Grant Anticipation Note of 2013. Interest-only payments due semiannually throughout the term of the note at an interest rate of 1.75%. One final payment of all outstanding principal, accrued interest, and costs are to be paid at the maturity date of the note on December 15, 2016; secured by real property.</p>	-	3,214,000
<p>Loan payable, \$500 per month, including interest at 3.74% through December 31, 2016, unsecured loan.</p>	5,683	11,080
<p style="padding-left: 40px;">Total Parking Authority</p>	<u>\$ 599,683</u>	<u>\$ 12,870,080</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Redevelopment Authority:	<u>Current Portion</u>	<u>Balance at June 30, 2014</u>
TIF Bonds, Series of 2010, due in annual installments of \$2,235,000 to \$2,605,000 through December 2019, with a final payment of \$5,690,000 due in June 2020; interest rates fixed at 3.42% through December 2017; thereafter, rates are variable, with a 6.00% cap.	\$ 2,390,000	\$ 20,820,000
TIF Bonds, Series of 2012, due in annual installments, amortizing over approximately 7.5 years, with final maturity to occur on or before June 1, 2020; interest rate at 2.98%.	-	1,159,294
TIF Bonds, Series of 2013, due in annual installments, amortizing over approximately 7 years, with final maturity to occur on or before June 1, 2020; interest rate at 2.98%.	-	<u>85,000</u>
Total Redevelopment Authority	<u>\$ 2,390,000</u>	<u>\$ 22,064,294</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Other Changes in Long-Term Debt

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

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014
Governmental activities:				
Accrued vacation and other compensated absences	\$ 4,008,637	\$ -	\$ (83,424)	\$ 3,925,213
Capital leases	6,633,431	336,666	(719,238)	6,250,859
	<u>\$ 10,642,068</u>	<u>\$ 336,666</u>	<u>\$ (802,662)</u>	<u>\$ 10,176,072</u>
Business-type activities:				
Accrued vacation and other compensated absences	\$ 822,249	\$ 5,040	\$ -	\$ 827,289
Capital leases	435,060	-	(102,545)	332,515
	<u>\$ 1,257,309</u>	<u>\$ 5,040</u>	<u>\$ (102,545)</u>	<u>\$ 1,159,804</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, 2014, the net book value of the equipment and vehicles held under capital leases and included in capital assets was \$6,689,455 for governmental activities and \$365,856 for business-type activities.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

As of December 31, 2014, future minimum payments were as follows:

Year	Governmental Activities	Business-Type Activities
2015	\$ 839,644	\$ 104,573
2016	779,962	104,573
2017	693,324	76,312
2018	665,018	76,312
2019	687,520	-
2020-2024	3,258,251	-
2025-2026	488,524	-
Total commitment under capital leases	7,412,243	361,770
Less amount representing interest	1,161,384	29,255
Present value of future minimum lease payments	6,250,859	332,515
Less current portion	635,739	96,030
Long-term portion	\$ 5,615,120	\$ 236,485

Parking Authority

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014
Capital leases	\$ 628,738	\$ 84,630	\$ (233,519)	\$ 479,849

The Parking Authority has entered into multiple capital lease agreements for parking equipment and vehicles. The cost and accumulated depreciation of the leased equipment and vehicles by the Parking Authority were \$916,535 and \$356,388, respectively, at December 31, 2014. Amortization of the leased equipment and vehicles is included in depreciation expense.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

The future minimum lease payments required are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 194,811
2016	194,975
2017	72,828
2018	30,564
2019	17,019
Total minimum lease payments	510,197
Less amount representing interest at 3.70% - 6.15%	30,348
Present value of minimum lease payments	479,849
Less current portion	177,691
Long-term portion	<u><u>\$ 302,158</u></u>

8. CONDUIT DEBT

The Redevelopment Authority participates in a single bond issue for which it has limited liability. The Redevelopment Authority serves as a financing conduit. Although the Redevelopment Authority is a party to the trust indenture with the associated Trustee, the agreement is structured such that there is no recourse against the Redevelopment Authority in the case of default. As such, the corresponding debt is not reported in the Redevelopment Authority's balance sheet or statement of net position.

In 2004, the Redevelopment Authority issued a Mortgage Revenue Note of 2004 (Moravian Development Corporation Project) for \$2.3 million. The Redevelopment Authority then entered into a loan agreement with Moravian Development Corporation and an assignment to First Star Savings Bank. The Mortgage Revenue Note of 2004 is secured by property held by Moravian Development Corporation. The purpose of the Mortgage Revenue Note of 2004 is to finance a portion of the costs of a project consisting of, among other things, the refinancing of indebtedness incurred by Moravian Development Corporation to acquire, construct, and equip a 106-unit residential housing facility of the low-income elderly located in the City of Bethlehem. The balance of the Mortgage Revenue Note of 2004 at June 30, 2014 is \$1,030,724.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

9. PENSION PLANS

Plan Descriptions and Administration

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

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

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

Effective January 1, 2013, the Library is no longer a part of the City's PMRS pension plan. The Library will pay the City \$165,000 per year for ten years as part of an agreement to assist the City in meeting unfunded pension plan obligations on retired or fully vested Library employees. Alternatively, the Library offers a 457(b) plan to all remaining and new employees. During the year ended December 31, 2014, the Library paid \$165,000 to PMRS on behalf of the City for the second of the ten payments. Effective January 1, 2013, the Parking Authority is no longer a part of the City's PMRS pension plan. The Parking Authority will pay the City \$188,592 per year for ten years as part of a verbal agreement to assist the City in meeting unfunded pension plan obligations on retired or fully vested Parking Authority employees. Alternatively, the Parking Authority has established its own separate plan with PMRS. During the year ended December 31, 2014, the Parking Authority

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

paid \$188,592 to PMRS on behalf of the City for the second of the ten payments.

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

The Officers' and Employees' Pension Plan (O&E) was closed for eligibility as of January 1, 1964 and was replaced by the PMRS plan. The O&E plan is still active for those employees and retirees who were participants prior to January 1, 1964 and elected not to transfer to PMRS.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

The combining information for the plans is as follows:

	<u>Police Pension Fund</u>	<u>Firemen Pension Fund</u>	<u>Officers' and Employees' Pension Fund</u>	<u>Employee Benefit Trust Fund Total</u>
Assets				
Interest and dividends receivable	\$ 153,441	\$ 114,607	\$ 15,002	\$ 283,050
Due to/from other plans	-	(2,151)	2,151	-
Investments	75,810,024	56,647,726	7,407,456	139,865,206
Total Assets	<u>\$ 75,963,465</u>	<u>\$ 56,760,182</u>	<u>\$ 7,424,609</u>	<u>\$ 140,148,256</u>
Net Position				
Restricted for employees' retirement benefits	<u>\$ 75,963,465</u>	<u>\$ 56,760,182</u>	<u>\$ 7,424,609</u>	<u>\$ 140,148,256</u>
Total Net Position	<u>\$ 75,963,465</u>	<u>\$ 56,760,182</u>	<u>\$ 7,424,609</u>	<u>\$ 140,148,256</u>
	<u>Police Pension Fund</u>	<u>Firemen Pension Fund</u>	<u>Officers' and Employees' Pension Fund</u>	<u>Employee Benefit Trust Fund Total</u>
Additions:				
Employee contributions	\$ 817,800	\$ 572,480	\$ -	\$ 1,390,280
Employer contributions	3,520,610	2,223,040	1,040,430	6,784,080
Investment income	1,490,526	1,116,498	138,737	2,745,761
Realized and unrealized gains, net	2,580,330	1,931,922	242,609	4,754,861
Investment expense	(461,892)	(346,715)	(42,590)	(851,197)
Total additions	<u>7,947,374</u>	<u>5,497,225</u>	<u>1,379,186</u>	<u>14,823,785</u>
Deductions:				
Benefits paid	6,032,142	4,629,623	977,981	11,639,746
Administrative costs	7,400	6,900	5,000	19,300
Total deductions	<u>6,039,542</u>	<u>4,636,523</u>	<u>982,981</u>	<u>11,659,046</u>
Change in Net Position	1,907,832	860,702	396,205	3,164,739
Net Position:				
Beginning of year	74,055,633	55,899,480	7,028,404	136,983,517
End of year	<u>\$ 75,963,465</u>	<u>\$ 56,760,182</u>	<u>\$ 7,424,609</u>	<u>\$ 140,148,256</u>

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

At December 31, 2014, membership and benefit provisions related to the Police, Firemen, and O&E Plans consisted of the following:

	Police	Firemen	Officers' and Employees'
	All Full-time Members of the Police Force	All Full-time Members of the Fire Department	Closed 01/01/64
Covered Employees			
Inactive plan members or beneficiaries currently receiving benefits	128	165	45
Inactive plan members entitled to but not yet receiving benefits	-	-	-
Active plan members	108	149	-
Total	236	314	45

The following table provides information concerning types of covered employees and benefit provisions for the PMRS plan as of its latest actuarial valuation date, January 1, 2013:

	PMRS All Full-time Employees Not Previously Covered
Covered Employees	
Active plan members	338
Number of retirees and beneficiaries receiving benefits	272
Terminated employees entitled to deferred benefits	13

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Benefit Provisions – Police

Members Hired Before January 1, 2012

Retirement Benefit - A member is eligible for normal retirement after completion of 20 years of vesting service. The normal retirement pension is payable monthly during the member's lifetime, with payments continuing after the member's death to the surviving spouse or to dependent children under the age of 18 equal to 100% of the amount payable to the member at the time of the member's death. The amount of monthly pension is equal to 60% of average monthly compensation after 20 years of benefit service, increasing by 2% per additional year of benefit service, up to a maximum of 70% of average monthly compensation after 25 or more years of benefit service; plus a service increment equal to 1/40th of such pension amount per year of benefit service completed by the member in excess of 20 years, up to an additional \$100 per month. Average monthly compensation is equal to the higher of 1/12th of the average annual compensation over the highest 5 consecutive calendar years of employment or the monthly salary of the member at retirement.

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

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

Members Hired On or After January 1, 2012

Retirement Benefit - A member is eligible for normal retirement after completion of 20 years of vesting service. The normal retirement pension is payable monthly during the member's lifetime, with payments continuing after the member's death to the surviving spouse or to dependent children under the age of 18 equal to 100% of the amount payable to the member

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

at the time of the member's death. The amount of monthly pension is equal to 50% of average monthly compensation, plus a service increment equal to 1/40th of such pension amount per year of benefit service completed by the member in excess of 20 years, up to an additional \$100 per month. Average monthly compensation is equal to the higher of 1/12th of the average annual compensation over the highest five consecutive calendar years of employment or the monthly salary of the member at retirement.

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

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

Benefit Provisions – Firemen

Members Hired Before October 24, 2011

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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

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

Deferred Retirement Option Plan (DROP) Benefit – An active member who has attained age 57 and completed 20 years of vesting service may elect to participate in the deferred retirement option plan for a period of not more than 36 months. The member's monthly pension shall be calculated as of the member's date of participation in the DROP and shall be accumulated with 3.0% annual interest, compounded monthly, and distrusted in a lump sum at retirement. As of December 31, 2014, there were four participants in the DROP. As of December 31, 2014, the balance held by the Firemen Plan to the DROP totaled \$475,552.

Members Hired On or After October 24, 2011

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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

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

Benefit Provisions – Officers’ and Employees’

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

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

Benefit Provisions – PMRS

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

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

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

who has at least 10 years of service and who is unable to perform gainful employment.

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

Contributions

Pennsylvania Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act of the Commonwealth (as amended) (Act 205), requires that annual contributions be based upon the Minimum Municipal Obligation (MMO), which is based on the plans' biennial actuarial valuation. According to Act 205, actuarial valuations may be made biennially and the most recent valuation for all of the City's plans was completed as of January 1, 2013. The MMO includes the normal cost, estimated administrative expenses and an amortization of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10 percent of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds that must be used for pension funding. Any financial requirements established by the MMO which exceed state and member contributions must be funded by the employer.

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

For the year ended December 31, 2014, the City made its annual required contribution of \$3,520,610, \$2,223,040, and \$1,040,430 for the City's Police, Firemen, and O&E Defined Benefit Pension Plans, respectively. For the year ended December 31, 2014, the City's annual required contribution for the PMRS plan was \$821,609. The City contributed this amount plus the proceeds of the General Obligation Bonds, Series of 2014, in the amount of \$28,232,158, to the PMRS plan during the year ended December 31, 2014.

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

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Net Pension Liability

The components of the net pension liability for the Police, Firemen, and O&E Plans at December 31, 2014 were as follows:

	Police Pension Fund	Firemen Pension Fund	Officers' and Employees' Pension Fund
Total pension liability	\$ 96,986,351	\$ 67,487,703	\$ 5,877,164
Plan fiduciary net position	(75,963,465)	(56,760,182)	(7,424,609)
Net pension liability	\$ 21,022,886	\$ 10,727,521	\$ (1,547,445)

Plan fiduciary net position as a
percentage of the total pension
liability

	78.32%	84.10%	126.33%
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Actuarial Assumptions - The net pension liability was measured as of December 31, 2014 and was determined by rolling forward liabilities from the January 1, 2013 actuarial valuation. The January 1, 2013 actuarial valuations for the Police, Firemen, and O&E Plans utilized the entry age normal cost method. The actuarial assumptions included (a) investment rate of return of 7.5% for the three City Plans, (b) projected salary increases of 4.5% per year for the three City Plans, (c) inflation component of 3.0%, and (d) RP2000 mortality table for males and females, which does not include projected mortality improvements. No significant events or changes occurred between the valuation date and the fiscal year-ends.

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

- Achieve a positive rate of return over the long term sufficient to meet the Funds' actuarial interest rate and provide for payment of benefit obligations and expenses in perpetuity in a secure and prudent fashion.
- Maintain a prudent risk level that balances growth with the need to preserve capital.

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- Diversify the Funds' assets so as to minimize the risk of large losses or excessive fluctuations in market value from year to year.
- Achieve investment results over the long term that competes favorably with other pension funds' and appropriate market indices.

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

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

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

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

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target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the Police, Firemen, and O&E Plans as of December 31, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	40.0%	7.0%
International equity	14.0%	6.0%
Fixed income	37.0%	2.5%
Alternative investments	9.0%	7.0%
	<u>100.0%</u>	

Rate of Return - The money-weighted rate of return expresses investment performance, net of investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2014, the annual money-weighted rate of return on Police, Firemen, and O&E Plan investments, net of investment expense, was 5.73%.

Concentrations - The City does have a formal policy that limits the amount the City may invest in any one issuer to five percent for each individual Plan. At December 31, 2014, the City does not hold more than five percent of each individual Plans' investments in any one issuer.

Discount Rate - The discount rate used to measure the total pension liability for the Police, Firemen, and O&E Plans as of December 31, 2014 was 7.5%. The Plans' fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Act 205. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Police	\$ 33,579,079	\$ 21,022,886	\$ 10,577,386
Firemen	\$ 18,795,956	\$ 10,727,521	\$ 3,935,701
O&E	\$ (1,251,421)	\$ (1,547,445)	\$ (1,816,699)

Additional Employer Disclosures Required by GASB Statements No. 27 and 50

The information below is with regard to employer pension activity for the year ended December 31, 2014. Costs and contributions were based upon an actuarial valuation performed as of January 1, 2013, as required by Act 205.

The January 1, 2013 actuarial valuations for the Police, Firemen, and O&E Plans utilized the entry age normal cost method. The actuarial assumptions under Act 205 included (a) investment rate of return of 7.5% for the three City Plans, (b) projected salary increases of 4.5% per year for the three City Plans, (c) inflation component of 3.0%, and (d) RP2000 mortality table for males and females, which does not include projected mortality improvements. The actuarial value of assets was based on market value. The Police and Firemen unfunded actuarial accrued liabilities (UAAL) are being amortized over 17 and 15 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, 2013 actuarial valuation utilized the entry age normal cost method. The actuarial assumptions included (a) investment rate of return of 5.5%, and (b) projected salary increases are based on a salary range of 3.7% - 6.4%. 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 eight years, utilizing the annual funding adjustment equal to 10% of negative UAAL.

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The City's annual pension cost, percentage of the annual pension costs contributed, and net pension obligation (asset) for the past three years are as follows:

Calendar Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
Police Pension Fund:			
2012	\$ 2,520,217	100.0%	\$ -
2013	3,494,690	100.0%	-
2014	3,520,610	100.0%	-
Firemen Pension Fund:			
2012	\$ 1,492,989	100.0%	\$ -
2013	2,245,105	100.0%	-
2014	2,223,040	100.0%	-
Officers' and Employees' Pension Fund:			
2012	\$ 432,315	100.0%	\$ -
2013	1,051,497	100.0%	-
2014	1,040,430	100.0%	-
PMRS:			
2012	\$ 2,939,786	100.0%	\$ -
2013	4,033,849	100.0%	-
2014	821,609	3436.2%	(27,410,549)

The City's net pension asset related to the PMRS Plan for the year ended December 31, 2014 is as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 126,863	\$ 694,746	\$ 821,609
Contribution made	(26,708,094)	(1,524,064)	(28,232,158)
Change in net pension asset	(26,581,231)	(829,318)	(27,410,549)
Net pension asset, beginning	-	-	-
Net pension asset, ending	\$ (26,581,231)	\$ (829,318)	\$ (27,410,549)

CITY OF BETHLEHEM, PENNSYLVANIA

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The proceeds of the General Obligation Bonds, Series C of 2014 were deposited into the PMRS plan and are reflected in the above calculation as a portion of the contribution made for the year ended December 31, 2014.

The City's funded status and related information for the Plans as of the latest actuarial valuation date, January 1, 2013, under Act 205, are as follows:

(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:						
1/1/2013	\$ 64,469	\$ 90,777	\$ 26,308	71%	\$ 11,092	237%
Firemen:						
1/1/2013	\$ 49,055	\$ 64,153	\$ 15,098	76%	\$ 6,570	230%
Officers' and Employees':						
1/1/2013	\$ 6,053	\$ 6,980	\$ 927	87%	-	N/A
PMRS:						
1/1/2013	\$ 97,156	\$ 124,567	\$ 27,411	78%	\$ 20,805	132%

Because the proceeds of the General Obligation Bonds, Series C of 2014 were not deposited into the PMRS plan as of January 1, 2013, the actuarial value of assets noted above does not reflect such proceeds.

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.

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.

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YEAR ENDED DECEMBER 31, 2014

Police:

Article XI of the Collective Bargaining Agreement between the City and the Fraternal Order of Police, Star Lodge #20, effective January 1, 2011, establishes retirees' eligibility for post-retirement medical benefits. Article VII Section D. of the personnel manual establishes retirees' eligibility for post-retirement life-insurance benefits.

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

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

Benefits: The City will provide medical and prescription drug coverage for the retiree and spouse until Medicare eligibility. The City's maximum monthly contribution for health insurance coverage for each retiree is \$340. If the retiree dies, his or her spouse will be covered and the City will contribute to coverage for the spouse until Medicare eligibility, unless the spouse remarries or has a job in which health insurance coverage is normally granted. If the retiree reaches Medicare eligibility prior to his or her spouse, the spouse may continue coverage and the City will contribute to coverage for the spouse until Medicare eligibility.

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

Firefighters:

Article X of the Collective Bargaining Agreement between the City and the Local 735 of the International Association of Firefighters (AFL-CIO), effective January 1, 2011, establishes retirees' eligibility for post-retirement medical benefits. Article VII Section 4 of the personnel manual establishes retirees' eligibility for post-retirement life-insurance benefits.

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

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

Benefits: The City will provide medical and prescription drug coverage for the retiree and spouse until Medicare eligibility. The City's maximum monthly contribution for health insurance coverage for each retiree is \$340. If the retiree dies, his or her spouse will be covered and the City will contribute to coverage for the spouse until Medicare eligibility, unless the spouse remarries or has a job in which health insurance coverage is normally granted. If the retiree reaches Medicare eligibility prior to his or her spouse, the spouse may continue coverage and the City will contribute to coverage for the spouse until Medicare eligibility. An employee who retires prior to age 38 shall be eligible to enter the plan at the contribution rate equal to the negotiated rate for contributions.

The City will provide each retiree \$1,500 of post-retirement life insurance coverage upon retirement. The City will also make available an additional \$1,000 of coverage at the employee's expense, if the employee paid for an additional \$30,000 of life insurance coverage while an active employee. Employees retiring on or after January 1, 2013 will only be eligible to purchase post-retirement life insurance coverage upon retirement in any amount that they are eligible for at a no-group rate.

Non-uniformed union and non-union employees:

Article IX of the Collective Bargaining Agreement between the City and the Service Employees International Union, Local 32BJ, Mid-Atlantic District, effective January 1, 2013, establishes retirees' eligibility for post-retirement medical benefits. Article VII Section D. of the personnel manual establishes retirees' eligibility for post-retirement life-insurance benefits.

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

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

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

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may continue coverage and the City will contribute to coverage for the spouse until Medicare eligibility.

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

Funding Policy and Annual OPEB Costs

The City's contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2014, the City contributed \$898,729 to the OPEB plan.

Police:

Police would pay any additional premiums above the City's contribution of \$340. For the year ended December 31, 2014, police retirees contributed \$150,857 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, 2014, firefighter retirees contributed \$152,666 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, 2014, non-uniformed union and non-union retirees contributed \$285,846 toward the cost of their plans.

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

CITY OF BETHLEHEM, PENNSYLVANIA

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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.

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	1/1/2014
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Interest rate	4.5%
Projected salary increases	4.5%
Medical inflation:	
2014	6.5%
2015	6.0%
2016	5.5%
2017	5.3%
2018 and later	4.2%
Amortization method	Level dollar, open period
Amortization period	30 years

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YEAR ENDED DECEMBER 31, 2014

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, 2014 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 1,227,925	\$ 254,969	\$ 1,482,894
Interest on net OPEB obligation	156,373	32,562	188,935
Adjustment to ARC	(213,675)	(44,082)	(257,757)
Annual OPEB cost	1,170,623	243,449	1,414,072
Contribution made	(750,962)	(147,767)	(898,729)
Change in Net OPEB obligation	419,661	95,682	515,343
Net OPEB obligation, beginning	3,475,333	723,235	4,198,568
Net OPEB obligation, ending	<u>\$ 3,894,994</u>	<u>\$ 818,917</u>	<u>\$ 4,713,911</u>

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2014	\$ 1,414,072	63.6%	\$ 4,713,911
2013	1,418,255	64.1%	4,198,568
2012	1,427,904	58.8%	3,689,238

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)
1/1/2014	\$ -	\$ 14,376,729	\$ 14,376,729	0.00%	\$ 36,047,643	39.88%

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 the actuarial accrued liability for benefits.

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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 \$175,807 to the plan during 2014. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

12. SPECIAL ITEMS

In April of 2014, the City entered into a settlement agreement and mutual general release with Berkheimer Tax Administrator. Through this agreement, the City was to pay \$720,000 to Berkheimer Tax Administrator for full and final payment, accord, and satisfaction of any earned income tax claims due to Berkheimer Tax Collector and its contracting political subdivisions for earned income taxes collected through 2010, inclusive. This amount represents taxes collected by the City that were claimed to be due and owing to other municipalities. The City had originally estimated amounts due through 2010, inclusive, to be approximately \$1.7 million.

During the year ended December 31, 2014, the Bethlehem Authority issued Guaranteed Water Revenue Bonds, Series of 2014 to currently refund all or a portion of the Bethlehem Authority's (a) Guaranteed Water Revenue Bonds, Series of 2004, (b) Guaranteed Water Revenue Bonds, Series of 2010, and (c) Guaranteed Water Revenue Note, Series A of 1997, and to provide for long term financing of capital improvements to the water system. As part of the refunding, the Bethlehem Authority terminated an investment agreement that resulted in a termination fee paid to the Bethlehem Authority in the amount of \$1,147,000. Receipt of the termination fee, in turn, resulted in an arbitrage rebate liability on the Guaranteed Water Revenue Bonds, Series of 2004 in the amount of \$1,174,016. The net of these two items is presented on the Statement of Activities and the Statement of Revenues, Expenses, and Changes in Net Position as a special item.

13. 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

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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 2014. 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 \$13,372,513 at December 31, 2014. Subsequent to year-end, the City entered into construction contracts for approximately \$2,100,000.

At December 31, 2014, the Parking Authority has engineering commitments related to garage construction projects in the amount of \$312,372.

At June 30, 2014, the Redevelopment Authority has construction commitments related to the Hoover-Mason Trestle project of approximately \$8 million.

Line of Credit

Beginning on April 16, 2009, the Parking Authority established a line of credit in the amount of \$250,000. The interest rate established by the lender is equal to the prime rate, except that the interest rate will be no less than 4% per annum or more than 9% per annum. At December 31, 2014, there were no amounts borrowed under the 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%. In June 2015, the line of credit was renewed, and will expire on August 31, 2017. At December 31, 2014, there were no amounts borrowed under the line of credit.

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Violations of Finance-Related Legal and Contractual Provisions

During the year ended December 31, 2014, 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 56 money to pay for Act 78 expenditures. The City intends to return the excess costs, in the amount of \$1,291,267, to the Act 56 account from the Act 78 account and/or the General Fund. In 2015, the City increased the dedicated 911 tax which will generate approximately \$2.1 million for 2015.

In past years, the City advanced itself earned income tax (EIT) receipts that were being held on behalf of other governments and owed approximately \$1.7 million back to the EIT account at December 31, 2014. Beginning January 1, 2011, Keystone Collections Group is collecting the City's EIT funds; therefore, the City can no longer advance or borrow EIT. Also, as of December 31, 2014, the City has \$1,494,289 in outstanding claims to other municipalities. The City is awaiting payment and/or responses which can be used towards the shortfall. There are additional claims that still need to be processed, both from the City to other municipalities and from other municipalities to the City.

Tax Incremental Financing Project

The City, along with the Redevelopment Authority, agreed to participate in a TIF Project to finance a portion of costs associated with various redevelopment of the Bethlehem Steel site. Some of the larger projects include the Steelstacks Plaza, Levitt Pavilion, Festival Center Plaza, Hoover-Mason Trestle, and various parking lots. The City has agreed to pay to the Redevelopment Authority specified portions of the incremental real estate tax revenues created by the Project for payment of the debt service on the TIF Bonds and loans. The outstanding principal amount of the TIF Bonds and loans is \$22,064,294 at June 30, 2014. During the year ended December 31, 2014, City tax revenues collected and remitted directly to the TIF were approximately \$1.4 million.

ArtsQuest Lease

During the year ended June 30, 2011, the Redevelopment Authority entered into a lease agreement with ArtsQuest. The Redevelopment Authority has leased to ArtsQuest certain property, including the Levitt Pavilion, the Bethlehem Landing Building, and the Improved Plazas. The initial term of the lease expires on June 1, 2020, unless terminated earlier. The initial term can be extended for one additional 10-year term upon written agreement by both parties. If the initial term is extended for an additional 10-year renewal period, the lease is then subject to two additional 10-year renewals, which will automatically renew unless one party provides a written termination notice to the other at least one year in advance of the applicable renewal date. ArtsQuest is to surrender the assets upon the termination of this lease, in as good

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

order and condition as they are at the start of the lease, ordinary wear and tear and depreciation excepted. Consideration for the lease was \$1.

Armory Rental Agreement

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

14. COMPLIANCE

Under the debt agreements, the Redevelopment Authority is required to maintain certain minimum balances in its debt service reserve funds. At June 30, 2014, the Redevelopment Authority's balances in the debt service reserve funds and the related reserve requirements are as follows:

<u>Debt Series</u>	<u>Balance at June 30, 2014</u>	<u>Reserve Requirement</u>
2010	\$ 2,771,929	\$ 2,760,000
2012	12,056	115,929
2013	8,501	8,500

Deficiencies in the Debt Service Reserve Accounts are to be repaid from the Project TIF Account. On August 1, 2015, the Redevelopment Authority entered into the Fourth Supplemental Indenture of Trust, which amended the Debt Service Reserve Account replenishment provisions and allows the Redevelopment Authority up to two years to replenish the reserve account balance.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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

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

15. LETTER OF CREDIT NOTE

In October 2014, the City established a standby letter of credit with TD Bank in the amount of \$1,340,000. The beneficiary on this letter of credit is Pennsylvania Manufacturers' Association Insurance Company (PMA). According to the terms of the letter of credit, the beneficiary may, at any time, draw upon this letter of credit, up to the full amount. Commission fees on this letter of credit are paid by the City at a rate of 1%. The letter of credit automatically renews for a one-year period on October 15 of each year, unless written notification of termination is received 60 days prior to the expiration date. At December 31, 2014, there were no amounts borrowed under the letter of credit. In June 2015, the letter of credit was reduced to \$800,000.

16. 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 2014. Although the City has a diversified taxing base, its citizens' ability to honor their taxing obligations is substantially dependent upon the general economic condition of the region.

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

17. NEGATIVE FUND BALANCE AND NET POSITION

911 Fund

The 911 Fund had a deficit balance of \$1,245,032 at December 31, 2014. In 2015, the City increased the dedicated 911 tax which will generate approximately \$2.1 million for 2015.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Water Fund

The Water Fund had a deficit balance of \$2,102,287 at December 31, 2014. The negative net position in the water fund is largely due to the depreciation of assets outpacing new capital investment in the water system, and the austerity that this requires. The City and the Bethlehem Authority transacted a long-term restructuring to deal with this issue in September 2014.

Municipal Golf Fund

The Municipal Golf Fund had a deficit balance of \$150,992 at December 31, 2014. The City will continue to address the deficit as part of the 2016 budget. Expense reductions and fee increases were implemented in 2015.

18. SUBSEQUENT EVENTS

In May 2015, the City issued General Obligation Bonds, Series A of 2015, in the amount of \$5,245,000 for various capital projects of the City, including but not limited to, upgrades and improvements related to public safety, parks and public property, and public works.

In May 2015, the City issued General Obligation Bonds, Series B of 2015, in the amount of \$4,520,000, for the current refunding of the outstanding General Obligation Bonds, Series of 2010.

Subsequent to year-end, the City's pension investments experienced a significant decline in fair value due to changing market conditions. Through December 31, 2015, the pension investment's fair value decreased by approximately \$2.9 million. The City is aware of these declines, and will closely monitor these changes in fair value.

Parking Authority

On January 22, 2015, the Parking Authority entered into an agreement for a loan in the amount of \$83,895. The interest rate established by the lender is a fixed rate of 2.74%. Repayment of principal and interest for this loan will take place over a 60-month period. The proceeds of the loan are to be used to purchase three vehicles for the Parking Authority.

On January 28, 2015, the Parking Authority authorized a line of credit. The line of credit is to be used to pay for the immediate emergency repair of the Walnut Street Garage and the demolition of six homes to create a parking lot.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

In May 2015, the Parking Authority entered into an agreement for a loan in the amount of \$72,000. The interest rate established by the lender is a fixed rate of 1.98%. Repayment of principal and interest for this loan will take place over a 60-month period. The proceeds of the loan are to be used to purchase pay stations for the Parking Authority.

In October 2015, the Parking Authority issued Guaranteed Parking System Revenue Bonds, Series of A of 2015, in the amount of \$635,000. The proceeds of the Series A of 2015 Bonds are to be used to currently refund a portion of the Parking Authority's Term Note of 2009.

In October 2015, the Parking Authority issued Guaranteed Parking System Revenue Bonds, Series of B of 2015, in the amount of \$8,945,000. The proceeds of the Series B of 2015 Bonds are to be used to currently refund the outstanding Parking Authority's portion of the City's General Obligation Bonds, Series C of 2003, the Parking Authority's Parking Revenue Note, Series of 2004, and the Parking Authority's Term Note of 2009.

Redevelopment Authority

In August 2015, the Redevelopment Authority issued the Tax Increment Revenue Bonds, Series of 2015, in the amount of \$2,465,000. The bonds are secured by the revenues, receipts, and moneys derived from the Redevelopment Authority's portion of all tax increments generated from the taxable properties in the TIF District. Proceeds from the bonds are to be used to fund additional public improvements at the 160-acre Bethlehem Works TIF District, including, but not limited to, the Hoover-Mason Trestle reconstruction, further development of parking lots and improvements, as well as other site infrastructure improvements; to fund a debt service reserve fund; and to pay costs of issuance.

During the year ended June 30, 2015, the Redevelopment Authority entered into a grant agreement with BEDCO for the Community Ambassador Program. According to the terms of the document, the Redevelopment Authority will pay BEDCO up to \$60,000 per year, for three years, to support the project.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

19. RESTATEMENT OF REDEVELOPMENT AUTHORITY AND AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS

The net position of the Redevelopment Authority and the aggregate discretely presented component units has been restated, to apply the accrual basis of accounting to the financial statements, as follows:

	Bethlehem Redevelopment Authority	Aggregate Discretely Presented Component Units
Net position - as previously reported	\$ (13,713,270)	\$ (6,180,224)
Adjust cash	129,227	129,227
Revised accounts receivable	(58,148)	(58,148)
Record accounts payable	(252,624)	(252,624)
Remove capital assets	(30,915)	(30,915)
Record capital assets	10,951,881	10,951,881
Record debt	(205,556)	(205,556)
Net position - as restated	<u>\$ (3,179,405)</u>	<u>\$ 4,353,641</u>

The effect of these changes on the change in the Redevelopment Authority's and the aggregate discretely presented component unit's net position for the prior year has not been determined.

**Required Supplementary
Information**

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 35,396,183	\$ 35,396,183	\$ 35,042,832	\$ (353,351)
Licenses and permits	2,965,750	2,965,750	2,706,537	(259,213)
Intergovernmental	7,414,590	7,669,219	7,000,436	(668,783)
Departmental earnings	7,061,550	7,096,550	7,175,137	78,587
Fines and forfeitures	540,000	540,000	439,426	(100,574)
Investment income	-	-	(28,693)	(28,693)
Municipal recreation	542,500	542,500	504,280	(38,220)
Host fees	9,750,000	9,750,000	9,444,824	(305,176)
Other operating revenues	1,027,200	1,027,200	779,645	(247,555)
Miscellaneous	2,040,700	2,053,489	2,510,877	457,388
Total revenues	<u>66,738,473</u>	<u>67,040,891</u>	<u>65,575,301</u>	<u>(1,465,590)</u>
Expenditures:				
Current:				
General government	925,698	929,698	907,750	21,948
Administration	1,831,894	1,841,164	1,762,228	78,936
Community development	5,183,357	5,368,523	4,854,996	513,527
Parks and public property	4,077,897	4,068,897	3,937,726	131,171
Public works	6,496,481	6,502,481	5,869,285	633,196
Police	13,361,494	13,603,957	13,350,406	253,551
Fire	10,662,581	10,704,370	10,447,494	256,876
General	18,245,084	18,054,514	15,627,272	2,427,242
Civic	115,969	129,269	126,029	3,240
Library	1,277,082	1,277,082	1,277,082	-
Debt service:				
Principal	3,465,000	3,465,000	3,465,000	-
Interest	3,973,833	3,973,833	3,964,785	9,048
Total expenditures	<u>69,616,370</u>	<u>69,918,788</u>	<u>65,590,053</u>	<u>4,328,735</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,877,897)</u>	<u>(2,877,897)</u>	<u>(14,752)</u>	<u>2,863,145</u>
Other Financing Sources (Uses):				
Transfers in	3,896,527	3,896,527	2,955,374	(941,153)
Transfers out	(1,018,630)	(1,018,630)	(1,018,629)	1
Total other financing sources (uses)	<u>2,877,897</u>	<u>2,877,897</u>	<u>1,936,745</u>	<u>(941,152)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,921,993</u>	<u>\$ 1,921,993</u>

See accompanying notes to budgetary comparison schedule.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTE TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2014

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	\$ 68,530,675	\$ 66,608,682
Other fund borrowings	(75,881)	(162,537)
Accrual adjustments:		
Receivables:		
Beginning of year	(11,187,283)	(210)
End of year	11,377,269	419
Due from/to:		
Beginning of year	10,708,018	6,329,334
End of year	(9,371,755)	(6,922,535)
Accrued liabilities:		
Beginning of year	(142,900)	(3,721,695)
End of year	142,900	3,605,063
Unearned and unavailable revenues:		
Beginning of year	2,253,155	-
End of year	(2,126,990)	-
Reclassifications	54,043,216	54,043,216
GAAP basis	<u>\$ 124,150,424</u>	<u>\$ 119,779,737</u>

CITY OF BETHLEHEM, PENNSYLVANIA
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -
PENSION PLANS

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

YEAR ENDED DECEMBER 31, 2014

Total Pension Liability:	
Service cost	\$ 2,051,464
Interest	6,976,913
Benefit payments, including refunds of member contributions	<u>(6,032,142)</u>
Net Changes in Total Pension Liability	2,996,235
Total Pension Liability - Beginning	<u>93,990,116</u>
Total Pension Liability - Ending (a)	<u><u>\$ 96,986,351</u></u>
Plan Fiduciary Net Position:	
Contributions - employer	\$ 3,520,610
Contributions - employee	817,800
Net investment income	3,608,964
Benefit payments, including refunds of member contributions	<u>(6,032,142)</u>
Administrative expense	<u>(7,400)</u>
Net Change in Plan Fiduciary Net Position	1,907,832
Plan Fiduciary Net Position - Beginning	<u>74,055,633</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 75,963,465</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 21,022,886</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u><u>78.32%</u></u>
Covered Employee Payroll	<u><u>\$ 11,524,100</u></u>
Net Pension Liability as a Percentage of Covered Employee Payroll	<u><u>182.43%</u></u>

CITY OF BETHLEHEM, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - POLICE PENSION PLAN

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Schedule of Township Contributions										
Actuarially determined contribution	\$ 3,520,610	\$ 3,494,690	\$ 2,520,216	\$ 2,534,484	\$ 1,921,109	\$ 1,847,708	\$ 1,713,031	\$ 1,692,287	\$ 1,571,524	\$ 1,013,849
Contributions in relation to the actuarially determined contributions	3,520,610	3,494,690	2,520,217	2,614,322	2,091,038	1,938,673	1,713,031	1,718,251	1,572,082	1,013,849
Contribution deficiency (excess)	\$ -	\$ -	\$ (1)	\$ (79,838)	\$ (169,929)	\$ (90,965)	\$ -	\$ (25,964)	\$ (558)	\$ -
Covered employee payroll	\$ 11,524,100									
Contributions as a percentage of covered employee payroll	30.55%									
Investment Returns										
Annual money-weighted rate of return, net of investment expense	5.73%									
Methods and assumptions used to determine contribution rates:										
Actuarial valuation date:	January 1, 2013									
Actuarial cost method:	Entry age normal									
Amortization method:	Level dollar closed									
Remaining amortization period:	17 years									
Asset valuation method:	Market value of assets as determined by the trustee									
Inflation:	3.00%									
Salary increases	4.50%									
Investment rate of return	7.50%									
Retirement age:	Attainment of age 57 and completion of 20 years of service									
Mortality	RP2000 Table. This table does not include projected mortality improvements									
Change in benefit terms:	None since January 1, 2013									

CITY OF BETHLEHEM, PENNSYLVANIA
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -
PENSION PLANS

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

YEAR ENDED DECEMBER 31, 2014

Total Pension Liability:	
Service cost	\$ 1,290,085
Interest	4,837,270
Benefit payments, including refunds of member contributions	(4,629,623)
Net Changes in Total Pension Liability	<u>1,497,732</u>
Total Pension Liability - Beginning	<u>65,989,971</u>
Total Pension Liability - Ending (a)	<u><u>\$ 67,487,703</u></u>
Plan Fiduciary Net Position:	
Contributions - employer	\$ 2,223,040
Contributions - employee	572,480
Net investment income	2,701,705
Benefit payments, including refunds of member contributions	(4,629,623)
Administrative expense	(6,900)
Net Change in Plan Fiduciary Net Position	<u>860,702</u>
Plan Fiduciary Net Position - Beginning	<u>55,899,480</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 56,760,182</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 10,727,521</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u><u>84.10%</u></u>
Covered Employee Payroll	<u><u>\$ 7,065,479</u></u>
Net Pension Liability as a Percentage of Covered Employee Payroll	<u><u>151.83%</u></u>

CITY OF BETHLEHEM, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - FIREMEN PENSION PLAN

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Schedule of Township Contributions										
Actuarially determined contribution	\$ 2,223,040	\$ 2,245,105	\$ 1,492,988	\$ 1,672,843	\$ 1,136,780	\$ 1,174,242	\$ 1,018,719	\$ 1,044,942	\$ 986,961	\$ 636,326
Contributions in relation to the actuarially determined contributions	<u>2,223,040</u>	<u>2,245,105</u>	<u>1,492,989</u>	<u>1,701,818</u>	<u>1,227,791</u>	<u>1,214,739</u>	<u>1,018,719</u>	<u>1,044,942</u>	<u>987,311</u>	<u>636,326</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ (28,975)</u>	<u>\$ (91,011)</u>	<u>\$ (40,497)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (350)</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 7,065,479</u>									
Contributions as a percentage of covered employee payroll	<u>31.46%</u>									
Investment Returns										
Annual money-weighted rate of return, net of investment expense	<u>5.73%</u>									
Methods and assumptions used to determine contribution rates:										
Actuarial valuation date:	January 1, 2013									
Actuarial cost method:	Entry age normal									
Amortization method:	Level dollar closed									
Remaining amortization period:	14 years									
Asset valuation method:	Market value of assets as determined by the trustee									
Inflation:	3.00%									
Salary increases	4.50%									
Investment rate of return	7.50%									
Retirement age:	Attainment of age 57 and completion of 20 years of service									
Mortality	RP2000 Table. This table does not include projected mortality improvements									
Change in benefit terms:	None since January 1, 2013									

CITY OF BETHLEHEM, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

YEAR ENDED DECEMBER 31, 2014

Total Pension Liability:	
Interest	\$ 444,150
Benefit payments, including refunds of member contributions	(977,981)
Net Changes in Total Pension Liability	(533,831)
Total Pension Liability - Beginning	6,410,995
Total Pension Liability - Ending (a)	\$ 5,877,164
Plan Fiduciary Net Position:	
Contributions - employer	\$ 1,040,430
Net investment income	338,756
Benefit payments, including refunds of member contributions	(977,981)
Administrative expense	(5,000)
Net Change in Plan Fiduciary Net Position	396,205
Plan Fiduciary Net Position - Beginning	7,028,404
Plan Fiduciary Net Position - Ending (b)	\$ 7,424,609
Net Pension Liability - Ending (a-b)	\$ (1,547,445)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	126.33%
Covered Employee Payroll	\$ -
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A

CITY OF BETHLEHEM, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - OFFICERS' AND EMPLOYEES' PENSION PLAN

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Schedule of Township Contributions										
Actuarially determined contribution	\$ 1,040,430	\$ 1,051,497	\$ 432,314	\$ 455,998	\$ 467,762	\$ 622,663	\$ 379,382	\$ 381,269	\$ 381,266	\$ 1,037
Contributions in relation to the actuarially determined contributions	1,040,430	1,051,497	432,315	458,902	487,529	648,841	379,382	381,346	381,346	1,037
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ (2,904)</u>	<u>\$ (19,767)</u>	<u>\$ (26,178)</u>	<u>\$ -</u>	<u>\$ (77)</u>	<u>\$ (80)</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ -</u>									
Contributions as a percentage of covered employee payroll	<u>N/A</u>									
Investment Returns										
Annual money-weighted rate of return, net of investment expense	<u>5.73%</u>									
Methods and assumptions used to determine contribution rates:										
Actuarial valuation date:	January 1, 2013									
Actuarial cost method:	Entry age normal									
Amortization method:	Level dollar closed									
Remaining amortization period:	2 years									
Asset valuation method:	Market value of assets as determined by the trustee									
Inflation:	3.00%									
Salary increases	4.50%									
Investment rate of return	7.50%									
Retirement age:	Normal retirement age									
Mortality	RP2000 Table. This table does not include projected mortality improvements									
Change in benefit terms:	None since January 1, 2013									

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:	1/1/2009	\$ 64,399	\$ 74,424		\$ (10,025)	87%	\$ 10,058	-100%
	1/1/2011	63,718	83,930	(1)	(20,212)	76%	11,565	-175%
	1/1/2013	64,469	90,777	(2)	(26,308)	71%	11,092	-237%
Firemen:	1/1/2009	48,780	55,305		(6,525)	88%	6,544	-100%
	1/1/2011	48,627	62,441	(3)	(13,814)	78%	7,318	-189%
	1/1/2013	49,055	64,153	(4)	(15,098)	76%	6,570	-230%
Officers' and Employees':	1/1/2009	7,943	8,984		(1,041)	88%	241	-432%
	1/1/2011	7,121	8,531		(1,410)	83%	120	-1175%
	1/1/2013	6,053	6,980	(5)	(927)	87%	-	N/A
PMRS:	1/1/2009	77,370	97,712		(20,342)	79%	23,164	-88%
	1/1/2011	88,255	111,163	(6)	(22,908)	79%	22,034	-104%
	1/1/2013	97,156 *	124,567	(7)	(27,411)	78%	20,805	-132%

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

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

(1) Actuarial losses and actuarial assumption modifications for the 1/1/2011 valuation resulted in increases to the AAL of \$10.7 million.

(2) Actuarial losses and actuarial assumption modifications for the 1/1/2013 valuation resulted in increases to the AAL of \$7.3 million.

(3) Actuarial losses and actuarial assumption modifications for the 1/1/2011 valuation resulted in increases to the AAL of \$6.5 million.

(4) Actuarial losses and actuarial assumption modifications for the 1/1/2013 valuation resulted in increases to the AAL of \$2.4 million.

(5) Actuarial losses and actuarial assumption modifications for the 1/1/2013 valuation resulted in increases to the AAL of \$603,000.

(6) Actuarial losses and actuarial assumption modifications for the 1/1/2011 valuation resulted in increases to the AAL of \$5.5 million.

(7) Actuarial losses and actuarial assumption modifications for the 1/1/2013 valuation resulted in increases to the AAL of \$8.7 million.

* - Because the proceeds of the General Obligation Bonds, Series C of 2014 were not deposited into the PMRS plan as of January 1, 2013, the actuarial value of assets noted above does not reflect such proceeds.

See accompanying note to required supplementary pension 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
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%
2011	2,534	100%	1,673	100%	456	100%	3,041	100%
2012	2,520	100%	1,493	100%	432	100%	2,940	100%
2013	3,495	100%	2,245	100%	1,052	100%	4,034	100%
2014	3,521	100%	2,223	100%	1,040	100%	821 *	3436%

Note: Contributions include state pension aid.

* - The proceeds of the General Obligation Bonds, Series C of 2014 were deposited into the PMRS plan and are reflected in the percentage contributed above for the year ended December 31, 2014.

See accompanying note to required supplementary pension information.

CITY OF BETHLEHEM, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY PENSION INFORMATION

YEAR ENDED DECEMBER 31, 2014

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	1/1/2013	1/1/2013	1/1/2013	1/1/2013
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 Closed
Amortization period	17 years	15 years	2 years	8 years
Asset valuation method	Market value as determined by Trustee	Market value as determined by Trustee	Market value as determined by Trustee	Market Value as determined by Trustee
Actuarial assumptions:				
Investment rate of return	7.5%	7.5%	7.5%	5.5%
Projected salary increases	4.5%	4.5%	4.5%	3.7% - 6.4%

CITY OF BETHLEHEM, PENNSYLVANIA
POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS
YEAR ENDED DECEMBER 31, 2014

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%
1/1/2012	-	14,378,843	14,378,843	0.0%	37,649,864	38.2%
1/1/2014	-	14,376,729	14,376,729	0.0%	36,047,643	39.9%

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
2011	\$ 1,412,540	53.0%
2012	1,478,726	56.7%
2013	1,478,726	61.5%
2014	1,482,894	60.6%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate	4.5%
Projected salary increases	4.5%
Medical inflation:	
2014	6.5%
2015	6.0%
2016	5.5%
2017	5.3%
2018 and later	4.2%
Amortization method	Level dollar, open period
Amortization period	30 years

Supplementary Information

CITY OF BETHLEHEM, PENNSYLVANIA

COMBINING BALANCE SHEET - OTHER NON-MAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2014

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Debt Service Fund	Total
Assets					
Cash and cash equivalents	\$ 495,660	\$ 2,446,906	\$ 167,459	\$ -	\$ 3,110,025
Receivables:					
Loans	-	1,594,874	-	-	1,594,874
Other	84,737	-	-	-	84,737
Due from other governments	-	262,015	-	-	262,015
Total Assets	\$ 580,397	\$ 4,303,795	\$ 167,459	\$ -	\$ 5,051,651
Liabilities and Fund Balance					
Liabilities:					
Accounts payable and other accrued expenses	\$ 70,086	\$ 276,985	\$ 14,934	\$ -	\$ 362,005
Accrued payroll	69,382	12,987	-	-	82,369
Accrued vacation and other compensated absences	19,115	8,990	-	-	28,105
Unearned revenues	1,666,846	4,004,833	-	-	5,671,679
Total Liabilities	1,825,429	4,303,795	14,934	-	6,144,158
Fund Balance:					
Restricted for:					
Public works	-	-	152,525	-	152,525
Unassigned	(1,245,032)	-	-	-	(1,245,032)
Total Fund Balance	(1,245,032)	-	152,525	-	(1,092,507)
Total Liabilities and Fund Balance	\$ 580,397	\$ 4,303,795	\$ 167,459	\$ -	\$ 5,051,651

CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2014

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Debt Service Fund	Total
Revenues:					
Intergovernmental revenues	\$ 1,738,026	\$ 1,214,227	\$ 1,515,254	\$ -	\$ 4,467,507
Other charges	520,306	-	-	-	520,306
Investment income	-	22,208	1,574	-	23,782
Other	-	70,006	-	-	70,006
Total revenues	2,258,332	1,306,441	1,516,828	-	5,081,601
Expenditures:					
Current:					
Public works	-	-	1,688,007	-	1,688,007
Police	3,055,645	-	-	-	3,055,645
Program expenditures	-	1,306,441	-	-	1,306,441
Debt service - principal	-	-	-	4,078,000	4,078,000
Debt service - interest	-	-	-	4,484,661	4,484,661
Total expenditures	3,055,645	1,306,441	1,688,007	8,562,661	14,612,754
Excess (Deficiency) of Revenues Over Expenditures	(797,313)	-	(171,179)	(8,562,661)	(9,531,153)
Other Financing Sources (Uses):					
Transfers in	1,100,000	-	-	8,562,661	9,662,661
Transfers out	(384,823)	-	-	-	(384,823)
Total other financing sources (uses)	715,177	-	-	8,562,661	9,277,838
Net Change in Fund Balance	(82,136)	-	(171,179)	-	(253,315)
Fund Balance:					
Beginning of year	(1,162,896)	-	323,704	-	(839,192)
End of year	<u>\$ (1,245,032)</u>	<u>\$ -</u>	<u>\$ 152,525</u>	<u>\$ -</u>	<u>\$ (1,092,507)</u>