

# **City of Bethlehem, Pennsylvania**

## Financial Statements and Supplementary Information

Year Ended December 31, 2015 with  
Independent Auditor's Report

**MaherDuessel**  
Certified Public Accountants

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# CITY OF BETHLEHEM, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2015

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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, 2015, 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, 2015, 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.

### ***Change in Accounting Principle***

As described in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions*," and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*," which requires the City to record its net pension liability (asset) and related items on the government-wide and proprietary fund financial statements. Our opinion is not modified with respect to that matter.

### ***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, 105 through 106, and 107 through 119, 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 September 20, 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*

# 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, 2015 and 2014. 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 \$4,375,498 in 2015 and increased by \$1,348,185 in 2014.

In the City's governmental activities, net position increased by \$1,380,291 in 2015 and increased by \$1,729,548 in 2014. In 2015, the increase in net position is the result of a real estate tax increase of approximately 6%. 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 the City's business-type activities, net position increased by \$2,995,207 in 2015 and decreased by \$381,363 in 2014. In 2015, the increase is the result of an increase in charges for services of \$1.9 million. 2015 saw a full year effect of rate increases that occurred in 2014 and the City is more aggressively replacing older meters. The Sewer Fund also received a DCED grant for \$1.25 million towards the biosolids dewatering project. 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 cost of approximately \$800,000.

### 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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

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

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

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

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

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

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

**Governmental Funds** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *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, the non-utility capital improvements fund, and the debt service fund, which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation captioned "Other Non-Major Governmental Funds." Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

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

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

### **Fiduciary Funds**

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

### **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 19-104 of this report.

### **Other Information**

Required supplementary information can be found on pages 105-119 of this report. The combining statements referred to earlier in connection with governmental fund types are

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

presented immediately following the required supplementary information section. Combining schedules can be found on pages 120-121 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, 2015 by \$73,009,099 and 2014 by \$77,384,597.

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	
	2015	2014	2015	2014	2015	2014
Current assets	\$ 28,022,767	\$ 23,809,661	\$ 17,813,323	\$ 12,127,724	\$ 45,836,090	\$ 35,937,385
Capital assets	58,187,917	59,360,623	103,980,457	101,783,946	162,168,374	161,144,569
Other assets	4,065,927	3,042,049	18,140,749	20,716,929	22,206,676	23,758,978
<b>Total assets</b>	<b>\$ 90,276,611</b>	<b>\$ 86,212,333</b>	<b>\$ 139,934,529</b>	<b>\$ 134,628,599</b>	<b>\$ 230,211,140</b>	<b>\$ 220,840,932</b>
Deferred outflows of resources	\$ 14,079,583	\$ 28,204,951	\$ 1,044,038	\$ 771,881	\$ 15,123,621	\$ 28,976,832
Current liabilities	\$ 17,139,643	\$ 18,117,130	\$ 13,558,371	\$ 12,465,885	\$ 30,698,014	\$ 30,583,015
Noncurrent liabilities	169,627,971	180,091,865	117,727,679	116,203,253	287,355,650	296,295,118
<b>Total liabilities</b>	<b>\$ 186,767,614</b>	<b>\$ 198,208,995</b>	<b>\$ 131,286,050</b>	<b>\$ 128,669,138</b>	<b>\$ 318,053,664</b>	<b>\$ 326,878,133</b>
Deferred inflows of resources	\$ -	\$ -	\$ 290,196	\$ 324,228	\$ 290,196	\$ 324,228
Net investment in capital assets	\$ 16,803,717	\$ 20,496,370	\$ (2,815,984)	\$ 154,925	\$ 13,987,733	\$ 20,651,295
Restricted	4,239,767	3,317,366	727,407	-	4,967,174	3,317,366
Unrestricted	(103,454,904)	(107,605,447)	11,490,898	6,252,189	(91,964,006)	(101,353,258)
<b>Total net position (deficit)*</b>	<b>\$ (82,411,420)</b>	<b>\$ (83,791,711)</b>	<b>\$ 9,402,321</b>	<b>\$ 6,407,114</b>	<b>\$ (73,009,099)</b>	<b>\$ (77,384,597)</b>

\* As restated due to implementation of GASB Statement No. 68 and No. 71. See Note 1 to the financial statements.

Current assets in Governmental Activities increased approximately \$4.2 million. This was due to several factors including an increase in unspent bond proceeds of \$2.2 million due to the issuance of a 2015 bond for non-utility capital projects. 911 Fund cash increased \$733,000 due to changes

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

in State law regarding the 911 funding structure. General Fund cash increased \$745,000 due to improved operations and management.

Deferred outflows of resources in Governmental Activities decreased approximately \$14.1 million. This was due to the issuance of pension obligation bonds for the PMRS pension plan in 2014. Due to the measurement date used for the PMRS pension plan, this amount was not offset against deferred outflows until 2015. Additional variances were due to the implementation of GASB Statement Nos. 68 and 71.

Noncurrent liabilities in Governmental Activities decreased approximately \$10.5 million. The majority of this difference is due to the decrease in net pension liability for the PMRS plan of \$25 million (because of the deposit of the proceeds of the PMRS pension bond into the plan), net of increases in the net pension liability for the Police and Firemen's pension plans of \$8 and \$4 million, respectively.

Current assets in Business-type Activities increased approximately \$5.7 million. This was primarily due to an increase in cash in the Sewer Fund of \$2.0 million and \$1.8 million in the Water Fund. These increases are the result of improved operations and management as well as rate increases, aggressive replacement of water meters, and debt restructuring for the Water Fund which occurred in 2014.

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

### City's Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Program revenues:						
Charges for services	\$ 11,885,907	\$ 12,087,136	\$ 37,767,904	\$ 35,799,245	\$ 49,653,811	\$ 47,886,381
Operating grants and contributions	17,513,134	9,179,856	-	-	17,513,134	9,179,856
Capital grants	723,144	922,870	1,250,000	-	1,973,144	922,870
General revenues:						
Taxes	37,607,101	35,410,571	-	-	37,607,101	35,410,571
Investment earnings	40,560	28,166	757,643	315,542	798,203	343,708
Unrestricted grants	15,062,447	13,762,302	-	-	15,062,447	13,762,302
<b>Total revenues</b>	<b>82,832,293</b>	<b>71,390,901</b>	<b>39,775,547</b>	<b>36,114,787</b>	<b>122,607,840</b>	<b>107,505,688</b>
Expenses:						
General government	702,521	804,735	-	-	702,521	804,735
Administrative	1,251,108	1,081,556	-	-	1,251,108	1,081,556
Community development	11,617,929	5,902,258	-	-	11,617,929	5,902,258
Parks and public property	4,814,684	5,090,131	-	-	4,814,684	5,090,131
Public works	10,831,542	8,753,044	-	-	10,831,542	8,753,044
Police	22,519,346	17,232,039	-	-	22,519,346	17,232,039
Fire	13,612,028	11,146,186	-	-	13,612,028	11,146,186
General expenditures	11,505,146	16,678,090	-	-	11,505,146	16,678,090
Civic	110,138	125,586	-	-	110,138	125,586
Library	1,387,160	1,396,159	-	-	1,387,160	1,396,159
Program expenditures	1,702,156	1,306,441	-	-	1,702,156	1,306,441
Interest on long-term debt	5,528,291	5,462,933	-	-	5,528,291	5,462,933
Water fund	-	-	19,488,428	20,612,224	19,488,428	20,612,224
Sewer fund	-	-	11,607,580	10,411,731	11,607,580	10,411,731
Other non-major fund	-	-	1,554,285	1,432,393	1,554,285	1,432,393
<b>Total expenses</b>	<b>85,582,049</b>	<b>74,979,158</b>	<b>32,650,293</b>	<b>32,456,348</b>	<b>118,232,342</b>	<b>107,435,506</b>
Change in net position before transfers and special items	(2,749,756)	(3,588,257)	7,125,254	3,658,439	4,375,498	70,182
Transfers	4,130,047	4,012,786	(4,130,047)	(4,012,786)	-	-
Special item	-	1,305,019	-	(27,016)	-	1,278,003
<b>Change in net position</b>	<b>1,380,291</b>	<b>1,729,548</b>	<b>2,995,207</b>	<b>(381,363)</b>	<b>4,375,498</b>	<b>1,348,185</b>
Net position:						
Beginning	(83,791,711)	(28,121,226)	6,407,114	6,667,538	(77,384,597)	(21,453,688)
Adjustment due to implementation of GASB Statement Nos. 68 and 71	-	(57,400,033)	-	120,939	-	(57,279,094)
<b>Ending</b>	<b>\$ (82,411,420)</b>	<b>\$ (83,791,711)</b>	<b>\$ 9,402,321</b>	<b>\$ 6,407,114</b>	<b>\$ (73,009,099)</b>	<b>\$ (77,384,597)</b>

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

**Governmental activities.** Governmental activities increased the City's net position by \$1,380,291 for the year ended December 31, 2015. Key elements of this increase are as follows:

- Operating grants and contributions in Governmental Activities increased approximately \$8.3 million. This was due to additional pass-through Redevelopment Assistance Capital Program (RACP) grants of \$5.6 million, changes in State law regarding 911 funding which moved \$1.6 million from deferred revenue, and increases in Community Development Block Grant of \$633,000 and HOME of \$445,000.
- Community development expenses in Governmental Activities increased approximately \$5.7 million. This was due to additional pass-through RACP grants of \$5.6 million.
- Police expenses in Governmental Activities increased approximately \$5.3 million. This was due to reporting changes under GASB Statement No. 68 which now presents pension MMOs under the applicable functional unit as opposed to General expenditures. The 2015 Police MMO was \$4.4 million.
- Fire expenses in Governmental Activities increased approximately \$2.5 million. This was due to reporting changes under GASB Statement No. 68 which now shows pension MMOs under the applicable functional unit as opposed to General expenditures. The 2015 Fire MMO was \$2.7 million.
- General expenditures in Governmental Activities decreased approximately \$5.2 million. This was primarily due to reporting changes under GASB Statement No. 68 which now shows pension MMOs under the applicable functional unit as opposed to General expenditures.

**Business-type activities.** Business-type activities increased the City's net position by \$2,995,207 for the year ended December 31, 2015. Key elements of this change are as follows:

- Charges for services in Business-type Activities increased approximately \$1.9 million. This was due to 2015 realizing a full year effect of rate increases that occurred in 2014 as well as the City more aggressively replacing older meters.
- Capital grants in Business-type Activities increased approximately \$1.25 million. This was due to the Sewer Fund receiving a DCED grant for \$1.25 million towards the biosolids dewatering project.

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

### Financial Analysis of the Major Funds

#### General Fund

Revenues of the General Fund totaled \$73,552,273 for the year ended December 31, 2015. The following represents a summary of General Fund revenue, for the years ended December 31, 2015 and 2014 by source, along with changes from 2014:

	2015	2014	Change From 2014 to 2015	Percentage Change
Taxes	\$ 37,784,001	\$ 35,479,900	\$ 2,304,101	6.49%
Licenses and permits	2,742,617	2,736,382	6,235	0.23%
Intergovernmental revenues	13,541,131	8,045,703	5,495,428	68.30%
Fines and forfeitures	422,018	439,426	(17,408)	-3.96%
Departmental earnings	6,807,918	7,076,709	(268,791)	-3.80%
Other charges	1,208,085	874,138	333,947	38.20%
Municipal recreation	526,627	504,280	22,347	4.43%
Investment income	10,085	(2,872)	12,957	451.15%
Host fee	9,778,092	9,619,221	158,871	1.65%
Other	731,699	350,001	381,698	109.06%
<b>Total</b>	<b>\$ 73,552,273</b>	<b>\$ 65,122,888</b>	<b>\$ 8,429,385</b>	<b>12.94%</b>

Taxes increased by \$2,304,101 from 2014 to 2015. The increase was due to several taxes that saw favorable movement in 2015 including a \$1,613,379 increase in real estate taxes largely due to a tax increase, a \$283,342 increase in earned income taxes, a \$219,775 increase in deed transfer tax, and a \$101,413 increase in mercantile and business privilege tax.

Intergovernmental revenues increased by \$5,495,428 from 2014 to 2015. The increase was due to the recording of additional RACP funds of \$5,626,184 offset by a decrease in the Staffing for Adequate Fire and Emergency Response (SAFER) grant of \$274,578.

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

General Fund expenditures totaled \$66,252,466, which represents a decrease of \$44,649,434 or 40.26% from 2014. The following represents a summary of General Fund expenditures for the years ended December 31, 2015 and 2014, by function, along with changes from 2014:

	2015	2014	Change 2014 to 2015	Percentage Change
General government	\$ 691,529	\$ 750,713	\$ (59,184)	-7.88%
Administrative	1,024,603	1,070,891	(46,288)	-4.32%
Community development	11,388,710	5,804,852	5,583,858	96.19%
Parks and public property	3,040,993	3,031,655	9,338	0.31%
Public works	5,146,222	4,603,197	543,025	11.80%
Police	18,125,675	13,251,892	4,873,783	36.78%
Fire	13,020,274	10,569,751	2,450,523	23.18%
General expenditures	11,561,212	43,140,612	(31,579,400)	-73.20%
Civic	110,138	125,586	(15,448)	-12.30%
Library	1,277,082	1,277,082	-	0.00%
Debt service - principal	690,224	26,210,555	(25,520,331)	-97.37%
Debt service - interest	175,804	1,065,114	(889,310)	-83.49%
<b>Total</b>	<b>\$ 66,252,466</b>	<b>\$ 110,901,900</b>	<b>\$ (44,649,434)</b>	<b>-40.26%</b>

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

- Community development increased by \$5,583,858 due to the additional RACP funds of \$5,626,184.
- Police increased by \$4,873,783 due to the reclassifying of the police pension MMO payment of \$4,408,792 into Police from General Expenditures, as well as a contractual 3% wage increase.
- Fire increased by \$2,450,523 due to the reclassifying of the fire pension MMO payment of \$2,776,073 into Fire from General Expenditures.
- General expenditures decreased by \$31,579,400 due to the \$27,410,549 payment to PMRS in 2014 from the pension bonds issued in 2014. Additionally, implementation of GASB Statement No. 68 reclassified the pension MMO from General expenditures to the appropriate expenditure function.
- Debt service principal expense decreased by \$25,520,331 due to the refinancing of the 2004 Pension Bonds that occurred in 2014.

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

- Debt service interest expense decreased by \$889,310 due to bond issuance costs of \$724,725 incurred in 2014.

### **General Fund Budgetary Highlights**

The General Fund expenditure budget for fiscal year 2015 was approximately \$68.7 million. This was a decrease of \$1.2 million over the previous year amended budget. There were no material amendments to the 2015 budget. Actual expenditures were approximately \$2.0 million less than budgeted. General expenditures were lower than budgeted mainly due to a contingency for Fire wage increases which was not utilized, as the union contract was not settled until 2016. Public Works realized savings in streetlight costs. Community Development realized savings in personnel costs, contracts, and grants that were not fully spent in 2015 and carried over into 2016.

### **Non-Utility Capital Improvements Fund**

Cash and cash equivalents increased by approximately \$2.2 million. This was due to having \$2.7 million more in unspent bond proceeds, as well as approximately \$546,000 less in unspent capital lease proceeds for a street lighting project that occurred in 2015.

Intergovernmental revenues and capital outlays were comparable to 2014.

### **Debt Service Fund**

Debt service principal and interest expenditures are a function of amortization schedules created when debt is issued. Total debt service expenditures increased approximately \$653,000 from 2014. This was primarily due to the issuance of the 2014 Series C bonds which were issued to fund the PMRS pension plan. The principal portion of this debt in 2015 was \$1,090,000. There was no principal payment due on these bonds in 2014.

### **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, 2015, the net position - restricted for employees' retirement pension benefits was \$138,488,099. The average interest rate all inclusive with costs of the pension bond is 5.5%. The Fund returned 0.84% in 2015. The Fund returned an average of 8.27% 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 governmental and business-type activities as of December 31, 2015 amounted to \$58,187,917 and \$103,980,457 (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 \$998,032 towards street overlays.
- The City spent \$1,198,725 towards the capital lease purchase of a new fire engine.
- The City spent \$371,078 towards Main Street improvements on the Northside.
- The City spent \$367,620 towards 9-1-1 software upgrades.
- The City spent \$325,536 towards traffic signal upgrades.

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

- The City spent \$2,758,897 on the design of a new solids dewatering facility and to replace belt filter presses.
- The City spent \$1,570,561 on the relocation of combined sewer outfall 004.
- The City spent \$513,964 on digester and waste activated sludge upgrades.
- The City spent \$402,511 on replacement of various water mains.

Additional information on the City's capital assets can be found at Note 4 on pages 45-50.

### Long-Term Debt

As of August 2016, the City's net total principal of direct debt of \$70,250,289 is well below the net nonelectoral debt limit of \$189,067,735. Additional information on the City's long-term debt can be found at Note 7 on pages 52-63 of this report.

The City's bonds have a rating from Standard and Poor's Rating Group of "A-" (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. In 2016, the Sands opened the nation's largest live electronic table games stadium and started planning and construction on a 97,500 square foot expansion of the casino. Resort

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

amenities, such as the 50,000 square foot Sands Bethlehem Events Center, continue to develop around gaming, which further strengthen Bethlehem's position as a destination.

Economic activity of the site extends beyond tourism and entertainment. The once vacant Bethlehem Steel land is now home to Lehigh Valley Industrial Park VII (LVIP VII), which includes 19 businesses on 248 acres for a total of 3.9 million square feet of construction, housing 3,400 jobs at an investment of \$314 million. Adjacent to LVIP VII, Majestic Realty has attracted 3 large warehouse tenants and Liberty Property Trust and Trammel Crow house Walmart and Primark facilities for a total of \$220 million of investment. Several manufacturers, including Reeb Millwork, Curtiss-Wright and Ecopax, have constructed or announced projects, further developing the industrial park.

Development continues in other areas of Bethlehem as well. Lehigh Valley Charter High School for the Arts opened for the 2015-16 school year in an 87,000 square foot building. The \$25 million project is located in the Southside downtown and has brought students, teachers, staff, and families to the retail and restaurants surrounding the new school. In west Bethlehem, Nitschmann Middle School, a new \$43.8 million middle school, is under construction. On the north side, Kirkland Village has constructed a senior living expansion of 84 independent living units and a 32 bed skilled nursing facility. Moravian College has invested in two major projects, a new Health Sciences building and the acquisition and renovation of an existing building to house their new sports medicine center, an initiative in partnership with St. Luke's University Health Network. In the northwest, Lehigh Valley Hospital-Muhlenberg is expanding with a 93.6 million 4 story south wing.

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 project is complete and two additional projects are under construction, including a \$20 million mixed use building at 3<sup>rd</sup> and New Streets and Phase I of Greenway Commons on East Third Street. This \$25 million mixed use project, containing first floor retail uses and over 100 upper floor apartments, will add vibrancy to the eclectic Southside.

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:

		Status as of August 2016
<b>Residential</b>		
Bethlehem Togs/124-128 W. Union Blvd	\$ 5,500,000	Plans Submitted
Central Park West	5,500,000	Under Construction/Portions Complete
Chelsea Commons/1325 Chelsea Avenue	5,000,000	Under Construction
Evans St. 5-story Apartment Building	3,000,000	Plans Approved
Henn - Kelchner Road Condos	2,100,000	Plans Approved
James Best - Residential (Taylor Court)	3,000,000	Plans Approved
Meadows Townhomes (East Blvd & Chester Rd)	3,800,000	Construction Completed 2016
Minsi Ridge	4,050,000	Construction Completed 2016
Overlook at Saucon Creek	3,000,000	Under Construction / Portions Complete
Park View Commons	3,000,000	Under Construction / Portions Complete
Riverview Heights-Edward Street	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 II Plans Under Construction
Stever Mills on Creek Rd.	15,000,000	Under Construction / Portions Complete
Villas at Saucon Valley	12,000,000	Under Construction/Portions Complete
<b>Residential Subtotal</b>	<b>86,450,000</b>	
<b>Residential/Senior</b>		
Cottages @ Monocacy Manor	4,500,000	Under Construction/Portions Complete
Turnberry Mews	10,000,000	Under Construction / Portions Complete
<b>Residential / Senior Subtotal</b>	<b>14,500,000</b>	
<b>Institutional</b>		
Acadia Behavioral Health Center	20,000,000	Plans Submitted
Bethlehem Manor - 815 Pennsylvania Avenue	3,000,000	Under Construction
Lehigh Valley Hospital-Muhlenberg South Wing	93,600,000	Under Construction
Lehigh Mountaintop Campus-Bldg C	9,500,000	Under Construction
Moravian Health Sciences Building	23,000,000	Under Construction
Moravian Village Memory Care Facility	20,000,000	Plans Approved
NMIH	26,000,000	Under Construction/Portions Complete
Nitschmann Middle School/909 W. Union Blvd.	43,800,000	Under Construction
Terrace Homes at Northwood Gardens	35,500,000	Under Construction
324 S. New St Parking Garage	15,100,000	Plans Approved
<b>Institutional Subtotal</b>	<b>289,500,000</b>	

# CITY OF BETHLEHEM, PENNSYLVANIA

## Management's Discussion and Analysis (Unaudited)

		Status as of August 2016
<b>Mixed-Use</b>		
Greenway Commons/422-630 E. Third Street	48,000,000	Under Construction
Negrao Personal Care Facility and Preschool	10,800,000	Plans Approved
Polk Street Parking Garage	16,000,000	Plans Approved
65 E. Elizabeth Building	10,000,000	Under Construction
3rd & New Street Office Building	24,000,000	Plans Approved
<b>Mixed-Use Subtotal</b>	<b>108,800,000</b>	
<b>Industrial</b>		
LVIP VII LPT Warehouse (lots 3,4,5), 10 Emery	44,000,000	Under Construction / Portions Complete
LVIP VII Lot 13 Spillman Dr	9,702,000	Plans Approved
LVIP VII Lot 81 - 1025 Feather Way	12,000,000	Plans Approved
LVIP VII Lot 84 - Reeb Millwork	15,000,000	Under Construction / Portions Complete
LVIP VII 1355 Easton Road (Ecopax)	9,000,000	Under Construction
Patriot Distribution (LVIP VII, Lot 14)	11,770,000	Plans Approved
835 E. North Street	500,000	Plans Approved
<b>Industrial Subtotal</b>	<b>101,972,000</b>	
<b>Commercial</b>		
Family Dollar - 1216-1238 Pembroke Road	2,500,000	Plans Submitted
Sands Table Games Expansion	40,000,000	Plans Submitted
Taco Bell - 2585 Easton Avenue	2,300,000	Plans Submitted
Trans Bridge Park & Ride	230,000	Plans Approved
404 Building (restaurants at 404 E. Third Street)	6,200,000	Plans Approved
834 Eaton Medical Office Building	10,000,000	Plans Approved
1005 Harvard Ave-Medical Ofc Bldg	3,500,000	Plans Submitted
<b>Commercial Subtotal</b>	<b>64,730,000</b>	
<b>Grand Total</b>	<b>\$ 665,952,000</b>	

### 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, 2015

<b>Assets</b>	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
<b>Current assets:</b>					
Cash and cash equivalents	\$ 14,945,629	\$ 7,982,847	\$ 22,928,476	\$ 2,417,710	\$ 25,346,186
Investments	85,482	-	85,482	1,217	86,699
Receivables (net of allowance for uncollectibles):					
Taxes	3,687,652	-	3,687,652	-	3,687,652
Accounts	805,920	8,811,843	9,617,763	923,771	10,541,534
Pledges	-	-	-	46,900	46,900
Other	1,349,682	-	1,349,682	59,649	1,409,331
Accrued interest	-	8,042	8,042	-	8,042
Due from other governments	6,609,065	1,250,000	7,859,065	-	7,859,065
Internal balances	539,337	(539,337)	-	-	-
Inventories	-	299,928	299,928	-	299,928
Prepaid expenses	-	-	-	109,898	109,898
<b>Total current assets</b>	<b>28,022,767</b>	<b>17,813,323</b>	<b>45,836,090</b>	<b>3,559,145</b>	<b>49,395,235</b>
<b>Noncurrent assets:</b>					
Loans receivable	1,448,650	-	1,448,650	-	1,448,650
Restricted cash and cash equivalents	-	1,511,202	1,511,202	153	1,511,355
Restricted investments	-	15,607,364	15,607,364	9,830,377	25,437,741
Capital assets, not being depreciated	9,420,809	10,069,363	19,490,172	4,720,636	24,210,808
Capital assets, net	48,767,108	93,911,094	142,678,202	44,312,294	186,990,496
Net pension asset	1,293,168	727,407	2,020,575	-	2,020,575
Other assets	1,324,109	294,776	1,618,885	-	1,618,885
<b>Total noncurrent assets</b>	<b>62,253,844</b>	<b>122,121,206</b>	<b>184,375,050</b>	<b>58,863,460</b>	<b>243,238,510</b>
<b>Total Assets</b>	<b>90,276,611</b>	<b>139,934,529</b>	<b>230,211,140</b>	<b>62,422,605</b>	<b>292,633,745</b>
<b>Deferred Outflows of Resources</b>					
Deferred outflows of resources - pensions	13,791,823	996,331	14,788,154	417,626	15,205,780
Deferred charge on refunding	287,760	47,707	335,467	559,276	894,743
<b>Total Deferred Outflows of Resources</b>	<b>14,079,583</b>	<b>1,044,038</b>	<b>15,123,621</b>	<b>976,902</b>	<b>16,100,523</b>

(Continued)

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

<b>Liabilities</b>	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Total Reporting Entity
<b>Current liabilities:</b>					
Accounts payable and other accrued expenses	1,896,115	4,704,698	6,600,813	2,987,582	9,588,395
Accrued payroll	2,269,619	419,800	2,689,419	33,785	2,723,204
Accrued vacation and other compensated absences	903,177	604,680	1,507,857	106,914	1,614,771
Termination benefits payable	85,075	-	85,075	-	85,075
Interest payable	855,729	421,804	1,277,533	117,085	1,394,618
Escrow liabilities	5,032	-	5,032	-	5,032
Notes payable	-	-	-	75,000	75,000
Current portion of long-term debt	4,170,000	7,267,505	11,437,505	7,715,524	19,153,029
Current portion of capital lease obligations	831,951	135,104	967,055	206,998	1,174,053
Due to Agency Fund	1,603,455	4,780	1,608,235	-	1,608,235
Unearned revenue	4,519,490	-	4,519,490	166,014	4,685,504
<b>Total current liabilities</b>	<b>17,139,643</b>	<b>13,558,371</b>	<b>30,698,014</b>	<b>11,408,902</b>	<b>42,106,916</b>
<b>Noncurrent liabilities:</b>					
Accrued vacation and other compensated absences, net of current portion	3,354,748	-	3,354,748	-	3,354,748
Accrued sick pay	-	178,434	178,434	-	178,434
Long-term debt, net of current portion	109,901,861	112,467,054	222,368,915	36,879,065	259,247,980
Capital lease obligation, net of current portion	5,641,315	192,283	5,833,598	239,121	6,072,719
Net pension liability	46,452,943	1,434,970	47,887,913	186,180	48,074,093
Other post-employment benefit liability	4,277,104	912,624	5,189,728	-	5,189,728
Unearned revenue	-	2,542,314	2,542,314	233,593	2,775,907
<b>Total noncurrent liabilities</b>	<b>169,627,971</b>	<b>117,727,679</b>	<b>287,355,650</b>	<b>37,537,959</b>	<b>324,893,609</b>
<b>Total Liabilities</b>	<b>186,767,614</b>	<b>131,286,050</b>	<b>318,053,664</b>	<b>48,946,861</b>	<b>367,000,525</b>
<b>Deferred Inflows of Resources</b>					
Deferred charge on refunding	-	290,196	290,196	-	290,196
Deferred inflows of resources - pension	-	-	-	6,166	6,166
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>290,196</b>	<b>290,196</b>	<b>6,166</b>	<b>296,362</b>
<b>Net Position</b>					
Net investment in capital assets	16,803,717	(2,815,984)	13,987,733	9,598,792	23,586,525
Restricted	4,239,767	727,407	4,967,174	2,113,105	7,080,279
Unrestricted	(103,454,904)	11,490,898	(91,964,006)	2,734,583	(89,229,423)
<b>Total Net Position</b>	<b>\$ (82,411,420)</b>	<b>\$ 9,402,321</b>	<b>\$ (73,009,099)</b>	<b>\$ 14,446,480</b>	<b>\$ (58,562,619)</b>

(Concluded)

# CITY OF BETHLEHEM, PENNSYLVANIA

## STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

<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	\$ 702,521	\$ -	\$ -	\$ -
Administrative	1,251,108	191,449	-	-
Community development	11,617,929	3,849,071	8,470,051	-
Parks and public property	4,814,684	687,731	625,109	723,144
Public works	10,831,542	1,481,814	1,763,731	-
Police	22,519,346	2,256,936	4,313,693	-
Fire	13,612,028	3,418,906	19,907	-
General expenditures	11,505,146	-	-	-
Civic	110,138	-	-	-
Library	1,387,160	-	-	-
Program expenditures	1,702,156	-	2,320,643	-
Interest on long-term debt	5,528,291	-	-	-
Total governmental activities	85,582,049	11,885,907	17,513,134	723,144
Business-type activities:				
Water Fund	19,488,428	21,106,451	-	-
Sewer Fund	11,607,580	15,237,519	-	1,250,000
Other non-major fund	1,554,285	1,423,934	-	-
Total business-type activities	32,650,293	37,767,904	-	1,250,000
<b>Total primary government</b>	<b>\$ 118,232,342</b>	<b>\$ 49,653,811</b>	<b>\$ 17,513,134</b>	<b>\$ 1,973,144</b>
<u>Component units:</u>				
Bethlehem Parking Authority	\$ 5,283,842	\$ 5,239,246	\$ -	\$ -
Bethlehem Public Library	2,845,367	214,247	3,169,890	-
Bethlehem Redevelopment Authority	7,389,115	-	67,116	12,112,955
<b>Total component units</b>	<b>\$ 15,518,324</b>	<b>\$ 5,453,493</b>	<b>\$ 3,237,006</b>	<b>\$ 12,112,955</b>

General Revenues:

Real estate taxes and other taxes

Grants and other charges not restricted  
to specific programs

Investment income

Transfers

Total general revenues and transfers

**Change in Net Position**

**Net Position:**

Beginning of year - restated

End of year

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

Net (Expense) Revenue and  
Changes in Net Position

Primary Government			Component Units	Total Reporting Entity
Governmental Activities	Business-Type Activities	Total		
\$ (702,521)	\$ -	\$ (702,521)	\$ -	\$ (702,521)
(1,059,659)	-	(1,059,659)	-	(1,059,659)
701,193	-	701,193	-	701,193
(2,778,700)	-	(2,778,700)	-	(2,778,700)
(7,585,997)	-	(7,585,997)	-	(7,585,997)
(15,948,717)	-	(15,948,717)	-	(15,948,717)
(10,173,215)	-	(10,173,215)	-	(10,173,215)
(11,505,146)	-	(11,505,146)	-	(11,505,146)
(110,138)	-	(110,138)	-	(110,138)
(1,387,160)	-	(1,387,160)	-	(1,387,160)
618,487	-	618,487	-	618,487
(5,528,291)	-	(5,528,291)	-	(5,528,291)
<u>(55,459,864)</u>	<u>-</u>	<u>(55,459,864)</u>	<u>-</u>	<u>(55,459,864)</u>
-	1,618,023	1,618,023	-	1,618,023
-	4,879,939	4,879,939	-	4,879,939
-	(130,351)	(130,351)	-	(130,351)
<u>-</u>	<u>6,367,611</u>	<u>6,367,611</u>	<u>-</u>	<u>6,367,611</u>
<u>(55,459,864)</u>	<u>6,367,611</u>	<u>(49,092,253)</u>	<u>-</u>	<u>(49,092,253)</u>
-	-	-	(44,596)	(44,596)
-	-	-	538,770	538,770
-	-	-	4,790,956	4,790,956
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,285,130</u>	<u>5,285,130</u>
37,607,101	-	37,607,101	-	37,607,101
15,062,447	-	15,062,447	-	15,062,447
40,560	757,643	798,203	(53,672)	744,531
4,130,047	(4,130,047)	-	-	-
<u>56,840,155</u>	<u>(3,372,404)</u>	<u>53,467,751</u>	<u>(53,672)</u>	<u>53,414,079</u>
1,380,291	2,995,207	4,375,498	5,231,458	9,606,956
<u>(83,791,711)</u>	<u>6,407,114</u>	<u>(77,384,597)</u>	<u>9,215,022</u>	<u>(68,169,575)</u>
<u>\$ (82,411,420)</u>	<u>\$ 9,402,321</u>	<u>\$ (73,009,099)</u>	<u>\$ 14,446,480</u>	<u>\$ (58,562,619)</u>

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



# CITY OF BETHLEHEM, PENNSYLVANIA

## BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2015

	General Fund	Non-Utility Capital Improvements Fund	Debt Service Fund	Other Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 5,818,241	\$ 5,243,732	\$ -	\$ 3,874,006	\$ 14,935,979
Investments	-	85,482	-	-	85,482
Receivables:					
Taxes	3,687,652	-	-	-	3,687,652
Accounts	805,920	-	-	-	805,920
Loans	-	-	-	1,448,650	1,448,650
Other	723,370	10,704	-	615,608	1,349,682
Due from other funds	625,819	23,500	-	-	649,319
Due from other governments	6,019,330	399,634	-	190,101	6,609,065
<b>Total Assets</b>	<b>\$ 17,680,332</b>	<b>\$ 5,763,052</b>	<b>\$ -</b>	<b>\$ 6,128,365</b>	<b>\$ 29,571,749</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>					
<b>Liabilities:</b>					
Accounts payable and other accrued expenses	\$ 698,095	\$ 948,401	\$ -	\$ 189,762	\$ 1,836,258
Accrued payroll	2,183,216	-	-	86,403	2,269,619
Accrued vacation and other compensated absences	868,881	-	-	34,296	903,177
Escrow liabilities	5,032	-	-	-	5,032
Due to other funds	1,608,235	65,570	-	39,632	1,713,437
Unearned revenues	290,668	532,425	-	3,696,397	4,519,490
<b>Total Liabilities</b>	<b>5,654,127</b>	<b>1,546,396</b>	<b>-</b>	<b>4,046,490</b>	<b>11,247,013</b>
<b>Deferred Inflows of Resources:</b>					
Unavailable revenue - taxes	1,722,575	-	-	-	1,722,575
<b>Fund Balance:</b>					
<b>Restricted for:</b>					
Parks and public property	316,544	-	-	-	316,544
Community development	175,361	-	-	-	175,361
Debt service	64,506	-	-	-	64,506
Capital projects	-	4,216,656	-	-	4,216,656
Public works	-	-	-	355,593	355,593
Police	252,221	-	-	1,726,282	1,978,503
Library	56,092	-	-	-	56,092
Unassigned	9,438,906	-	-	-	9,438,906
<b>Total Fund Balance</b>	<b>10,303,630</b>	<b>4,216,656</b>	<b>-</b>	<b>2,081,875</b>	<b>16,602,161</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 17,680,332</b>	<b>\$ 5,763,052</b>	<b>\$ -</b>	<b>\$ 6,128,365</b>	<b>\$ 29,571,749</b>

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, 2015

<b>Total Fund Balance - Governmental Funds</b>	\$ 16,602,161
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.	58,187,917
Net pension asset and deferred outflows related to pensions	15,084,991
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.	1,722,575
Accrued vacation and other compensated absences not due within the next twelve months are recorded on the statement of net position.	(3,354,748)
Termination benefits are not due and payable in the current period and, therefore, are not reported in the funds.	(85,075)
Net pension liability	(46,452,943)
Other post-employment benefit liability is recorded on the statement of net position.	(4,277,104)
Prepaid bond insurance and charge on refunding are amortized on the statement of net position.	1,611,869
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	(114,071,861)
Capital leases	(6,473,266)
Accrued interest payable is included on the statement of net position.	(855,729)
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.	(50,207)
<b>Net Position - Governmental Activities</b>	<b>\$ (82,411,420)</b>

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, 2015

	General Fund	Non-Utility Capital Improvements Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 37,784,001	\$ -	\$ -	\$ -	\$ 37,784,001
Licenses and permits	2,742,617	-	-	-	2,742,617
Intergovernmental revenues	13,541,131	1,251,947	-	7,714,930	22,508,008
Fines and forfeitures	422,018	-	-	-	422,018
Departmental earnings	6,807,918	-	-	-	6,807,918
Other charges	1,208,085	-	-	276,263	1,484,348
Municipal recreation	526,627	-	-	-	526,627
Investment income	10,085	10,881	-	19,594	40,560
Host fee	9,778,092	-	-	-	9,778,092
Other	731,699	185,107	-	73,949	990,755
Total revenues	73,552,273	1,447,935	-	8,084,736	83,084,944
<b>Expenditures:</b>					
Current:					
General government	691,529	-	-	-	691,529
Administrative	1,024,603	-	-	-	1,024,603
Community development	11,388,710	-	-	-	11,388,710
Parks and public property	3,040,993	-	-	-	3,040,993
Public works	5,146,222	-	-	1,463,971	6,610,193
Police	18,125,675	-	-	2,610,966	20,736,641
Fire	13,020,274	-	-	-	13,020,274
General expenditures	11,561,212	-	-	-	11,561,212
Civic	110,138	-	-	-	110,138
Library	1,277,082	-	-	-	1,277,082
Program expenditures	-	-	-	2,337,162	2,337,162
Capital outlays	-	5,925,524	-	-	5,925,524
Debt service - principal	690,224	3,620,301	4,294,000	-	8,604,525
Debt service - interest	175,804	252,612	4,922,106	-	5,350,522
Total expenditures	66,252,466	9,798,437	9,216,106	6,412,099	91,679,108
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	7,299,807	(8,350,502)	(9,216,106)	1,672,637	(8,594,164)
<b>Other Financing Sources (Uses):</b>					
Transfers in	2,606,658	216,750	9,216,106	2,085,000	14,124,514
Transfers out	(9,411,212)	-	-	(583,255)	(9,994,467)
General obligation bonds issued	-	5,245,000	-	-	5,245,000
Refunding bonds issued	-	3,345,000	-	-	3,345,000
Original issue discount	-	(123,960)	-	-	(123,960)
Capital lease	160,296	1,147,636	-	-	1,307,932
Total other financing sources (uses)	(6,644,258)	9,830,426	9,216,106	1,501,745	13,904,019
<b>Net Change in Fund Balance</b>	655,549	1,479,924	-	3,174,382	5,309,855
<b>Fund Balance:</b>					
Beginning of the year	9,648,081	2,736,732	-	(1,092,507)	11,292,306
End of the year	\$ 10,303,630	\$ 4,216,656	\$ -	\$ 2,081,875	\$ 16,602,161

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, 2015**

**Net Change in Fund Balance - Governmental Funds** \$ 5,309,855

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 (\$6,666,717) were less than depreciation (\$7,832,071) and loss on disposal (\$7,352) in the current period. (1,172,706)

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. (252,651)

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 (9,897,932)

    Repayment of principal 8,604,525

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. (36,197)

Change in net pension asset and deferred outflows of resources related to pensions in the statement of activities. (13,793,285)

Change in termination benefits in the statement of activities. 79,508

Change in accrued vacation and other compensated absences not due within the next twelve months in the statement of activities. (361,305)

Change in net pension liability in the statement of activities. 13,244,135

Change in other post-employment benefit liability in the statement of activities. (382,110)

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. (17,612)

Activities of the internal service fund are reported as net loss within the statement of activities. 56,066

**Change in Net Position - Governmental Activities** \$ 1,380,291

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## BALANCE SHEET - PROPRIETARY FUNDS

DECEMBER 31, 2015

Assets and Deferred Outflows of Resources	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund		Internal Service
			Municipal Golf Fund	Total	
<b>Assets:</b>					
Current assets:					
Cash and cash equivalents	\$ 2,371,341	\$ 5,591,062	\$ 20,444	\$ 7,982,847	\$ 9,650
Accounts receivable, net	4,342,798	4,469,045	-	8,811,843	-
Accrued interest	8,042	-	-	8,042	-
Due from other funds	-	55,000	10,570	65,570	-
Due from other government	-	1,250,000	-	1,250,000	-
Inventories	190,095	81,379	28,454	299,928	-
Total current assets	6,912,276	11,446,486	59,468	18,418,230	9,650
Restricted assets:					
Cash and cash equivalents	1,511,202	-	-	1,511,202	-
Investments	15,607,364	-	-	15,607,364	-
Capital assets, not being depreciated	1,477,086	8,417,277	175,000	10,069,363	-
Capital assets, net	76,481,140	16,925,920	504,034	93,911,094	-
Net pension asset	303,086	343,498	80,823	727,407	-
Other assets	231,100	60,698	2,978	294,776	-
Total Assets	102,523,254	37,193,879	822,303	140,539,436	9,650
<b>Deferred Outflows of Resources:</b>					
Deferred outflows of resources - pensions	413,751	473,532	109,048	996,331	-
Deferred charge on refunding	-	47,707	-	47,707	-
Total Deferred Outflows of Resources	413,751	521,239	109,048	1,044,038	-
<b>Total Assets and Deferred Outflows of Resources</b>	\$ 102,937,005	\$ 37,715,118	\$ 931,351	\$ 141,583,474	\$ 9,650

(Continued)

	Enterprise Funds				
	Water Fund	Sewer Fund	Other Enterprise Fund	Total	Internal Service
			Municipal Golf Fund		
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>					
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable and other accrued expenses	\$ 303,651	\$ 414,113	\$ 84,564	\$ 802,328	\$ 59,857
Accrued payroll	211,771	179,692	28,337	419,800	-
Accrued vacation and other compensated absences	303,508	252,094	49,078	604,680	-
Construction accounts payable	415,441	3,486,929	-	3,902,370	-
Interest payable	358,317	62,315	1,172	421,804	-
Current portion of long-term debt	5,746,238	1,450,267	71,000	7,267,505	-
Current portion of capital lease obligation	12,851	25,332	96,921	135,104	-
Due to other funds	-	-	609,687	609,687	-
Total current liabilities	7,351,777	5,870,742	940,759	14,163,278	59,857
Accrued sick pay	114,509	45,058	18,867	178,434	-
Long-term debt, net	94,447,656	18,019,398	-	112,467,054	-
Capital lease obligation, net	26,485	26,234	139,564	192,283	-
Net pension liability	597,904	677,625	159,441	1,434,970	-
Other post-employment benefits liability	552,892	300,899	58,833	912,624	-
Unearned revenue	-	2,542,314	-	2,542,314	-
Total Liabilities	103,091,223	27,482,270	1,317,464	131,890,957	59,857
Deferred Inflows of Resources:					
Deferred charge on refunding	290,196	-	-	290,196	-
Net Position:					
Net investment in capital assets	(5,630,975)	2,443,442	371,549	(2,815,984)	-
Restricted	303,086	343,498	80,823	727,407	-
Unrestricted	4,883,475	7,445,908	(838,485)	11,490,898	(50,207)
Total Net Position	(444,414)	10,232,848	(386,113)	9,402,321	(50,207)
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 102,937,005</b>	<b>\$ 37,715,118</b>	<b>\$ 931,351</b>	<b>\$ 141,583,474</b>	<b>\$ 9,650</b>

(Concluded)

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

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

YEAR ENDED DECEMBER 31, 2015

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other Enterprise Fund		
			Municipal Golf Fund	Total	
<b>Operating Revenues:</b>					
Charges for services	\$ 20,621,283	\$ 14,185,783	\$ 1,413,459	\$ 36,220,525	\$ 12,207,394
<b>Operating Expenses:</b>					
Salaries, wages, and fringe benefits	4,287,600	3,853,707	761,650	8,902,957	-
Professional fees	679,603	174,661	2,685	856,949	-
Utilities	251,439	727,147	44,146	1,022,732	-
Maintenance and repairs	113,825	226,906	38,725	379,456	-
Department contracts	374,650	1,284,790	11,464	1,670,904	-
Supplies	338,460	670,211	140,355	1,149,026	-
Service charges	3,029,946	2,006,803	337,966	5,374,715	-
Depreciation and amortization	5,374,263	2,268,371	170,366	7,813,000	-
Insurance claims	-	-	-	-	12,222,627
Administration	-	-	-	-	74,983
Other	375,088	178,389	34,003	587,480	-
Total operating expenses	14,824,874	11,390,985	1,541,360	27,757,219	12,297,610
<b>Operating Income (Loss)</b>	5,796,409	2,794,798	(127,901)	8,463,306	(90,216)
<b>Non-Operating Revenues (Expenses):</b>					
Investment income	753,183	4,460	-	757,643	17
Interest expense	(4,663,554)	(216,595)	(12,925)	(4,893,074)	-
Tapping fees	-	299,835	-	299,835	-
Grant revenue	47,441	1,250,000	-	1,297,441	-
Other revenues	437,727	751,901	10,475	1,200,103	146,265
Total non-operating revenues (expenses)	(3,425,203)	2,089,601	(2,450)	(1,338,052)	146,282
Change in net position before transfers	2,371,206	4,884,399	(130,351)	7,125,254	56,066
Transfers out	(764,190)	(3,247,093)	(118,764)	(4,130,047)	-
<b>Change in Net Position</b>	1,607,016	1,637,306	(249,115)	2,995,207	56,066
<b>Net Position:</b>					
Beginning of year - restated	(2,051,430)	8,595,542	(136,998)	6,407,114	(106,273)
End of year	\$ (444,414)	\$ 10,232,848	\$ (386,113)	\$ 9,402,321	\$ (50,207)

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, 2015**

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other	Total	
			Enterprise Fund Municipal Golf Fund		
<b>Cash Flows From Operating Activities:</b>					
Receipts from customers	\$ 20,414,834	\$ 13,678,332	\$ 1,420,202	\$ 35,513,368	\$ 12,207,394
Payments to suppliers for services	(5,476,295)	(5,304,695)	(474,023)	(11,255,013)	(12,388,692)
Payment to employees	(3,977,301)	(3,503,294)	(660,159)	(8,140,754)	-
Net cash provided by (used in) operating activities	10,961,238	4,870,343	286,020	16,117,601	(181,298)
<b>Cash Flows From Noncapital Financing Activities:</b>					
Transfers out	(764,190)	(3,247,093)	(118,764)	(4,130,047)	-
Other revenues received	437,727	751,901	10,475	1,200,103	146,265
Net cash provided by (used in) noncapital financing activities	(326,463)	(2,495,192)	(108,289)	(2,929,944)	146,265
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Acquisition and construction of capital assets	(2,270,111)	(5,297,773)	-	(7,567,884)	-
Principal payments on debt	(5,577,813)	(2,360,352)	(68,000)	(8,006,165)	-
Interest payments on debt	(3,558,269)	(366,375)	(14,047)	(3,938,691)	-
Principal payments on capital lease obligations	(13,645)	(27,167)	(96,030)	(136,842)	-
Tapping fees	-	299,835	-	299,835	-
Capital grant	47,441	2,542,314	-	2,589,755	-
Proceeds from issuance of debt	-	4,828,215	-	4,828,215	-
Net cash used in capital and related financing activities	(11,372,397)	(381,303)	(178,077)	(11,931,777)	-
<b>Cash Flows From Investing Activities:</b>					
Net sale of investments	2,540,091	-	-	2,540,091	-
Arbitrage payment	(1,174,016)	-	-	(1,174,016)	-
Interest and dividends on investments	753,183	4,460	-	757,643	17
Net cash provided by investing activities	2,119,258	4,460	-	2,123,718	17
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,381,636	1,998,308	(346)	3,379,598	(35,016)
<b>Cash and Cash Equivalents:</b>					
Beginning of year	2,500,907	3,592,754	20,790	6,114,451	44,666
End of year	<u>\$ 3,882,543</u>	<u>\$ 5,591,062</u>	<u>\$ 20,444</u>	<u>\$ 9,494,049</u>	<u>\$ 9,650</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, 2015  
(Continued)

	Enterprise Funds				Internal Service
	Water Fund	Sewer Fund	Other Enterprise Fund Municipal Golf Fund	Total	
<b>Reconciliation of Operating Income</b>					
<b>(Loss) to Net Cash Provided by</b>					
<b>(Used in) Operating Activities:</b>					
Operating income (loss)	\$ 5,796,409	\$ 2,794,798	\$ (127,901)	\$ 8,463,306	\$ (90,216)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	5,374,263	2,268,371	170,366	7,813,000	-
Amortization	62,048	70,321	16,546	148,915	-
Changes in assets and liabilities:					
Accounts receivable	(206,449)	(507,451)	-	(713,900)	-
Inventories	(23,706)	8,706	8,054	(6,946)	-
Net pension asset	(70,969)	(80,432)	(18,925)	(170,326)	-
Other assets	-	-	6,743	6,743	-
Deferred outflows of resources - pensions	(188,727)	(210,503)	(51,270)	(450,500)	-
Accrued vacation and other compensated absences	(33,573)	(26,060)	15,458	(44,175)	-
Accrued payroll	13,005	30,081	8,096	51,182	-
Accounts payable and other accrued expenses	(289,578)	(44,494)	7,267	(326,805)	(91,082)
Due to other funds	-	-	120,000	120,000	-
Net pension liability	472,250	535,217	125,933	1,133,400	-
Other post-employment benefits liability	56,265	31,789	5,653	93,707	-
Net cash provided by (used in) operating activities	<u>\$ 10,961,238</u>	<u>\$ 4,870,343</u>	<u>\$ 286,020</u>	<u>\$ 16,117,601</u>	<u>\$ (181,298)</u>
<b>Non-cash Capital and Related</b>					
<b>Financing Activities:</b>					
Accretion of capital appreciation bonds	<u>\$ 1,690,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,690,963</u>	<u>\$ -</u>
Issuance of capital lease	<u>\$ 52,981</u>	<u>\$ 78,733</u>	<u>\$ -</u>	<u>\$ 131,714</u>	<u>\$ -</u>

(Concluded)

# CITY OF BETHLEHEM, PENNSYLVANIA

## STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2015

	Employee Benefit Trust Fund	Agency Fund
<b>Assets</b>		
Cash and cash equivalents	\$ -	\$ 934,791
Interest and dividends receivable	282,285	-
Due from the City	-	1,608,235
Investments	138,205,814	-
<b>Total Assets</b>	<b>138,488,099</b>	<b>2,543,026</b>
<b>Liabilities</b>		
Escrow liabilities	-	2,543,026
<b>Total Liabilities</b>	<b>-</b>	<b>\$ 2,543,026</b>
<b>Net Position</b>		
Restricted for employees' retirement benefits	138,488,099	
<b>Total Net Position</b>	<b>\$ 138,488,099</b>	

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, 2015**

	<u>Employee Benefit Trust Fund</u>
<b>Additions:</b>	
<hr/>	
Contributions:	
Employee contributions	\$ 1,394,186
Employer contributions	7,680,550
Total contributions	<u>9,074,736</u>
Investment earnings:	
Investment income	2,625,986
Realized and unrealized losses, net	<u>(1,245,685)</u>
Total investment earnings	1,380,301
Less investment expense	<u>(651,386)</u>
Net investment earnings	<u>728,915</u>
Total additions	<u>9,803,651</u>
<b>Deductions:</b>	
<hr/>	
Benefits paid	11,428,627
Administrative costs	35,181
Total deductions	<u>11,463,808</u>
<b>Change in Net Position</b>	<b>(1,660,157)</b>
<b>Net Position:</b>	
<hr/>	
Beginning of year	<u>140,148,256</u>
End of year	<u><u>\$ 138,488,099</u></u>

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## BALANCE SHEET - COMPONENT UNITS

DECEMBER 31, 2015

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
<b>Assets and Deferred Outflows of Resources</b>				
<u>Assets:</u>				
Current assets:				
Cash and cash equivalents	\$ 1,103,832	\$ 540,390	\$ 773,488	\$ 2,417,710
Investments	1,217	-	-	1,217
Accounts receivable, net	318,662	605,109	-	923,771
Pledges receivable	-	46,900	-	46,900
Other receivables	2,394	-	57,255	59,649
Prepaid expenses	109,898	-	-	109,898
Total current assets	1,536,003	1,192,399	830,743	3,559,145
Restricted cash and cash equivalents	-	-	153	153
Restricted investments	-	1,672,158	8,158,219	9,830,377
Capital assets, not being depreciated	3,354,527	448,327	917,782	4,720,636
Capital assets, net	13,821,845	361,724	30,128,725	44,312,294
Total Assets	18,712,375	3,674,608	40,035,622	62,422,605
<u>Deferred Outflows of Resources:</u>				
Deferred outflows of resources - pension	382,524	-	35,102	417,626
Deferred charge on refunding	559,276	-	-	559,276
Total Deferred Outflows of Resources	941,800	-	35,102	976,902
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$19,654,175</b>	<b>\$ 3,674,608</b>	<b>\$40,070,724</b>	<b>\$63,399,507</b>

(Continued)

	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	Total
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>				
<b>Liabilities:</b>				
Accounts payable and other accrued expenses	\$ 316,735	\$ 94,391	\$ 2,576,456	\$ 2,987,582
Accrued payroll	15,165	18,620	-	33,785
Accrued vacation and other compensated absences	90,411	16,503	-	106,914
Interest payable	31,630	-	85,455	117,085
Notes payable	-	75,000	-	75,000
Current portion of long-term debt	3,430,524	-	4,285,000	7,715,524
Current portion of capital lease obligation	206,998	-	-	206,998
Unearned revenue	166,014	-	-	166,014
Total current liabilities	4,257,477	204,514	6,946,911	11,408,902
Long-term debt, net of current portion	9,474,065	-	27,405,000	36,879,065
Capital lease obligation, net of current portion	239,121	-	-	239,121
Unearned revenue	233,593	-	-	233,593
Net pension liability	54,725	-	131,455	186,180
Total Liabilities	14,258,981	204,514	34,483,366	48,946,861
<b>Deferred Inflows of Resources:</b>				
Deferred inflows of resources - pension	-	-	6,166	6,166
<b>Net Position:</b>				
Net investment in capital assets	3,876,183	810,051	4,912,558	9,598,792
Restricted	-	2,113,105	-	2,113,105
Unrestricted	1,519,011	546,938	668,634	2,734,583
Total Net Position	5,395,194	3,470,094	5,581,192	14,446,480
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$19,654,175</b>	<b>\$ 3,674,608</b>	<b>\$40,070,724</b>	<b>\$63,399,507</b>

(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, 2015

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Bethlehem Parking Authority	Bethlehem Public Library	Bethlehem Redevelopment Authority	
Bethlehem Parking Authority	\$ 5,283,842	\$ 5,239,246	\$ -	\$ -	\$ (44,596)	\$ -	\$ -	\$ (44,596)
Bethlehem Public Library	2,845,367	214,247	3,169,890	-	-	538,770	-	538,770
Bethlehem Redevelopment Authority	7,389,115	-	67,116	12,112,955	-	-	4,790,956	4,790,956
<b>Total Component Units</b>	<b>\$ 15,518,324</b>	<b>\$ 5,453,493</b>	<b>\$ 3,237,006</b>	<b>\$ 12,112,955</b>	<b>(44,596)</b>	<b>538,770</b>	<b>4,790,956</b>	<b>5,285,130</b>
General Revenues:								
					2	(56,761)	3,087	(53,672)
					2	(56,761)	3,087	(53,672)
					(44,594)	482,009	4,794,043	5,231,458
<b>Net Position:</b>								
					5,439,788	2,988,085	787,149	9,215,022
					\$ 5,395,194	\$ 3,470,094	\$ 5,581,192	\$ 14,446,480

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### 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

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

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

The City reports the following major proprietary funds:

The Water and Sewer Funds are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing these services to the

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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general public on a continuing basis be financed or recovered primarily through user charges.

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

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

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

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

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

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

### **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

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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days after being enacted. The Office of Budget and Finance can make intrafund budget transfers of up to five percent provided they do not alter total revenues or expenditures of such fund. Appropriations not reserved for encumbrances lapse at year-end.

### **Cash, Cash Equivalents, and Investments**

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

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 2015 is as follows:

January 1, 2015	original levy date
January 1, 2015 - March 31, 2015	2% discount period
April 1, 2015 - May 29, 2015	face payment period
May 30, 2015 - December 31, 2015	10% penalty period

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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In addition, City taxes may be paid in four installments due approximately February 9, April 6, June 1, and August 3 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 2015 millage was 9.58 for general purposes, 1.06 for public safety, 1.44 for 911, 0.94 for recreation, 1.98 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 3.04 for general purposes, 0.33 for public safety, 0.45 for 911, 0.30 for recreation, 0.62 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, 2015, 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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

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

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

### *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.

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### **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 \$30 per day for accumulated sick leave, while all other employees receive \$15 per day for the first 170 days and \$20 per day for each day over 170 days. Employees that have up to twelve years of experience and voluntarily resign receive \$10 per day for accumulated sick leave up to a maximum of 50 days.

### **Termination Benefits**

During the year ended December 31, 2014, 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 if they chose to retire. 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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### **Deferred Inflows and Outflows of Resources Related to Pensions**

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

### **Net Position**

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

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

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

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

### **Fund Balance**

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

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

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

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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 at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

### Adoption of Governmental Accounting Standards Board (GASB) Statements

GASB Statement No. 68, "Accounting and Financial Reporting for Pension Plans," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date," were adopted for the year ended December 31, 2015 by the City and its component units. As a result of this implementation, net position was restated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
Net position at January 1, 2015 - as originally stated	\$ (26,391,678)	\$ 6,286,175	\$ 8,888,046
Remove net pension asset at January 1, 2015	(26,581,231)	(829,318)	-
Net pension asset (liability) at January 1, 2015	(58,706,714)	255,511	253,558
Contribution subsequent to the measurement date	<u>27,887,912</u>	<u>694,746</u>	<u>73,418</u>
Net position at January 1, 2015 - restated	<u>\$ (83,791,711)</u>	<u>\$ 6,407,114</u>	<u>\$ 9,215,022</u>

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

	Water Fund	Sewer Fund	Other Enterprise Fund Municipal Golf Fund
Net position at January 1, 2015 - as originally stated	\$ (2,102,287)	\$ 8,539,454	\$ (150,992)
Remove net pension asset at at January 1, 2015	(342,678)	(397,920)	(88,720)
Net pension asset (liability) at January 1, 2015	106,463	120,658	28,390
Contributions subsequent to the measurement date	287,072	333,350	74,324
Net position at January 1, 2015 - restated	\$ (2,051,430)	\$ 8,595,542	\$ (136,998)

As a result of this implementation, the Bethlehem Parking Authority's net position was restated as follows:

Net position at January 1, 2015 - as originally stated	\$ 5,006,069
Net pension asset at January 1, 2015	369,350
Contribution subsequent to the measurement date	64,369
Net position at January 1, 2015 - restated	\$ 5,439,788

As a result of this implementation, the Bethlehem Redevelopment Authority's net position was restated as follows:

Net position at July 1, 2014 - as originally stated	\$ 893,892
Net pension liability at July 1, 2014	(115,792)
Contribution subsequent to the measurement date	9,049
Net position at July 1, 2014 - restated	\$ 787,149

The net pension liability and related components are described more fully in Note 8.



# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### **Pending Changes in Accounting Principles**

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.

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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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.

In January of 2016, the GASB issued Statement No. 80, “*Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14.*” This Statement amends the blending criteria to include a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of GASB Statement No. 80 are effective for the City’s December 31, 2017 financial statements

In March of 2016, the GASB issued Statement No. 82, “*Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.*” This Statement addresses certain issues that have been raised with respect to previous pension standards. The provisions of GASB Statement No. 82 are effective for the City’s December 31, 2017 and 2018 financial statements.

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

## 2. REPORTING ENTITY

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

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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 eleven directors, seven of whom are appointed by City Council on the recommendation of the President of City Council. The remaining members are appointed by the governing boards of the municipalities of Fountain Hill, Hanover Township (Northampton County), and Bethlehem Township. The City supports the Library. The City's 2015 appropriation to the Library was \$1,277,082, which represented 38% of the Library's General Fund revenue. Title to the assets of the Library rests with the City directly or indirectly through the Board of Directors. The Library's mail facility occupies, without charge, premises located in a building owned by the City. During the year ended December 31, 2015, the Library paid the City \$114,000 for utility and insurance costs. 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 Parking Authority to transfer surpluses to the City. During the year ended December 31, 2015, the Parking Authority made contributions to the City's General Fund of \$550,000.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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 pays for construction and construction-related costs associated with various projects within the designated Bethlehem Works Tax Increment Financing (TIF) District. The Redevelopment Authority is governed by five board members who are appointed by the Mayor and approved by City Council. Separate financial statements were issued by the Redevelopment Authority and can be obtained by contacting the Redevelopment Authority.

### *Related Organizations*

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

### **Bethlehem Housing Authority**

The Bethlehem Housing Authority (Housing Authority) has five commissioners who are appointed to staggered, five-year terms by the Mayor with City Council approval. The Housing Authority paid approximately \$410,000 in public safety reimbursements and \$60,000 in lieu of taxes to the City during the year ended December 31, 2015.

### **Bethlehem Economic Development Corporation**

The Bethlehem Economic Development Corporation (BEDCO) has seven board members who are pre-determined by their position within the City and the Lehigh Valley Economic Development Corporation. A board member will automatically cease to be on the board upon ceasing to hold office. Four of the seven board members are from the City. The City provided enterprise zone loans to BEDCO and, as of December 31, 2015, BEDCO owes the City \$794,875. There were no payments made on this loan during the

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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year ended December 31, 2015. 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.
- f. Certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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, 2015, the City's book balance was \$25,374,469 and the bank balance was \$27,141,180. Of the bank balance, \$2,032,854 was covered by federal depository insurance and \$25,108,326 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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Reconciliation to total cash and cash equivalents:	
<u>Governmental activities:</u>	
Unrestricted	\$ 14,945,629
<u>Business-type activities:</u>	
Unrestricted	7,982,847
Restricted	1,511,202
<u>Fiduciary funds:</u>	
Agency fund	934,791
Total cash and cash equivalents	<u>\$ 25,374,469</u>

### ***B. Investments***

The fair value of the investments of the City at December 31, 2015 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 20,790,182
External investment pool	2,700,000
U.S. Government obligations	19,495,528
U.S. Government agency obligations	2,615,215
Municipal bonds	277,843
Corporate bonds and notes	16,145,544
Equity mutual funds	48,265,804
Equities	28,610,152
Real estate equity funds	7,964,458
Other investments	7,033,934
Total investments	<u>\$ 153,898,660</u>

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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<u>Reconciliation to total investments</u>	
Governmental activities:	
Unrestricted	\$ 85,482
Business-type activities:	
Restricted	15,607,364
Fiduciary funds:	
Employee Benefit Trust Fund	<u>138,205,814</u>
Total investments	<u>\$ 153,898,660</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, \$74,941,618 are held by the counterparty's trust department or agent in the City's name, \$12,992,846 are held by the counterparty's trust department or agent not in the name of the City, and the remaining balance of \$65,964,196 is not exposed to custodial credit risk because the investments are not evidenced by securities in book entry or paper form.



# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

*Credit risk.* The City does have a formal policy that limits the City's investment in fixed income assets to a rating of investment grade or better (Baa or BBB) for the Employee Benefit Trust Fund, but not for the City's general investments. The City's money market and fixed income investments had the following level of exposure to credit risk as of December 31, 2015:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 20,790,182	AAA
External investment pool	2,700,000	AAA
U.S. Government obligations	13,705,802	AAA
U.S. Government obligations	5,789,726	AA+
U.S. Government agency obligations	2,539,058	AAA
U.S. Government agency obligations	70,437	AA+
U.S. Government agency obligations	5,720	Not rated
Municipal bonds	277,843	A+
Corporate bonds and notes	430,751	AAA
Corporate bonds and notes	1,063,077	AA
Corporate bonds and notes	1,034,970	AA-
Corporate bonds and notes	1,108,922	A+
Corporate bonds and notes	2,435,844	A
Corporate bonds and notes	2,419,532	A-
Corporate bonds and notes	4,453,627	BBB+
Corporate bonds and notes	2,551,915	BBB
Corporate bonds and notes	646,906	BBB-

*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, 2015, the City does not hold more than five percent of the City's investments in the any one issuer.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

*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			2027 and beyond
		2016	2017-2021	2022-2026	
Money market funds	\$ 20,790,182	\$ 20,790,182	\$ -	\$ -	\$ -
External investment pool	2,700,000	2,700,000	-	-	-
U.S. Government obligations	19,495,528	2,754,800	14,395,103	2,345,625	-
U.S. Government agency obligations	2,615,215	2,539,058	70,437	-	5,720
Municipal bonds	277,843	-	136,617	141,226	-
Corporate bonds and notes	16,145,544	894,183	11,700,043	2,677,229	874,089
	<u>\$ 62,024,312</u>	<u>\$ 29,678,223</u>	<u>\$ 26,302,200</u>	<u>\$ 5,164,080</u>	<u>\$ 879,809</u>

### Other Investments

At December 31, 2015, the City's Employee Benefit Trust Fund was invested in CCA Green, LP, a limited partnership, in the amount of \$2,502,904. 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 third-party valuation specialist to determine fair value. The third-party specialist uses a standard actuarial prospective value methodology in order to value the life insurance policies. The prospective value method takes into consideration the survivorship of the insured and the fair market value discount rate. 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, 2015, the City's Employee Benefit Trust Fund was invested in Hamilton Lane Co-Investment Fund III, LP, a limited partnership, in the amount of \$1,007,049. 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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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(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, 2015, the City's Employee Benefit Trust Fund was invested in NB Crossroads Fund XX – Asset Allocation LP, a limited partnership, in the amount of \$3,523,981. 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

##### *Parking Authority*

As a component unit of the City, the Parking Authority follows the third class city code for investment of Parking Authority funds.

Authorized investments for Parking Authority funds are deposits in savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### **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, 2015, the Parking Authority's book balance was \$1,103,832 and the bank balance was \$1,113,947. Of the bank balance at December 31, 2015, \$258,437 was covered by federal depository insurance and \$855,510 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, 2015, the Parking Authority's investment in the external investment pool was \$1,217.

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, 2015, 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, 2015, 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, 2015

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### *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, 2015, the Library's book balance was \$540,390 and the bank balance was \$902,970. Of the bank balance, \$250,025 was covered by federal depository insurance and \$652,945 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, 2015 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 392,139
Corporate bonds	66,570
Equities	1,213,449
Total investments	<u>\$ 1,672,158</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 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

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

*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, 2015:

	Fair Value	Rating
Money market funds	\$ 392,139	AAA
Corporate bonds	15,087	AA
Corporate bonds	26,315	A+
Corporate bonds	25,168	A-

*Concentration of credit risk* – The Library places no limit on the amount the Library may invest in any one issuer. At December 31, 2015, 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	
		2016	2017-2021
Money market funds	\$ 392,139	\$ 392,139	\$ -
Corporate bonds	66,570	15,087	51,483
<b>Total</b>	<b>\$ 458,709</b>	<b>\$ 407,226</b>	<b>\$ 51,483</b>

### *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

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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.

Investments are stated at fair value.

### **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, 2015, the Redevelopment Authority's book balance was \$773,641 and the bank balance was \$1,415,645. Of the bank balance at June 30, 2015, \$250,000 was covered by federal depository insurance and \$1,165,645 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 Redevelopment Authority's money market funds at June 30, 2015 was \$8,158,219.

*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, 2015, 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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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*Credit risk* - The Redevelopment Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Redevelopment Authority's money market funds were rated AAA as of June 30, 2015.

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

*Interest rate risk* - The Redevelopment Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2015, 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, 2015

### 4. CAPITAL ASSETS

A summary of changes in capital assets follows:

	January 1, 2015	Additions and Transfers In	Disposals and Transfers Out	December 31, 2015
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,752,780	\$ -	\$ -	\$ 6,752,780
Construction in progress	1,570,998	1,131,598	(34,567)	2,668,029
Total capital assets not being depreciated	<u>8,323,778</u>	<u>1,131,598</u>	<u>(34,567)</u>	<u>9,420,809</u>
Capital assets being depreciated:				
Buildings and related improvements	30,873,184	419,096	-	31,292,280
Improvements other than buildings	47,237,313	552,688	-	47,790,001
Furniture, machinery, and equipment	39,849,735	2,682,355	(313,571)	42,218,519
Infrastructure	33,130,639	1,915,547	-	35,046,186
Total capital assets being depreciated	<u>151,090,871</u>	<u>5,569,686</u>	<u>(313,571)</u>	<u>156,346,986</u>
Less accumulated depreciation for:				
Buildings and related improvements	(24,548,048)	(1,053,507)	-	(25,601,555)
Improvements other than buildings	(31,822,520)	(2,153,764)	-	(33,976,284)
Furniture, machinery, and equipment	(29,962,863)	(2,415,137)	306,219	(32,071,781)
Infrastructure	(13,720,595)	(2,209,663)	-	(15,930,258)
Total accumulated depreciation	<u>(100,054,026)</u>	<u>(7,832,071)</u>	<u>306,219</u>	<u>(107,579,878)</u>
Total capital assets being depreciated, net	<u>51,036,845</u>	<u>(2,262,385)</u>	<u>(7,352)</u>	<u>48,767,108</u>
Governmental activities capital assets, net	<u>\$ 59,360,623</u>	<u>\$ (1,130,787)</u>	<u>\$ (41,919)</u>	<u>\$ 58,187,917</u>

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

	January 1, 2015	Additions and Transfers In	Disposals and Transfers Out	December 31, 2015
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,124,842	\$ -	\$ -	\$ 2,124,842
Construction in progress	4,798,079	5,449,414	(2,302,972)	7,944,521
Total capital assets not being depreciated	6,922,921	5,449,414	(2,302,972)	10,069,363
Capital assets being depreciated:				
Land improvements	1,100,349	-	-	1,100,349
Building and fixtures	13,860,943	18,849	-	13,879,792
Improvements other than buildings	212,077,940	6,622,064	-	218,700,004
Furniture, machinery, and equipment	4,659,852	31,161	(73,569)	4,617,444
Vehicles	4,682,529	147,911	(56,093)	4,774,347
Office equipment	115,998	-	-	115,998
Total capital assets being depreciated	236,497,611	6,819,985	(129,662)	243,187,934
Less accumulated depreciation for:				
Land improvements	(992,561)	(27,295)	-	(1,019,856)
Building and fixtures	(12,680,849)	(226,073)	-	(12,906,922)
Improvements other than buildings	(119,750,829)	(7,189,634)	-	(126,940,463)
Furniture, machinery, and equipment	(4,294,350)	(120,806)	73,569	(4,341,587)
Vehicles	(3,809,715)	(201,708)	56,093	(3,955,330)
Office equipment	(108,282)	(4,400)	-	(112,682)
Total accumulated depreciation	(141,636,586)	(7,769,916)	129,662	(149,276,840)
Total capital assets being depreciated, net	94,861,025	(949,931)	-	93,911,094
Business-type activities capital assets, net	\$ 101,783,946	\$ 4,499,483	\$ (2,302,972)	\$ 103,980,457

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Depreciation expense was charged to governmental activities as follows:

Administrative	\$ 45,315
Community development	120,521
Parks and public property	1,847,408
Public works	3,893,124
Police	1,233,784
Fire	581,841
Library	110,078
	<u>\$ 7,832,071</u>

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

Water Fund	\$ 5,374,263
Sewer Fund	2,225,287
Municipal Golf Fund	170,366
	<u>\$ 7,769,916</u>

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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	January 1, 2015	Additions	Disposals	December 31, 2015
Parking Authority:				
Capital assets, not being depreciated:				
Land	\$ 1,762,044	\$ -	\$ -	\$ 1,762,044
Construction in progress	1,296,871	295,612	-	1,592,483
Total capital assets, not being depreciated	3,058,915	295,612	-	3,354,527
Capital assets, being depreciated:				
Parking garages	26,751,880	-	-	26,751,880
Furniture and fixtures	1,377,383	275,495	(107,964)	1,544,914
Automobiles	338,316	210,635	(83,552)	465,399
Leasehold and parking lot improvements	21,860	-	-	21,860
Total capital assets, being depreciated	28,489,439	486,130	(191,516)	28,784,053
Less accumulated depreciation	(13,976,207)	(1,169,859)	183,858	(14,962,208)
Total capital assets, being depreciated, net	14,513,232	(683,729)	(7,658)	13,821,845
Total capital assets, net	\$ 17,572,147	\$ (388,117)	\$ (7,658)	\$ 17,176,372

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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	January 1, 2015	Additions	Deletions	December 31, 2015
Library:				
Capital assets, not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Construction in progress	28,462	414,865	-	443,327
Total capital assets, not being depreciated	33,462	414,865	-	448,327
Capital assets, being depreciated:				
Buildings and related improvements	277,428	-	-	277,428
Furniture, machinery, and equipment	796,874	32,750	-	829,624
Total capital assets, being depreciated	1,074,302	32,750	-	1,107,052
Less accumulated depreciation	(696,422)	(48,906)	-	(745,328)
Total capital assets, being depreciated, net	377,880	(16,156)	-	361,724
Total capital assets, net	<u>\$ 411,342</u>	<u>\$ 398,709</u>	<u>\$ -</u>	<u>\$ 810,051</u>

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

	July 1, 2014	Additions and Transfers In	Disposals and Transfers Out	June 30, 2015
Redevelopment Authority:				
Capital assets, not being depreciated:				
Construction in progress	\$ 2,792,054	\$ 17,798,554	\$ (19,672,826)	\$ 917,782
Total capital assets, not being depreciated	2,792,054	17,798,554	(19,672,826)	917,782
Capital assets, being depreciated:				
Buildings	10,847,226	19,756,522	-	30,603,748
Total capital assets, being depreciated	10,847,226	19,756,522	-	30,603,748
Less accumulated depreciation	(236,630)	(238,393)	-	(475,023)
Total capital assets, being depreciated, net	10,610,596	19,518,129	-	30,128,725
Total capital assets, net	\$ 13,402,650	\$ 37,316,683	\$ (19,672,826)	\$ 31,046,507

### 5. INTERFUND RECEIVABLE AND PAYABLES BALANCES

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2015 is as follows:

	Due From Other Funds	Due To Other Funds
Governmental funds:		
General Fund	\$ 625,819	\$ 1,608,235
Non-Utility Capital Improvements Fund	23,500	65,570
Other Non-Major Governmental Fund	-	39,632
Proprietary funds:		
Sewer Fund	55,000	-
Other Non-Major Enterprise Fund	10,570	609,687
Agency Fund	1,608,235	-
Total	\$ 2,323,124	\$ 2,323,124

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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, 2015 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ 2,606,658	\$ 9,411,212
Non-Utility Capital Improvements Fund	216,750	-
Debt Service Fund	9,216,106	-
Other Non-Major Governmental Funds	2,085,000	583,255
Proprietary funds:		
Water Fund	-	764,190
Sewer Fund	-	3,247,093
Other Non-Major Proprietary Funds	-	118,764
Total	<u>\$ 14,124,514</u>	<u>\$ 14,124,514</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, 2015

### 7. LONG-TERM OBLIGATIONS

#### Bonds and Notes Payable

A summary of long-term bonds and notes payable of the City at December 31, 2015 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	\$ 113,400,000	\$ 99,145,716	\$ 17,115,969	\$ 139,000	\$ 116,400,685
Issuance of debt	8,590,000	-	4,828,215	-	4,828,215
Accretion of capital appreciation bonds	-	1,690,963	-	-	1,690,963
Repayment of debt	(7,519,000)	(5,577,813)	(2,360,352)	(68,000)	(8,006,165)
	114,471,000	95,258,866	19,583,832	71,000	114,913,698
Plus unamortized bond premium	34,259	4,935,028	-	-	4,935,028
Less unamortized bond discount	(433,398)	-	(114,167)	-	(114,167)
Outstanding at end of year	<u>\$ 114,071,861</u>	<u>\$100,193,894</u>	<u>\$ 19,469,665</u>	<u>\$ 71,000</u>	<u>\$119,734,559</u>

	Discretely Presented Component Units	
	Parking Authority	Redevelopment Authority
Outstanding at beginning of year	\$ 12,870,080	\$ 22,064,294
Issuance of debt	9,740,494	12,015,706
Repayment of debt	(9,671,487)	(2,390,000)
	12,939,087	31,690,000
Plus unamortized bond premium	41,019	-
Less unamortized bond discount	(75,517)	-
Outstanding at end of year	<u>\$ 12,904,589</u>	<u>\$ 31,690,000</u>



# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Year	Governmental Activities			Water Fund		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 4,170,000	\$ 5,107,998	\$ 9,277,998	\$ 5,746,238	\$ 2,772,639	\$ 8,518,877
2017	5,389,000	5,013,560	10,402,560	5,965,995	2,552,875	8,518,870
2018	5,555,000	4,855,092	10,410,092	6,178,600	2,342,796	8,521,396
2019	5,723,000	4,691,407	10,414,407	6,250,428	2,272,384	8,522,812
2020	5,902,000	4,511,047	10,413,047	6,440,027	2,079,538	8,519,565
2021-2025	31,842,000	19,012,258	50,854,258	25,621,433	16,980,513	42,601,946
2026-2030	34,615,000	11,273,360	45,888,360	27,376,145	15,228,881	42,605,026
2031-2034	21,275,000	2,497,672	23,772,672	11,680,000	727,000	12,407,000
<b>Totals</b>	<b>\$ 114,471,000</b>	<b>\$ 56,962,394</b>	<b>\$ 171,433,394</b>	<b>\$ 95,258,866</b>	<b>\$ 44,956,626</b>	<b>\$ 140,215,492</b>

Year	Sewer Fund			Municipal Golf Fund		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 1,450,267	\$ 349,544	\$ 1,799,811	\$ 71,000	\$ 2,812	\$ 73,812
2017	1,638,176	327,407	1,965,583	-	-	-
2018	1,555,329	302,063	1,857,392	-	-	-
2019	1,411,460	345,356	1,756,816	-	-	-
2020	1,425,541	351,741	1,777,282	-	-	-
2021-2025	5,509,666	1,360,706	6,870,372	-	-	-
2026-2030	4,559,537	712,045	5,271,582	-	-	-
2031-2032	2,033,856	80,927	2,114,783	-	-	-
<b>Totals</b>	<b>\$ 19,583,832</b>	<b>\$ 3,829,789</b>	<b>\$ 23,413,621</b>	<b>\$ 71,000</b>	<b>\$ 2,812</b>	<b>\$ 73,812</b>

Year	Parking Authority			Fiscal Year	Redevelopment Authority		
	Principal	Interest	Total		Principal	Interest *	Total
2016	\$ 3,430,524	\$ 268,071	\$ 3,698,595	2016	\$ 4,285,000	\$ 956,163	\$ 5,241,163
2017	806,888	245,339	1,052,227	2017	4,430,000	815,244	5,245,244
2018	827,662	229,399	1,057,061	2018	4,590,000	808,145	5,398,145
2019	848,456	212,639	1,061,095	2019	4,475,000	768,851	5,243,851
2020	810,557	191,765	1,002,322	2020	13,910,000	555,736	14,465,736
2021-2025	2,950,000	735,771	3,685,771				
2026-2030	3,265,000	302,374	3,567,374				
<b>Totals</b>	<b>\$ 12,939,087</b>	<b>\$ 2,185,358</b>	<b>\$ 15,124,445</b>		<b>\$ 31,690,000 *</b>	<b>\$ 3,904,139</b>	<b>\$ 35,594,139</b>

\* - Interest due on the Tax Increment Revenue Bonds, Series of 2010, is based on the interest rate in effect at June 30, 2015 of 3.42% through December 31, 2017 and the maximum rate of 6% thereafter through maturity.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Total principal and interest for the primary government due through maturity is \$335,136,319.

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, 2015, the City issued General Obligation Bonds, Series B of 2015 to currently refund the City's General Obligation Bonds, Series of 2010. The current refunding decreased the City's total debt service by \$126,155 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 \$123,220.

The City has guaranteed 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 full amount of the Guaranteed Parking System Revenue Bonds, Series A of 2015 and Series B of 2015, issued by the Parking Authority during the year ended December 31, 2015, are guaranteed by the City for the full term of the bonds. The reimbursement obligation of the Parking Authority to the City for payments made under the Guaranty Agreement shall be subordinate to debt service payments on the bonds, reimbursement to and rights of the bond insurer, and replenishment of the debt service reserve account. The City's legal authority and limits for extending the guarantees and types of obligations guaranteed is pursuant to the provisions of the Pennsylvania Local Government Unit Debt Act. The guarantees extend through the year ending December 31, 2032 and have a total amount outstanding at December 31, 2015 of \$85,510,000.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Long-term obligations payable at December 31, 2015 are as follows:

Governmental Activities:	<u>Current Portion</u>	<u>Balance at December 31, 2015</u>
General Obligation Bonds, Series A of 2005, due in annual installments of \$15,000 to \$20,000 through October 2020; interest rates vary from 3.70% to 4.00%.	\$ 15,000	\$ 90,000
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.	283,000	2,264,000
General Obligation Notes, Series of 2008, due in annual installments of \$382,000 to \$711,000 through August 2016; interest rate of 3.96%.	382,000	382,000
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%.	610,000	6,020,000
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%.	100,000	17,515,000
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	6,785,000
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%.	125,000	5,190,000

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Governmental Activities:	<u>Current Portion</u>	<u>Balance at December 31, 2015</u>
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%.	595,000	7,665,000
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%.	5,000	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%.	745,000	23,925,000
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%.	1,025,000	26,695,000
General Obligation Bonds, Series A of 2015, due in annual installments of \$30,000 to \$1,275,000 through August 2028; interest rates vary from 1.00% to 3.125%	30,000	5,245,000
General Obligation Bonds, Series B of 2015, due in annual installments of \$250,000 to \$365,000 through August 2024; interest rates vary from 0.28% to 2.50%	250,000	2,985,000
Total Governmental Activities	<u>\$ 4,170,000</u>	<u>\$ 114,471,000</u>

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Business-Type Activities: Water Fund:	<u>Current Portion</u>	<u>Balance at December 31, 2015</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%.	\$ -	\$ 33,381,592
1998 Pennvest loan payable in monthly installments of \$116,147, including interest at 3.20% through 2018.	1,316,238	3,022,274
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.	55,000	440,000
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>4,375,000</u>	<u>58,415,000</u>
Total Water Fund	<u>5,746,238</u>	<u>95,258,866</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%.	105,000	575,000
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%.	295,000	5,920,000

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Business-Type Activities:	Current	Balance at
Sewer Fund:	<u>Portion</u>	<u>December 31, 2015</u>
2012 Pennvest loan payable in monthly installments of \$45,546, including interest at 1.51% through July 2032.	424,897	8,250,895
2013 Pennvest loan payable in monthly installments vary from \$416 to \$49,379, including interest at 1.00% through August 2017.	230,370	4,057,937
General Obligation Bonds, Series B of 2015, due in annual installments of \$140,000 to \$395,000 through August 2018; interest rates vary from 0.28% to 2.00%.	<u>395,000</u>	<u>780,000</u>
Total Sewer Fund	<u>1,450,267</u>	<u>19,583,832</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%.	<u>71,000</u>	<u>71,000</u>
Total Business-Type Activities	<u>\$ 7,267,505</u>	<u>\$ 114,913,698</u>

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Component Units: Parking Authority:	<u>Current Portion</u>	<u>Balance at December 31, 2015</u>
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.	\$ 3,214,000	\$ 3,214,000
Guaranteed Parking System Revenue Bonds, Series A of 2015, due in annual installments of \$60,000 to \$100,000, maturing in October 2022. Interest rates range from 1.091% to 3.319%. Secured by future revenues of the Authority.	90,000	635,000
Guaranteed Parking System Revenue Bonds, Series B of 2015, due in annual installments of \$90,000 to \$715,000, maturing in October 2030. Interest rates range from 0.75% to 3.25%. Secured by future revenues of the Authority.	90,000	8,945,000
Loan payable, \$500 per month, including interest at 3.74% through December 31, 2016, unsecured loan.	5,391	5,391
Loan payable, \$1,581 per month, including interest at 2.74% through February 2020, secured loan.	17,147	74,558
Loan payable, \$1,262 per month, including interest at 1.98% through June 2020, unsecured loan.	13,986	65,138
Total Parking Authority	<u>\$ 3,430,524</u>	<u>\$ 12,939,087</u>

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Redevelopment Authority:	<u>Current Portion</u>	<u>Balance at June 30, 2015</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.	\$ 2,475,000	\$ 18,430,000
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%.	1,350,000	10,000,000
TIF Bonds, Series of 2013, due in annual installments, amortizing over approximately 7 years, with final maturity to occur on or before June 1, 2020; interest rate at 2.98%.	<u>460,000</u>	<u>3,260,000</u>
Total Redevelopment Authority	<u>\$ 4,285,000</u>	<u>\$ 31,690,000</u>

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### Other Changes in Long-Term Debt

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

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015
Governmental activities:				
Accrued vacation and other compensated absences	\$ 3,925,213	\$ 332,712	\$ -	\$ 4,257,925
Capital leases	6,250,859	1,307,932	(1,085,525)	6,473,266
	<u>\$ 10,176,072</u>	<u>\$ 1,640,644</u>	<u>\$ (1,085,525)</u>	<u>\$ 10,731,191</u>
Business-type activities:				
Accrued vacation and other compensated absences	\$ 827,289	\$ -	\$ (44,175)	\$ 783,114
Capital leases	332,515	131,714	(136,842)	327,387
	<u>\$ 1,159,804</u>	<u>\$ 131,714</u>	<u>\$ (181,017)</u>	<u>\$ 1,110,501</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, 2015, the net book value of the equipment and vehicles held under capital leases and included in capital assets was \$6,586,788 for governmental activities and \$372,761 for business-type activities.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

As of December 31, 2015, future minimum payments were as follows:

Year	Governmental Activities	Business-Type Activities
2016	\$ 1,034,479	\$ 145,385
2017	1,043,755	117,124
2018	960,932	89,957
2019	687,520	-
2020	710,750	-
2021-2025	2,823,989	-
2026	212,036	-
Total commitment under capital leases	7,473,461	352,466
Less amount representing interest	1,000,195	25,079
Present value of future minimum lease payments	6,473,266	327,387
Less current portion	831,951	135,104
Long-term portion	\$ 5,641,315	\$ 192,283

### *Parking Authority*

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015
Capital leases	\$ 479,849	\$ 175,750	\$ (209,480)	\$ 446,119

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 \$1,059,159 and \$198,988, respectively, at December 31, 2015. Amortization of the leased equipment and vehicles is included in depreciation expense.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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The future minimum lease payments required are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 222,235
2017	111,105
2018	68,842
2019	55,297
2020	12,759
Total minimum lease payments	470,238
Less amount representing interest at 3.41% - 6.15%	24,119
Present value of minimum lease payments	446,119
Less current portion	206,998
Long-term portion	<u>\$ 239,121</u>

### 8. PENSION PLANS

#### Plan Descriptions and Administration

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

The plans provide for retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living adjustments are provided at the discretion of the Police, Firemen, and Officers' and Employees' Retirement Boards. Benefit provisions and their amendments are authorized by the separate Pension Boards for the Police, Firemen, and

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Officers' and Employees' Plans. Contributions to the plans are governed by ordinances and collective bargaining agreements. These plans do not issue separate reports.

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

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

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

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

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

The combining information for the plans is as follows:

	Police Pension Fund	Firemen Pension Fund	Officers' and Employees' Pension Fund	Employee Benefit Trust Fund Total
<b>Assets</b>				
Interest and dividends receivable	\$ 153,960	\$ 113,450	\$ 14,875	\$ 282,285
Investments	75,342,303	55,592,227	7,271,284	138,205,814
<b>Total Assets</b>	<b>\$ 75,496,263</b>	<b>\$ 55,705,677</b>	<b>\$ 7,286,159</b>	<b>\$ 138,488,099</b>
<b>Net Position</b>				
Restricted for employees' retirement benefits	\$ 75,496,263	\$ 55,705,677	\$ 7,286,159	\$ 138,488,099
<b>Total Net Position</b>	<b>\$ 75,496,263</b>	<b>\$ 55,705,677</b>	<b>\$ 7,286,159</b>	<b>\$ 138,488,099</b>
	Police Pension Fund	Firemen Pension Fund	Officers' and Employees' Pension Fund	Employee Benefit Trust Fund Total
<b>Additions:</b>				
Employee contributions	\$ 823,385	\$ 570,801	\$ -	\$ 1,394,186
Employer contributions	4,298,925	2,683,110	698,515	7,680,550
Investment income	1,420,166	1,070,290	135,530	2,625,986
Realized and unrealized losses, net	(654,109)	(535,239)	(56,337)	(1,245,685)
Investment expense	(351,889)	(265,848)	(33,649)	(651,386)
Total additions	5,536,478	3,523,114	744,059	9,803,651
<b>Deductions:</b>				
Benefits paid	5,984,760	4,563,169	880,698	11,428,627
Administrative costs	18,920	14,450	1,811	35,181
Total deductions	6,003,680	4,577,619	882,509	11,463,808
<b>Change in Net Position</b>	<b>(467,202)</b>	<b>(1,054,505)</b>	<b>(138,450)</b>	<b>(1,660,157)</b>
<b>Net Position:</b>				
Beginning of year	75,963,465	56,760,182	7,424,609	140,148,256
End of year	<b>\$ 75,496,263</b>	<b>\$ 55,705,677</b>	<b>\$ 7,286,159</b>	<b>\$ 138,488,099</b>

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### Plan Memberships

At December 31, 2015, membership related to the Police, Firemen, O&E, and PMRS Plans consisted of the following:

	Police	Firemen	O&E	PMRS
	All Full-time Members of the Police Force	All Full-time Members of the Fire Department	Closed 01/01/64	All Full-time Employees Not Previously Covered
<u>Covered Employees</u>				
Inactive plan members or beneficiaries currently receiving benefits	167	130	41	307
Inactive plan members entitled to but not yet receiving benefits	-	-	-	10
Active plan members	150	103	-	320
Total	317	233	41	637

### 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 1/40<sup>th</sup> 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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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the higher of 1/12<sup>th</sup> 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.

### Members Hired On or After January 1, 2012

*Retirement Benefit* - A member is eligible for normal retirement after completion of 20 years of vesting service. The normal retirement pension is payable monthly during the member's lifetime, with payments continuing after the member's death to the surviving spouse or to dependent children under the age of 18 equal to 100% of the amount payable to the member at the time of the member's death. The amount of monthly pension is equal to 50% of average monthly compensation, plus a service increment equal to 1/40<sup>th</sup> 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<sup>th</sup> 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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

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

### **Benefit Provisions – Firemen**

#### Members Hired Before October 24, 2011

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

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

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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benefit the member would have been receiving had the member been retired at the time of the member's death.

*Deferred Retirement Option Plan (DROP) Benefit* – An active member who has attained age 57 and completed 20 years of vesting service may elect to participate in the deferred retirement option plan for a period of not more than 36 months. The member's monthly pension shall be calculated as of the member's date of participation in the DROP and shall be accumulated with 3.0% annual interest, compounded monthly, and distributed in a lump sum at retirement. As of December 31, 2015, there were three participants in the DROP. As of December 31, 2015, the balance held by the Firemen Plan for the DROP totaled \$291,378.

### 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<sup>th</sup> 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<sup>th</sup> of the average annual compensation over the highest five consecutive calendar years of employment or the monthly salary of the member at retirement.

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### **Benefit Provisions – O&E**

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

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

### **Benefit Provisions – PMRS**

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

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

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### **Contributions**

Pennsylvania Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act of the Commonwealth (as amended) (Act 205), requires that annual contributions be based upon the Minimum Municipal Obligation (MMO), which is based on the plans' biennial actuarial valuation. According to Act 205, actuarial valuations may be made biennially and the most recent valuations for all of the City's plans were completed as of January 1, 2015. The MMO includes the normal cost, estimated administrative expenses and an amortization of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10 percent of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds that must be used for pension funding. Any financial requirements established by the MMO which exceed state and member contributions must be funded by the employer.

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

For the year ended December 31, 2015, the City made its annual required contribution of \$4,298,925, \$2,683,110, and \$698,515 for the City's Police, Firemen, and O&E 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, for a total contribution of \$28,582,658, to the PMRS plan during the year ended December 31, 2014. During the year ended December 31, 2015, the City contributed its annual required contribution of \$1,117,586 for the City's PMRS plan. The 2015 contribution is reported as a deferred outflow of resources at December 31, 2015.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### Changes in Net Pension Liability - Police

The changes in the net pension liability for the City for the year ended December 31, 2015 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2014	\$ 96,986,351	\$ 75,963,465	\$ 21,022,886
Changes for the year:			
Service cost	2,040,893	-	2,040,893
Interest	7,503,420	-	7,503,420
Differences between expected and actual experience	4,010,737	-	4,010,737
Contributions - employer	-	4,298,925	(4,298,925)
Contributions - employees	-	823,385	(823,385)
Net investment income	-	414,168	(414,168)
Benefit payments, including refunds	(5,984,760)	(5,984,760)	-
Administrative expense	-	(18,920)	18,920
Net changes	7,570,290	(467,202)	8,037,492
Balances at December 31, 2015	\$ 104,556,641	\$ 75,496,263	\$ 29,060,378
Plan fiduciary net position as a percentage of the total pension liability			72.2%

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### Changes in Net Pension Liability - Firemen

The changes in the net pension liability for the City for the year ended December 31, 2015 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2014	\$ 67,487,703	\$ 56,760,182	\$ 10,727,521
Changes for the year:			
Service cost	1,297,598	-	1,297,598
Interest	5,067,577	-	5,067,577
Differences between expected and actual experience	1,257,475	-	1,257,475
Contributions - employer	-	2,683,110	(2,683,110)
Contributions - employees	-	570,801	(570,801)
Net investment income	-	269,203	(269,203)
Benefit payments, including refunds	(4,563,169)	(4,563,169)	-
Administrative expense	-	(14,450)	14,450
Net changes	3,059,481	(1,054,505)	4,113,986
Balances at December 31, 2015	\$ 70,547,184	\$ 55,705,677	\$ 14,841,507
Plan fiduciary net position as a percentage of the total pension liability			79.0%

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

The changes in the net pension liability (asset) for the City for the year ended December 31, 2015 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2014	\$ 5,877,164	\$ 7,424,609	\$ (1,547,445)
Changes for the year:			
Interest	398,088	-	398,088
Differences between expected and actual experience	(128,970)	-	(128,970)
Contributions - employer	-	698,515	(698,515)
Net investment income	-	45,544	(45,544)
Benefit payments, including refunds	(880,698)	(880,698)	-
Administrative expense	-	(1,811)	1,811
Net changes	(611,580)	(138,450)	(473,130)
Balances at December 31, 2015	\$ 5,265,584	\$ 7,286,159	\$ (2,020,575)
Plan fiduciary net position as a percentage of the total pension liability			138.4%

The net pension asset of the O&E plan is allocated between governmental activities and business-type activities in the amounts of \$1,293,168 and \$727,407, respectively, at December 31, 2015.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### Changes in Net Pension Liability - PMRS

The changes in the net pension liability for the City for the year ended December 31, 2015 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2014 (based on the measurement date of December 31, 2013)	\$ 127,512,815	\$ 99,264,574	\$ 28,248,241
Changes for the year:			
Service cost	2,788,823	-	2,788,823
Interest	6,983,880	-	6,983,880
Differences between expected and actual experience	425,849	-	425,849
Contributions - employer	-	28,582,658	(28,582,658)
Contributions - employees	-	1,625,488	(1,625,488)
PMRS investment income	-	5,619,786	(5,619,786)
Market value investment income (loss)	-	(1,138,006)	1,138,006
Transfers	408,927	408,927	-
Benefit payments, including refunds	(7,143,060)	(7,143,060)	-
Administrative expense	-	(229,161)	229,161
Net changes	3,464,419	27,726,632	(24,262,213)
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	\$ 130,977,234	\$ 126,991,206	\$ 3,986,028
Plan fiduciary net position as a percentage of the total pension liability			97.0%

The net pension liability of the PMRS plan is allocated between governmental activities and business-type activities in the amounts of \$2,551,058 and \$1,434,970, respectively, at December 31, 2015.

#### *Actuarial Assumptions – Police, Firemen, and O&E*

The net pension liability was measured as of December 31, 2015 and was determined by rolling forward liabilities from the January 1, 2015 actuarial valuation. The January 1, 2015

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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actuarial valuations for the Police, Firemen, and O&E Plans utilized the entry age normal cost method. The actuarial assumptions for the three City Plans included (a) investment rate of return of 7.5%, (b) projected salary increases of 4.5% per year, (c) inflation component of 3.0%, and (d) 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.

### *Actuarial Assumptions – PMRS*

The total pension liability was determined by an actuarial valuation performed on January 1, 2015, with liabilities measured at December 31, 2014, using the following actuarial assumptions, applied to all periods in the measurement:

#### Actuarial assumptions:

Investment rate of return	5.5%
Projected salary increases	3.7% - 6.4%
* includes inflation rate of 3%	
Cost-of-living adjustments	3.0%

Actuarial assumptions based on PMRS Experience Study for the period  
January 1, 2005 to December 31, 2008

#### Pre-retirement mortality:

Males: RP 2000 with 1 year set back  
Females: RP 2000 with 5 year set back

#### Post-retirement mortality:

Males and females: Sex-District RP-2000 Healthy Mortality

### *Investment Policy – Police, Firemen, and O&E*

The Police, Firemen, and O&E Plans' investment policy, most recently amended in 2009, outlines the goals and objectives of the Funds as well as specifies the target asset allocation, guidelines for the selection of investment managers, permissible securities, and the criteria for evaluating investment performance of the 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.



# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

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

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

<u>Asset Class</u>	<u>Target Percentage</u>	<u>Acceptable Range</u>
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	<u>50%</u>	<u>+/- 10%</u>
Fixed Income:		
Intermediate Fixed (Cash flow manager)	20%	+/- 5%
Intermediate Fixed	18%	+/- 5%
High Yield	3%	+/- 2%
Total Fixed Income	<u>41%</u>	<u>+/- 10%</u>
Alternate Investments:		
Real Estate	3%	+/- 2%
Managed Futures	3%	+/- 2%
Life Settlement	3%	+/- 2%
Total Alternate Investments	<u>9%</u>	<u>+/- 3%</u>

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

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

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, 2015 are summarized in the following table:

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

### *Long-Term Expected Rate of Return – PMRS*

The PMRS System's (System) long-term expected rate of return on plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole, and at different levels of probability or confidence. There are four steps to the method:

1. Expected future real rates of return are based primarily on the 20-year historic nominal rates of return as reflected by applicable return indexes and may be adjusted for specific asset classes if, in the PMRS Board's opinion, any such asset classes are expected in the future to significantly vary from its 20-year historical returns.
2. The nominal rates of return by asset class are adjusted by a constant rate of expected future annual inflation rate of 3% to produce real rates of return.
3. The real rates of return are further adjusted by weighting each asset class using the PMRS portfolio target asset allocations. The results from steps 1 through 3 are presented in the chart labeled "System Nominal and Real Rates of Return by Asset Class."

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

4. These weighted real rates of return are then subjected to a probability simulation to understand the likelihood of success in achieving various portfolio return levels. Based on the most recent asset allocation study, the minimum acceptable confidence level for the PMRS Board has been determined to be 70%. The chart labeled “Confidence Levels for System Nominal and Real Rates of Return” identifies simulated portfolio returns at various confidence levels.

The following are the System Nominal and Real Rates of Return by Asset Class as of December 31, 2015:

Asset Class	Target Allocation	Nominal Rate of Return	Long-Term Expected Real Rate of Return
Domestic equity (large capitalized firms)	25.0%	11.7%	8.7%
Domestic equity (small capitalized firms)	15.0%	11.4%	8.4%
International equity (developed markets)	15.0%	7.6%	4.6%
International equity (emerging markets)	10.0%	11.1%	8.1%
Real estate	20.0%	9.7%	6.7%
Fixed income	15.0%	2.0%	-1.0%
Total portfolio	100.0%	9.2%	6.2%

The following are the Confidence Levels for System Nominal and Real Rates of Return as of December 31, 2015:

Confidence Interval	Nominal Rate of Return	Long-Term Expected Real Rate of Return
95.0%	4.7%	1.7%
90.0%	5.7%	2.7%
85.0%	6.4%	3.4%
80.0%	6.9%	3.9%
75.0%	7.4%	4.4%
70.0%	7.8%	4.8%
50.0%	9.2%	6.2%

Based on the four-part analysis, the PMRS Board established the System’s long-term expected rate of return at 7.5%.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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In addition to determining the System's long-term expected rate of return, PMRS also develops a long-term expected rate of return for individual participating municipalities. The long-term expected rate of return for individual participating municipalities is also referred to as the regular interest rate. Under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), the PMRS Board is obligated to apply the regular interest rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. Therefore, under the law, the long-term expected rate of return for individual participating municipalities is equal to the regular interest rate. The rationale for the difference between the System's long-term expected rate of return and the individual participating municipalities' regular interest rate is described in the section below labeled "Discount Rate." As of December 31, 2014, this rate is equal to 5.5%.

The System's policy in regard to the investment income allocation on invested assets is established and may be amended by the PMRS Board. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of PMRS.

*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, 2015, the annual money-weighted rate of return on Police, Firemen, and O&E Plan investments, net of investment expense, was 0.84%.

*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, 2015, the City does not hold more than five percent of each individual Plans' investments in any one issuer.

### *Discount Rate – Police, Firemen, and O&E*

The discount rate used to measure the total pension liability for the Police, Firemen, and O&E Plans as of December 31, 2015 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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### *Discount Rate – PMRS*

While it is often common practice to establish an actuarial discount rate that is equal to the long-term expected rate of return, PMRS is required by law (Act 15 of 1974) to establish a discount rate equal to the regular interest rate. The PMRS Board establishes the regular interest rate on the basis of expected stable and consistent earnings on investments to be applied to the accounts of the individual participating municipalities and includes the accounts of plan participants, municipalities, and plan retirees each year. The PMRS Board considers the following five quantitative factors in establishing the regular interest rate:

1. Retiree plan liability as a percentage of total plan liability,
2. Active plan participant liability as a percentage of total plan liability,
3. Smoothed Pension Benefit Guarantee Corporation (PBGC) annuity rates,
4. PMRS System long-term expected rate of return, and
5. PMRS administrative expenses.

The regular interest rate is equal to the retiree liability percentage times the smoothed PBGC annuity rates, plus the active employee liability percentage times the System long-term expected rate of return, less administrative expenses as a percentage of assets.

The PMRS Board may then adjust the regular interest rate derived from the formula due to a variety of qualitative factors such as the desire to minimize regular interest rate volatility, trending of PBGC annuity rates, total PMRS actuarial and market value funding ratios, feedback from existing PMRS municipalities, and recommendations from the System's investment and actuarial consultants. The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities' total pension liability as of December 31, 2014 was 5.5%.

This required equivalence between the regular interest rate and the actuarial discount rate will likely result in a System long-term expected rate of return that will be higher than the actuarial discount rate and higher than the long-term expected rate of return for individual participating municipalities. Should the System experience a prolonged period of investment returns in excess of the regular interest rate, the PMRS Board is authorized to allocate any applicable portion of any such excess in accordance with PMRS Board policies.

The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required, used the following assumptions: 1) member

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# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System's long-term expected rate of return will be used in the depletion testing of the projected cash flows. Based on those assumptions, the PMRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Police	\$ 41,866,233	\$ 29,060,378	\$ 18,328,307
Firemen	\$ 22,986,707	\$ 14,841,507	\$ 7,962,072
O&E	\$ (1,765,151)	\$ (2,020,575)	\$ (2,253,492)
	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
PMRS	\$ 18,746,931	\$ 3,986,028	\$ (8,612,051)

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### *Pension Expense and Deferred Outflows of Resources Related to Pensions*

For the year ended December 31, 2015, the City recognized pension expense of \$8,447,150 in the governmental activities and \$1,561,625 in the business-type activities. At December 31, 2015, the City reported deferred outflows of resources related to pensions from the following sources:

	Governmental Activities	Business-Type Activities
Deferred Outflows of Resources:		
Net difference between projected and actual earnings on pension plan investments	\$ 8,191,485	\$ 473,013
Differences between expected and actual experience	4,883,427	122,643
City contributions subsequent to the measurement date	716,911	400,675
Total deferred outflows of resources	\$ 13,791,823	\$ 996,331

The effect of the differences in the City's expected and actual experience is recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. City contributions subsequent to the measurement date will be recorded as a reduction to the pension liability during the year ending December 31, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	Governmental Activities	Business-Type Activities
Year ending December 31,		
2016	\$ 2,705,201	\$ 148,914
2017	2,705,201	148,914
2018	2,705,201	148,914
2019	2,705,202	148,914
2020	602,821	-
Thereafter	1,651,286	-
	\$ 13,074,912	\$ 595,656

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### **Component Units' Pension Plans**

#### Plan Description and Administration

##### *Library*

Effective January 1, 2013, the Library is no longer a part of the City's PMRS pension plan. The Library will pay the City \$165,444 per year for ten years as part of an agreement to assist the City in meeting unfunded pension plan obligations on retired or fully vested Library employees. During the year ended December 31, 2015, the Library paid \$165,444 to PMRS on behalf of the City for the third of the ten payments. Alternatively, the Library offers a 457(b) plan to all remaining and new employees.

##### *Parking Authority*

The Parking Authority pension plan is a defined benefit pension plan controlled by the provisions of a resolution dated October 2, 2013 adopted pursuant to Act 15 of 1974. The Parking Authority pension plan participates in the PMRS. 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. During the year ended December 31, 2015, the Parking Authority paid \$188,592 to PMRS on behalf of the City for the third of the ten payments. Alternatively, the Parking Authority has established its own separate plan with PMRS.

##### *Redevelopment Authority*

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

#### Benefit Provisions

##### *Parking Authority*

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

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



# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

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

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

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

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

### *Redevelopment Authority*

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

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

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

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

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

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

### Plan Membership

#### *Parking Authority*

Membership of the Parking Authority’s pension plan consisted of the following at December 31, 2015:

Active employees	20
Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	-
Total	<u>26</u>

#### *Redevelopment Authority*

Membership of the Redevelopment Authority’s pension plan consisted of the following at June 30, 2015:

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### Contributions

#### *Parking Authority*

The Parking Authority's funding policy is to fund the minimum pension plan requirement computed in accordance with Act 205. The Parking Authority's funding policy requires that annual contributions be based upon the Parking Authority pension plan's MMO, which are actuarially determined rates that should result in the accumulation of assets that are sufficient to pay benefits when due. Active employees are required to contribute an amount equal to 7.50% of compensation. During the year ended December 31, 2014, the Parking Authority made a contribution of \$64,369. The MMO for the year ended December 31, 2014 was \$64,309. During the year ended December 31, 2015, the Parking Authority made a contribution of \$59,488. The MMO for the year ended December 31, 2015 was \$59,488. The 2015 contribution is reported as a deferred outflow of resources at December 31, 2015.

#### *Redevelopment Authority*

The Redevelopment Authority's funding policy is to fund the minimum pension plan requirement computed in accordance with Act 205. The Redevelopment Authority's funding policy requires that annual contributions be based upon the Redevelopment Authority pension plan MMO, which are actuarially determined rates that should result in the accumulation of assets that are sufficient to pay benefits when due. All full-time employees are required to contribute five and a half percent of their annual covered salary. The MMO for the year ended June 30, 2014 was \$18,486. During the year ended June 30, 2014, the Redevelopment Authority made a contribution to the Redevelopment Authority pension plan in the amount of \$18,097. The MMO for the year ended June 30, 2015 was \$27,007. During the year ended June 30, 2015, the Redevelopment Authority made a contribution to the Redevelopment Authority pension plan in the amount of \$20,255.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### Changes in the Net Pension Liability (Asset)

#### *Parking Authority*

The changes in the net pension liability (asset) of the Parking Authority for the year ended December 31, 2015 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2014 (based on the measurement date of December 31, 2013)	\$ 2,101,861	\$ 2,471,211	\$ (369,350)
Changes for the year:			
Service cost	158,054	-	158,054
Interest	131,874	-	131,874
Differences between expected and actual experience	162,885	-	162,885
Contributions - employer	-	64,369	(64,369)
Contributions - employees	-	68,403	(68,403)
PMRS investment income	-	136,068	(136,068)
Market value investment income (loss)	-	(234,124)	234,124
Benefit payments	(84,529)	(84,529)	-
Administrative expense	-	(5,978)	5,978
Net changes	368,284	(55,791)	424,075
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	\$ 2,470,145	\$ 2,415,420	\$ 54,725
Plan fiduciary net position as a percentage of the total pension liability			97.8%

*Actuarial Assumptions* – The total pension liability was determined by an actuarial valuation performed on January 1, 2015, with liabilities measured at December 31, 2014, using the actuarial assumptions consistent with that presented for the City’s PMRS pension plan, applied to all periods in the measurement.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

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

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

1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
<u>\$ 356,807</u>	<u>\$ 54,725</u>	<u>\$ (202,341)</u>

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### *Redevelopment Authority*

The changes in the net pension liability of the Redevelopment Authority for the year ended June 30, 2015 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2014 (based on the measurement date of December 31, 2013)	\$ 912,330	\$ 796,538	\$ 115,792
Changes for the year:			
Service cost	21,777	-	21,777
Interest	49,383	-	49,383
Differences between expected and actual experience	19,796	-	19,796
Contributions - employer	-	18,097	(18,097)
Contributions - employees	-	8,304	(8,304)
Net investment income	-	50,638	(50,638)
Benefit payments, including refunds	(73,458)	(73,458)	-
Administrative expense	-	(1,746)	1,746
Net changes	17,498	1,835	15,663
Balances at June 30, 2015 (based on the measurement date of December 31, 2014)	\$ 929,828	\$ 798,373	\$ 131,455
Plan fiduciary net position as a percentage of the total pension liability			85.9%

*Actuarial Assumptions* – The total pension liability was based on the actuarial valuation performed on January 1, 2015 with liabilities measured at December 31, 2014, using the actuarial assumptions consistent with that presented for the City’s PMRS pension plan, applied to all periods in the measurement.

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

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

1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
\$ 227,456	\$ 131,455	\$ 48,784

### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

#### *Parking Authority*

For the year ended December 31, 2015, the Parking Authority recognized pension expense of \$165,408. At December 31, 2015, the Parking Authority reported deferred outflows of resources related to pension from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 135,737
Authority contributions subsequent to the measurement date	59,488
Net difference between projected and actual earnings on pension plan investments	187,299
Total	\$ 382,524

The effect of the differences in the Parking Authority’s expected and actual experience is recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Parking Authority contributions subsequent to the measurement date will be recorded as a reduction to the pension liability during the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	
2016	\$ 73,973
2017	73,973
2018	73,973
2019	73,972
2020	<u>27,145</u>
	<u>\$ 323,036</u>

### *Redevelopment Authority*

For the year ended June 30, 2015, the Redevelopment Authority recognized pension expense of \$25,080. At June 30, 2015, the Redevelopment Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 14,847	\$ -
Authority contributions subsequent to the measurement date	20,255	-
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>6,166</u>
Total	<u>\$ 35,102</u>	<u>\$ 6,166</u>

The effect of the differences in the Redevelopment Authority's expected and actual experience is recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Redevelopment Authority contributions subsequent to the measurement date will be recorded as a reduction to the pension liability during the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:



# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Year ending June 30,

2016	\$ 3,408
2017	3,408
2018	3,408
2019	<u>(1,543)</u>
	<u>\$ 8,681</u>

### 9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

#### Plan Descriptions

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

#### Police:

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

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

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

Benefits: The City will provide medical and prescription drug coverage for the retiree and spouse until Medicare eligibility. The City's maximum monthly contribution for health insurance coverage for each retiree was \$340 through July 1, 2015, at which point it increased to \$360. The limit will be increased to \$380 in 2016 and \$400 in 2017. If the retiree dies, his or her spouse will be covered and the City will contribute to coverage for the spouse until Medicare eligibility, unless the spouse remarries or has a job in which health insurance coverage is normally granted. If the retiree reaches Medicare eligibility

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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, 2015, establishes retirees' eligibility for post-retirement medical benefits. Article VII Section D of the personnel manual establishes retirees' eligibility for post-retirement life-insurance benefits.

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

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

Benefits: The City will provide medical and prescription drug coverage for the retiree and spouse until Medicare eligibility. The City's maximum monthly contribution for health insurance coverage for each retiree is \$340 with an increase to \$380 in 2016 and \$400 in 2017. If the retiree dies, his or her spouse will be covered and the City will contribute to coverage for the spouse until Medicare eligibility, unless the spouse remarries or has a job in which health insurance coverage is normally granted. If the retiree reaches Medicare eligibility prior to his or her spouse, the spouse may continue coverage and the City will contribute to coverage for the spouse until Medicare eligibility. An employee who retires prior to age 38 shall be eligible to enter the plan at the contribution rate equal to the negotiated rate for contributions.

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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 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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### 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, 2015, the City contributed \$929,809 to the OPEB plan.

#### Police:

Police would pay any additional premiums above the City's contribution of \$360. For the year ended December 31, 2015, police retirees contributed \$145,023 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, 2015, firefighter retirees contributed \$157,380 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, 2015, non-uniformed union and non-union retirees contributed \$280,833 toward the cost of their plans.

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revision, as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### 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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### 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, 2015 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 1,227,013	\$ 255,881	\$ 1,482,894
Interest on net OPEB obligation	175,137	36,989	212,126
Adjustment to ARC	(242,006)	(47,388)	(289,394)
Annual OPEB cost	1,160,144	245,482	1,405,626
Contribution made	(778,034)	(151,775)	(929,809)
Change in Net OPEB obligation	382,110	93,707	475,817
Net OPEB obligation, beginning	3,894,994	818,917	4,713,911
Net OPEB obligation, ending	<u>\$ 4,277,104</u>	<u>\$ 912,624</u>	<u>\$ 5,189,728</u>

### Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2015	\$ 1,405,626	66.1%	\$ 5,189,728
2014	1,414,072	63.6%	4,713,911
2013	1,418,255	64.1%	4,198,568

### 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.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### **10. DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The City provides a 1% matching contribution to the plan up to 4% contributed by the participants. The City contributed \$180,144 to the plan during 2015. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

### **11. COMMITMENT AND CONTINGENCIES**

#### **Federal and State Grants**

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

#### **Litigation**

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

#### **Risk Management**

The City is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages in 2015. 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 \$9,331,441 at December 31, 2015. Subsequent to year-end, the City entered into construction contracts for approximately \$5,600,000.

At December 31, 2015, the Parking Authority has construction commitments related to garage construction projects in the amount of \$792,475. Subsequent to year-end, the Parking Authority approved construction contracts in the amount of \$12,396,081.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### **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, 2015, \$75,000 was outstanding on the line of credit. This amount was paid back in January 2016.

### **Violations of Finance-Related Legal and Contractual Provisions**

In past years, the City advanced itself earned income tax (EIT) receipts that were being held on behalf of other governments and owed approximately \$1.6 million back to the EIT account at December 31, 2015. 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, 2015, 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 \$31,690,000 at June 30, 2015. During the year ended December 31, 2015, City tax revenues collected and remitted directly to the TIF were approximately \$1.46 million.

### **ArtsQuest Lease**

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



# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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renewal date. ArtsQuest is to surrender the assets upon the termination of this lease, in as good order and condition as they are at the start of the lease, ordinary wear and tear and depreciation excepted. Consideration for the lease was \$1.

### Armory Rental Agreement

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

## 12. COMPLIANCE

Under the debt agreements, the Redevelopment Authority is required to maintain certain minimum balances in its debt service reserve funds. At June 30, 2015, the Redevelopment Authority's balances in the debt service reserve funds and the related reserve requirements are as follows:

Debt Series	Balance at June 30, 2015	Reserve Requirement
2010	\$ 2,774,700	\$ 2,760,000
2012	12,057	1,000,000
2013	8,501	326,000

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, 2015

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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.

### **13. LETTER OF CREDIT NOTE**

In October 2015, the City established a standby letter of credit with TD Bank in the amount of \$800,000. 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, 2015, there were no amounts borrowed under the letter of credit. In June 2016, the letter of credit was reduced to \$400,000.

### **14. CREDIT RISK AND MARKET RISK**

The City uses its authority to levy certain general purpose taxes. Major taxing revenue sources include real estate, earned income, mercantile, and business privilege taxes. These taxes account for approximately 92% of the total taxes collected by the City in 2015. Although the City has a diversified taxing base, its citizens' ability to honor their taxing obligations is substantially dependent upon the general economic condition of the region.

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

### **15. NEGATIVE NET POSITION**

#### **Water Fund**

The Water Fund had a deficit balance of \$444,414 at December 31, 2015. 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

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Bethlehem Authority transacted a long-term restructuring to deal with this issue in 2014 and it is beginning to materialize. In 2014, the negative net position was \$2,051,430 and in 2015 it was reduced to \$444,414.

### **Municipal Golf Fund**

The Municipal Golf Fund had a deficit balance of \$386,113 at December 31, 2015. The City will continue to address the deficit as part of the 2017 budget. Expense reductions and fee increases were implemented in 2015. Starting in 2016, the O&E pension plan was fully funded so there was no contribution required from the Municipal Golf Fund. Also, 2016 is the last year for debt service related to golf course improvements. This will reduce expenses in 2017 by approximately \$74,000.

## **16. SUBSEQUENT EVENTS**

### *Parking Authority*

On August 10, 2016, the Parking Authority issued Guaranteed Parking System Revenue Bonds, Series of A and B of 2016, in the amount of \$2,275,000 and \$13,140,000, respectively. The proceeds of the 2016 Bonds are to be used to finance the current refunding of the Grant Anticipation Note of 2013, to finance the costs of the acquisition, construction, installation, and equipping of a new multi-level parking garage to be located on the south side of the City, to fund capitalized interest, to fund a deposit to the Debt Service Reserve Fund, and for the payment of the costs and expenses of issuing the Series 2016 Bonds.

### *Library*

During the year ended December 31, 2015, the Library entered into four agreements with contractors to construct the Room to Grow in the Library for a total of \$977,650. As of December 31, 2015, \$745,626 remains outstanding.

### *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

# **CITY OF BETHLEHEM, PENNSYLVANIA**

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

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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.

**Required Supplementary  
Information**

# CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 37,223,993	\$ 37,223,993	\$ 37,536,437	\$ 312,444
Licenses and permits	2,844,525	2,844,525	2,742,165	(102,360)
Intergovernmental	7,181,297	7,249,492	6,690,131	(559,361)
Departmental earnings	7,122,403	7,122,403	6,773,175	(349,228)
Fines and forfeitures	486,000	486,000	422,018	(63,982)
Investment income	-	-	(9,336)	(9,336)
Municipal recreation	555,000	555,000	525,659	(29,341)
Host fees	9,555,000	9,996,288	9,996,288	-
Other operating revenues	948,755	948,755	870,473	(78,282)
Miscellaneous	2,030,300	2,042,302	1,572,577	(469,725)
Total revenues	<u>67,947,273</u>	<u>68,468,758</u>	<u>67,119,587</u>	<u>(1,349,171)</u>
<b>Expenditures:</b>				
Current:				
General government	935,873	944,543	897,203	47,340
Administration	1,757,094	1,779,784	1,663,671	116,113
Community development	4,975,888	5,026,283	4,688,298	337,985
Parks and public property	4,075,256	4,013,828	3,811,268	202,560
Public works	6,297,045	6,319,155	5,987,380	331,775
Police	13,558,455	13,899,870	13,580,026	319,844
Fire	10,312,067	10,319,702	10,098,330	221,372
General	19,509,195	19,638,393	19,208,141	430,252
Civic	111,969	112,769	110,782	1,987
Library	1,277,082	1,277,082	1,277,082	-
Debt service:				
Principal	1,976,000	1,976,000	1,976,000	-
Interest	3,412,165	3,412,165	3,412,080	85
Total expenditures	<u>68,198,089</u>	<u>68,719,574</u>	<u>66,710,261</u>	<u>2,009,313</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(250,816)</u>	<u>(250,816)</u>	<u>409,326</u>	<u>660,142</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	2,962,727	2,962,727	2,946,447	(16,280)
Transfers out	(2,563,292)	(2,563,292)	(2,563,292)	-
Total other financing sources (uses)	<u>399,435</u>	<u>399,435</u>	<u>383,155</u>	<u>(16,280)</u>
<b>Net Change in Fund Balance</b>	<u>\$ 148,619</u>	<u>\$ 148,619</u>	<u>\$ 792,481</u>	<u>\$ 643,862</u>

See accompanying note to budgetary comparison schedule.

# CITY OF BETHLEHEM, PENNSYLVANIA

## NOTE TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2015

### 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	\$ 70,066,034	\$ 69,273,553
Other fund borrowings	120,000	-
Accrual adjustments:		
Receivables:		
Beginning of year	(11,377,269)	(419)
End of year	11,239,611	3,339
Due from/to:		
Beginning of year	9,371,755	6,922,535
End of year	(8,966,777)	(6,922,535)
Accrued liabilities:		
Beginning of year	-	(3,462,163)
End of year	49,883	3,805,107
Unearned and unavailable revenues:		
Beginning of year	2,126,990	-
End of year	(2,013,243)	-
Agency transactions	(125,268)	216,750
Reclassifications	5,827,511	5,827,511
GAAP basis	<u>\$ 76,319,227</u>	<u>\$ 75,663,678</u>

# CITY OF BETHLEHEM, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2015*	2014
<b>Total Pension Liability:</b>		
Service cost	\$ 2,040,893	\$ 2,051,464
Interest	7,503,420	6,976,913
Differences between expected and actual experience	4,010,737	-
Benefit payments, including refunds	(5,984,760)	(6,032,142)
<b>Net Changes in Total Pension Liability</b>	7,570,290	2,996,235
<b>Total Pension Liability - Beginning</b>	96,986,351	93,990,116
<b>Total Pension Liability - Ending (a)</b>	\$ 104,556,641	\$ 96,986,351
<b>Plan Fiduciary Net Position:</b>		
Contributions - employer	\$ 4,298,925	\$ 3,520,610
Contributions - employee	823,385	817,800
Net investment income	414,168	3,608,964
Benefit payments, including refunds	(5,984,760)	(6,032,142)
Administrative expense	(18,920)	(7,400)
<b>Net Change in Plan Fiduciary Net Position</b>	(467,202)	1,907,832
<b>Plan Fiduciary Net Position - Beginning</b>	75,963,465	74,055,633
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 75,496,263	\$ 75,963,465
<b>Net Pension Liability - Ending (a-b)</b>	\$ 29,060,378	\$ 21,022,886
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	72.21%	78.32%
<b>Covered Employee Payroll</b>	\$ 11,756,420	\$ 11,524,100
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	247.19%	182.43%

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



# CITY OF BETHLEHEM, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

### SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - POLICE PENSION PLAN

	2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Schedule of City Contributions</b>										
Actuarially determined contribution	\$ 4,298,925	\$ 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
Contributions in relation to the actuarially determined contributions	4,298,925	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
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ (1)	\$ (79,838)	\$ (169,929)	\$ (90,965)	\$ -	\$ (25,964)	\$ (558)
Covered employee payroll	\$ 11,756,420	\$ 11,524,100								
Contributions as a percentage of covered employee payroll	36.57%	30.55%								
<b>Investment Returns</b>										
Annual money-weighted rate of return, net of investment expense	0.84%	5.73%								
Methods and assumptions used to determine contribution rate for the year ended December 31, 2015:										
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:	Effective July 1, 2015, members hired on or after January 1, 2012, contribute 5% of compensation, plus \$1 per month									

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2015*	2014
<b>Total Pension Liability:</b>		
Service cost	\$ 1,297,598	\$ 1,290,085
Interest	5,067,577	4,837,270
Differences between expected and actual experience	1,257,475	-
Benefit payments, including refunds	(4,563,169)	(4,629,623)
<b>Net Changes in Total Pension Liability</b>	3,059,481	1,497,732
<b>Total Pension Liability - Beginning</b>	67,487,703	65,989,971
<b>Total Pension Liability - Ending (a)</b>	\$ 70,547,184	\$ 67,487,703
<b>Plan Fiduciary Net Position:</b>		
Contributions - employer	\$ 2,683,110	\$ 2,223,040
Contributions - employee	570,801	572,480
Net investment income	269,203	2,701,705
Benefit payments, including refunds	(4,563,169)	(4,629,623)
Administrative expense	(14,450)	(6,900)
<b>Net Change in Plan Fiduciary Net Position</b>	(1,054,505)	860,702
<b>Plan Fiduciary Net Position - Beginning</b>	56,760,182	55,899,480
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 55,705,677	\$ 56,760,182
<b>Net Pension Liability - Ending (a-b)</b>	\$ 14,841,507	\$ 10,727,521
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	78.96%	84.10%
<b>Covered Employee Payroll</b>	\$ 6,860,596	\$ 7,065,479
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	216.33%	151.83%

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

### SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - FIREMEN PENSION PLAN

	2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Schedule of City Contributions</b>										
Actuarially determined contribution	\$ 2,683,110	\$ 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
Contributions in relation to the actuarially determined contributions	2,683,110	2,223,040	2,245,105	1,492,989	1,701,818	1,227,791	1,214,739	1,018,719	1,044,942	987,311
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ (1)	\$ (28,975)	\$ (91,011)	\$ (40,497)	\$ -	\$ -	\$ (350)
Covered employee payroll	\$ 6,860,596	\$ 7,065,479								
Contributions as a percentage of covered employee payroll	39.11%	31.46%								
<b>Investment Returns</b>										
Annual money-weighted rate of return, net of investment expense	0.84%	5.73%								
Methods and assumptions used to determine contribution rate for the year ended December 31, 2015:										
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									

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2015*	2014
<b>Total Pension Liability:</b>		
Interest	\$ 398,088	\$ 444,150
Differences between expected and actual experience	(128,970)	-
Benefit payments, including refunds	(880,698)	(977,981)
<b>Net Changes in Total Pension Liability</b>	(611,580)	(533,831)
<b>Total Pension Liability - Beginning</b>	5,877,164	6,410,995
<b>Total Pension Liability - Ending (a)</b>	\$ 5,265,584	\$ 5,877,164
<b>Plan Fiduciary Net Position:</b>		
Contributions - employer	\$ 698,515	\$ 1,040,430
Net investment income	45,544	338,756
Benefit payments, including refunds	(880,698)	(977,981)
Administrative expense	(1,811)	(5,000)
<b>Net Change in Plan Fiduciary Net Position</b>	(138,450)	396,205
<b>Plan Fiduciary Net Position - Beginning</b>	7,424,609	7,028,404
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 7,286,159	\$ 7,424,609
<b>Net Pension Asset - Ending (a-b)</b>	\$ (2,020,575)	\$ (1,547,445)
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	138.37%	126.33%
<b>Covered Employee Payroll</b>	\$ -	\$ -
<b>Net Pension Asset as a Percentage of Covered Employee Payroll</b>	N/A	N/A

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Schedule of City Contributions</b>										
Actuarially determined contribution	\$ 698,515	\$ 1,040,430	\$ 1,051,497	\$ 432,314	\$ 455,998	\$ 467,762	\$ 622,663	\$ 379,382	\$ 381,269	\$ 381,266
Contributions in relation to the actuarially determined contributions	698,515	1,040,430	1,051,497	432,315	458,902	487,529	648,841	379,382	381,346	381,346
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ (1)	\$ (2,904)	\$ (19,767)	\$ (26,178)	\$ -	\$ (77)	\$ (80)
Covered employee payroll	\$ -	\$ -								
Contributions as a percentage of covered employee payroll	N/A	N/A								
<b>Investment Returns</b>										
Annual money-weighted rate of return, net of investment expense	0.84%	5.73%								
Methods and assumptions used to determine contribution rate for the year ended December 31, 2015:										
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%									
Mortality	RP2000 Table. This table does not include projected mortality improvements									
Change in benefit terms:	None since January 1, 2013									

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2015 *
<b>Total Pension Liability:</b>	
Service cost	\$ 2,788,823
Interest	6,983,880
Transfers	408,927
Benefit payments, including refunds	(7,143,060)
Differences between expected and actual experience	425,849
	3,464,419
<b>Net Changes in Total Pension Liability</b>	3,464,419
<b>Total Pension Liability - Beginning</b>	127,512,815
<b>Total Pension Liability - Ending (a)</b>	\$ 130,977,234
<b>Plan Fiduciary Net Position:</b>	
Contributions - employer	\$ 28,582,658
Contributions - employee	1,625,488
Net investment income (loss)	4,481,780
Transfers	408,927
Benefit payments, including refunds	(7,143,060)
Administrative expense	(229,161)
	27,726,632
<b>Net Change in Plan Fiduciary Net Position</b>	27,726,632
<b>Plan Fiduciary Net Position - Beginning</b>	99,264,574
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 126,991,206
<b>Net Pension Liability - Ending (a-b)</b>	\$ 3,986,028
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	96.96%
<b>Covered Employee Payroll</b>	\$ 20,610,195
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	19.34%

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2015 *	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 821,609	\$ 4,033,848	\$ 2,939,785	\$ 3,041,355	\$ 3,428,478	\$ 3,349,700	\$ 3,263,683	\$ 3,168,307	\$ 3,168,307	\$ 886,897
Contributions in relation to the actuarially determined contributions	1,172,109	4,033,848	2,939,785	3,041,355	3,428,478	3,349,700	3,263,683	3,168,307	3,168,307	886,897
Contribution deficiency (excess)	<u>\$ (350,500)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 20,610,195</u>									
Contributions as a percentage of covered employee payroll	<u>5.69%</u>									

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Methods and assumptions used to determine contribution rates:

Actuarial valuation date:	January 1, 2011
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar closed
Remaining amortization period:	Based on periods in Act 205
Asset valuation method:	Based on the municipal reserves
Underlying inflation rate:	3.00%
Projected salary increases:	Age related scale with merit and inflation component
Investment rate of return:	5.5%
Cost-of-living adjustment increase:	3.00%
Pre-retirement mortality:	Males: RP 2000 with 1 year set back Females: RP 2000 with 5 year set back
Post-retirement mortality:	Males and females: Sex distinct RP 2000 Combined Healthy Mortality

# CITY OF BETHLEHEM, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2015 *
<b>Total Pension Liability:</b>	
Service cost	\$ 158,054
Interest	131,874
Benefit payments, including refunds	(84,529)
Differences between expected and actual experience	162,885
	368,284
<b>Net Changes in Total Pension Liability</b>	368,284
<b>Total Pension Liability - Beginning</b>	2,101,861
<b>Total Pension Liability - Ending (a)</b>	\$ 2,470,145
<b>Plan Fiduciary Net Position:</b>	
Contributions - employer	\$ 64,369
Contributions - employee	68,403
Net investment income (loss)	(98,056)
Benefit payments, including refunds	(84,529)
Administrative expense	(5,978)
	(55,791)
<b>Net Change in Plan Fiduciary Net Position</b>	(55,791)
<b>Plan Fiduciary Net Position - Beginning</b>	2,471,211
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 2,415,420
<b>Net Pension Liability - Ending (a-b)</b>	\$ 54,725
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	97.78%
<b>Covered Employee Payroll</b>	\$ 901,337
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	6.07%

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



**CITY OF BETHLEHEM, PENNSYLVANIA**  
**REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS**  
**SCHEDULE OF BETHLEHEM PARKING AUTHORITY CONTRIBUTIONS**

	<u>2015 *</u>	<u>2014</u>	<u>2013 **</u>
Actuarially determined contribution	\$ 64,309	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	<u>64,369</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ (60)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 901,337</u>		
Contributions as a percentage of covered employee payroll	<u>7.14%</u>		

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

Methods and assumptions used to determine contribution rates:

Actuarial valuation date:	January 1, 2011
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar closed
Remaining amortization period:	Based on periods in Act 205
Asset valuation method:	Based on the municipal reserves
Underlying inflation rate:	3.00%
Projected salary increases:	Age related scale with merit and inflation component
Investment rate of return:	5.5%
Cost-of-living adjustment increase:	3.00%
Pre-retirement mortality:	Males: RP 2000 with 1 year set back Females: RP 2000 with 5 year set back
Post-retirement mortality:	Males and females: Sex distinct RP 2000 Combined Healthy Mortality

**CITY OF BETHLEHEM, PENNSYLVANIA**  
 REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS  
 SCHEDULE OF CHANGES IN THE BETHLEHEM REDEVELOPMENT  
 AUTHORITY PENSION PLAN'S NET PENSION LIABILITY  
 AND RELATED RATIOS

	2015 *
<b>Total Pension Liability:</b>	
Service cost	\$ 21,777
Interest	49,383
Benefit payments, including refunds	(73,458)
Differences between expected and actual experience	19,796
	17,498
<b>Net Changes in Total Pension Liability</b>	17,498
<b>Total Pension Liability - Beginning</b>	912,330
<b>Total Pension Liability - Ending (a)</b>	\$ 929,828
<b>Plan Fiduciary Net Position:</b>	
Contributions - employer	\$ 18,097
Contributions - employee	8,304
Net investment income	50,638
Benefit payments, including refunds	(73,458)
Administrative expense	(1,746)
	1,835
<b>Net Change in Plan Fiduciary Net Position</b>	1,835
<b>Plan Fiduciary Net Position - Beginning</b>	796,538
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 798,373
<b>Net Pension Liability - Ending (a-b)</b>	\$ 131,455
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	85.86%
<b>Covered Employee Payroll</b>	\$ 156,502
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	84.00%

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

# CITY OF BETHLEHEM, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

### SCHEDULE OF BETHLEHEM REDEVELOPMENT AUTHORITY CONTRIBUTIONS

	2015 *	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 18,486	\$ 17,598	\$ -	\$ -	\$ -	\$ -	\$ 7,581	\$ 7,194	\$ 4,440	\$ 4,376
Contributions in relation to the actuarially determined contributions	18,097	17,598	-	-	-	-	7,581	7,194	4,440	4,376
Contribution deficiency (excess)	\$ 389	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 156,502									
Contributions as a percentage of covered employee payroll	11.56%									

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Methods and assumptions used to determine contribution rates:

Actuarial valuation date:	January 1, 2011
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar closed
Remaining amortization period:	Based on periods in Act 205
Asset valuation method:	Based on the municipal reserves
Underlying inflation rate:	3.00%
Projected salary increases:	Age related scale with merit and inflation component
Investment rate of return:	5.5%
Cost-of-living adjustment increase:	3.00%
Pre-retirement mortality:	Males: RP 2000 with 1 year set back Females: RP 2000 with 5 year set back
Post-retirement mortality:	Males and females: Sex distinct RP 2000 Combined Healthy Mortality

**CITY OF BETHLEHEM, PENNSYLVANIA**  
**POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**  
**YEAR ENDED DECEMBER 31, 2015**

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2010	\$ -	\$ 13,369,049	\$ 13,369,049	0.0%	\$ 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%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2010	\$ 1,412,540	48.3%
2011	1,412,540	53.0%
2012	1,478,726	56.7%
2013	1,478,726	61.5%
2014	1,482,894	60.6%
2015	1,482,894	62.7%

**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, 2015

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 1,229,083	\$ 2,279,036	\$ 365,887	\$ 3,874,006
Receivables:				
Loans	-	1,448,650	-	1,448,650
Other	615,608	-	-	615,608
Due from other governments	-	190,101	-	190,101
<b>Total Assets</b>	<b>\$ 1,844,691</b>	<b>\$ 3,917,787</b>	<b>\$ 365,887</b>	<b>\$ 6,128,365</b>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities:</b>				
Accounts payable and other accrued expenses	\$ 21,030	\$ 158,438	\$ 10,294	\$ 189,762
Accrued payroll	73,737	12,666	-	86,403
Accrued vacation and other compensated absences	23,642	10,654	-	34,296
Due to other funds	-	39,632	-	39,632
Unearned revenues	-	3,696,397	-	3,696,397
<b>Total Liabilities</b>	<b>118,409</b>	<b>3,917,787</b>	<b>10,294</b>	<b>4,046,490</b>
<b>Fund Balance:</b>				
Restricted for:				
Public works	-	-	355,593	355,593
Police	1,726,282	-	-	1,726,282
<b>Total Fund Balance</b>	<b>1,726,282</b>	<b>-</b>	<b>355,593</b>	<b>2,081,875</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,844,691</b>	<b>\$ 3,917,787</b>	<b>\$ 365,887</b>	<b>\$ 6,128,365</b>

# CITY OF BETHLEHEM, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2015

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Total
<b>Revenues:</b>				
Intergovernmental revenues	\$ 3,802,726	\$ 2,246,694	\$ 1,665,510	\$ 7,714,930
Other charges	276,263	-	-	276,263
Investment income	1,546	16,519	1,529	19,594
Other	-	73,949	-	73,949
Total revenues	4,080,535	2,337,162	1,667,039	8,084,736
<b>Expenditures:</b>				
Current:				
Public works	-	-	1,463,971	1,463,971
Police	2,610,966	-	-	2,610,966
Program expenditures	-	2,337,162	-	2,337,162
Total expenditures	2,610,966	2,337,162	1,463,971	6,412,099
<b>Excess of Revenues Over Expenditures</b>	1,469,569	-	203,068	1,672,637
<b>Other Financing Sources (Uses):</b>				
Transfers in	2,085,000	-	-	2,085,000
Transfers out	(583,255)	-	-	(583,255)
Total other financing sources (uses)	1,501,745	-	-	1,501,745
<b>Net Change in Fund Balance</b>	2,971,314	-	203,068	3,174,382
<b>Fund Balance:</b>				
Beginning of year	(1,245,032)	-	152,525	(1,092,507)
End of year	\$ 1,726,282	\$ -	\$ 355,593	\$ 2,081,875